NEW ZEALAND ECONOMICS
ANZ AGRI FOCUS

DECEMBER 2013

INSIDE

CONTRIBUTORS

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: cameron.bagrie@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: con.williams@anz.com

David Croy
Head of Market Research – NZ
Telephone: +64 4 576 1022
E-mail: dc@anz.com

SHOW ME THE MONEY

FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

Strong confidence was the over-riding message from this year's survey. But a subtler encouraging message was also evident – there appears to be a continuing shift toward a more investment-orientated decision-making model and a greater focus on cash-flow and profit. The top four investment initiatives are aimed at boosting cash performance, productivity, and improving the resilience of a farm's bottom line to an economic shock, rather than just higher production volumes and acquiring more land. Additionally there is an ongoing trend towards more formal roles in larger businesses – including board structures – with a separation of operational, management and governance functions this allows a clearer focus on addressing the top issues facing most businesses.

THE MONTH IN REVIEW

After a dry spell in November, the pressure was relieved with widespread rain late in the month. Generally speaking, pasture covers and quality have been better than normal. Annual milk production is odds-on to reach a new record this season. Viticulture is gearing up for another large crop also. While the 2013 lamb crop will be down, it is likely to be better than initial expectations due to good spring lambing conditions and less wastage.

RURAL PROPERTY MARKET

The main sales period for the 2013/14 season has started with a bang. Recent transactions of quality livestock/arable properties in desirable locations have hit prices not seen since 2007/08. A rising tide is lifting most boats, and some pre-GFC behaviours are showing signs of re-emerging. Fundamentally the market looks well into overvaluation territory, but it's not clear cut and conclusions are dependent on the assumptions used. The RBNZ will be watching closely.

KEY COMMODITIES AND FINANCIAL MARKET VARIABLES

In-market prices for NZ's main commodities have remained evaluated. Combined with a generally softer NZD this is ensuring 2013/14 farm-gate prices are benefitting more than the 2010/11 season when in-market prices an all-time high.

ECONOMIC BACKDROP

The NZ data-flow is increasingly corroborating anecdotes that the slow-grind economic recovery has evolved into a genuine expansion. The question is whether the NZ economy can digest the unbalanced pipeline of growth, which is heavily focused on housing construction. The RBNZ will tolerate necessary relative price movements, but not any spill-over into general inflation.

BORROWING STRATEGY

The rural lending curve has "steepened" significantly since the start of 2013. The culprit has been a steady run of strong domestic data releases that has ignited the debate about the possibility of a January start to the RBNZ tightening cycle – amidst the usual gyrations from offshore. We remain of the view that the OCR won't rise till March, but the risk of an earlier move is building. Nonetheless, with so much now already priced in, the proverbial horse has bolted for those considering fixing. Consequently, at current levels we see minimal value in fixing for more than 1 year.

EDUCATION CORNER: KPMG GUEST EDITORIAL

This month we feature a guest editorial from KPMG's Head of Agribusiness, Ian Proudfoot. Ian talks about evolving New Zealand's agribusinesses into truly customer-centric industries. This includes some of the barriers that need to be overcome to achieve the growth goals the Government and individual sectors have set themselves.

FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

SUMMARY

The ANZ Business Barometer is a survey of 2,600 businesses, including agri-business. It contains a wealth of information at the microeconomic (i.e. firm) level, which ultimately congregate up to the macroeconomic picture.

Key nuances from this year's survey include:

- Strong levels of confidence.
- A continued shift in focus toward a more investment-orientated decision-making model and a greater focus on cash-flow and profit. This was highlighted by "making money" being the top reason for being in business.
- It is equally encouraging to see the main areas farmers are looking to invest back into their agribusiness. The top four investment initiatives are focused on production growth and major capital expenditure unrelated to land purchase. All the initiatives are aimed at boosting cash performance, productivity, and improving the resilience of a farm's bottom line to an economic shock.
- A move to more formal roles in larger businesses, with the separation of operational, management and governance functions. This separation allows a clear focus on addressing the top issues facing most businesses, including people issues such as family succession, and finding and retaining experienced staff.
- Some sort of board structure is becoming more commonplace in larger agribusinesses that have more complex ownership and operational structures. Additionally there in an increasing presence of independent directors to add leadership and specialist expertise to maximise shareholder value.

The spirit of this year's results is encouraging. Many of the survey's nuances on planning, people, organisational structure and investment initiatives are aimed at maximising shareholder value and improving resilience. This implies an increased likelihood that current high levels of confidence will translate into future growth and improved prosperity for the agribusiness community.

INTRODUCTION

The ANZ Business Barometer is an annual survey of privately-owned businesses that has been running since 2006. It includes a cross-section of sectors and this is the second year agribusinesses (farmers) have been included. This year we invited owners of small-medium businesses (those with turnover of less than $2 million per annum), commercial businesses (those with turnover of more than $2 million per annum), farmers, and Maori businesses to take part in an online survey. To interpret the survey results focus, groups were held across New Zealand for each of the individual sectors. This allowed a two-way exchange and deeper dive into particular issues and trends identified in the survey results to gather further insight.

In total, 780 agribusinesses took part this year. Agribusiness respondents were comprised of the following sectors: dairy (26 percent), red meat (48 percent), cropping and horticulture (10 percent), and other (16 percent). While the report refers to these respondents as "farmers", this also includes horticultural growers. **This year's survey covered a wide range of areas including details of a business, business planning and strategy, areas likely to affect business growth, and succession planning.**

Such cross-sectional surveys allow us to identify a wide range of trends and issues for the agribusiness community. Time trends can be observed to allow a deeper insight into how business investment plans are evolving, through to execution of these plans. It allows key issues to be identified, as well as how agribusinesses are navigating these. Ultimately individual agribusiness growth, future plans, and navigation of key issues feed through to the wider business community. This will affect other businesses' service and product offerings, skill requirements, employment opportunities, and a much wider range of other dynamics. In the end this flows through to the bigger picture and New Zealand's economic well-being.

THE RESULTS

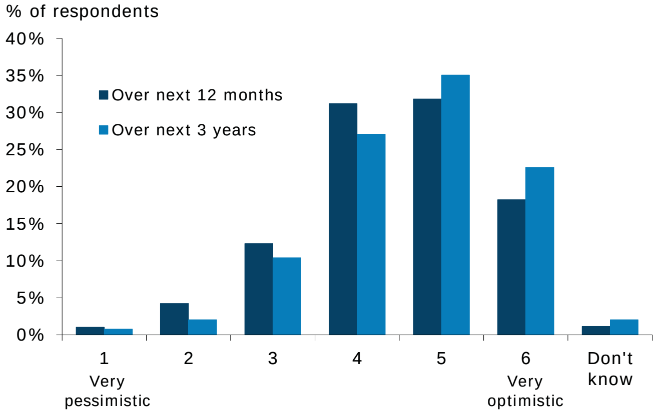
Strong levels of confidence

For the most part, travelling around the regions at the moment reveals farmer and grower smiles a mile wide. Optimism is up, confidence strong and expectations are high. Who would have thought that was possible with a NZD above the 0.80 cent mark against the greenback, or following a 1 in 70 year drought for many regions, trade issues with the primary industry's largest market – China – and some product quality issues in the dairying sector? While there is also a lot to cheer about (progress in the free-trade arena, a bumper dairy payout, continued inroads into the fast-growing Asia region, kind weather seeing a rapid bounce-back post-drought etc) a lot of this confidence seems testament to the hard yards many farmers and wider agri industries have put in over recent years. **A change to farming for profit, and reinvestment instead of expansion solely through land acquisition, seems to be providing farmers with more confidence in their ability to navigate whatever is thrown at them.**

FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

Bubbling confidence was certainly revealed in this year's ANZ Business Barometer with farmers and business owners across the agri sector expecting to prosper not just over the next 12 months, but also the next three years. Just over 80 percent of respondents were "slightly" to "very" optimistic about growth in their agribusiness over the next 12 months, compared to 72 percent in 2012. Over the next three years an even larger proportion (85 percent of respondents) were "slightly" to "very" optimistic about growth in their agribusiness. This was again up on the 2012 results.

Optimism in your Agribusiness



Source: ANZ

While one might suspect the dairying sector is the sole driver, dairy farmers made up only 26 percent of this year's respondents. Separating out the non-dairy respondents showed 77 percent of these farmers were "slightly" to "very" optimistic about growth in their business over the next year and 83 percent over the next three years. So while non-dairy respondents were not quite as optimistic as their dairy counterparts on the year ahead, there is undeniably strong confidence in both the short and long-term outlook for their businesses and sectors.

While it was just the second year the ANZ Barometer has covered agribusiness, one of the themes to come through this year's results was that **profitability is now a common objective for family-owned agribusinesses.** Respondents still cited a strong desire to follow a chosen lifestyle (69 percent) and a particular passion (57 percent) as reasons for being in farming. **But the over-riding driver is to make money, with 73 percent of agribusiness respondents citing this as a reason for being involved in farming.** This was very similar to small-to-medium enterprise and commercial businesses outside of the agri sector. However, the small to-medium enterprise and commercial business respondents were less likely than agribusinesses to be in their business to pursue a chosen lifestyle or following a passion.

Reasons you are in business

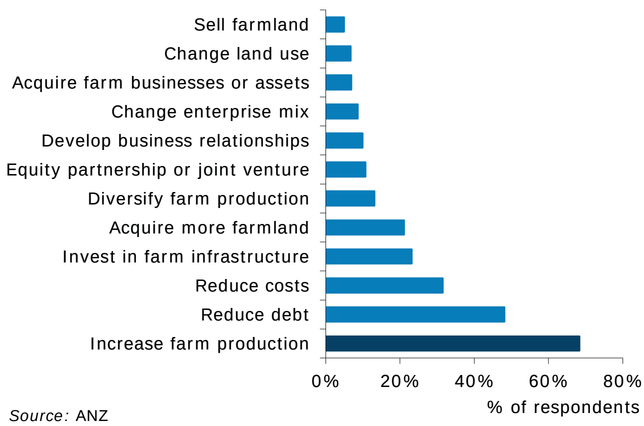
Source: ANZ

To be fair, the change to a bigger focus on profitability represents a shift in thinking that's been going on for a while now and is driving the decision-making of leaders across all sectors of agribusiness. It has signified a move from farming purely for capital gain (based on land acquisition), to an investment decision-making model. The conversations have changed to include cashflow, investment analysis, and sustainable growth, with less emphasis on hectares, stock numbers and production levels.

Investment intentions more cash profit orientated

The move toward a more investment-orientated decision-making model and focus on cash flow is perhaps best highlighted by examining the investment areas farmers are considering to improve their financial performance. "Acquire more farmland" ranks fifth behind a number of other initiatives that are all aimed at boosting cash performance, productivity, and improving the resilience of a farm's bottom line to an economic shock.

Activities being considered to improve farm financial performance



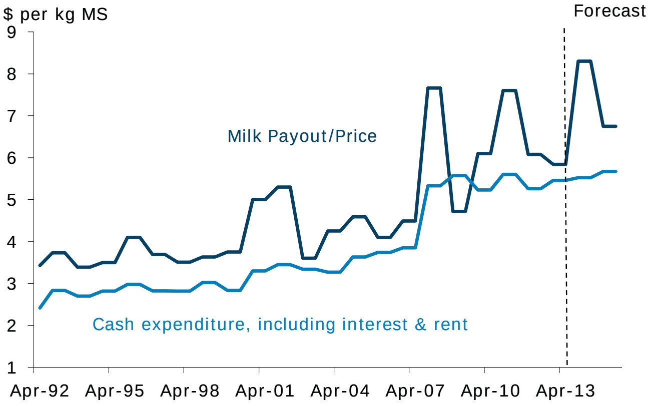
Source: ANZ

FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

Top of the list for activities being considered to improve financial performance is an increase in farm production, followed by reducing debt and costs, as well as investing in farm infrastructure. Three of these four activities are specifically focused on improving productivity.

The tension between spending on activities aimed at improving productivity and reducing debt in the dairying sector could be particularly interesting given the forecast strong cashflow over the next two financial years (deferred payment from this year's milk price rolls into the next financial year). At the moment the industry seems to be in a bit of a strange place. **With this year's forecast milk price being so incredibly high it allows for extra investment and debt reduction at the same time.** This is similar to the 2010/11 situation when there was a full payout of $7.90 per kg MS.

Dairy Milk Price vs Cash expenditure
(including interest and rent)



Sources: ANZ, Dairy NZ

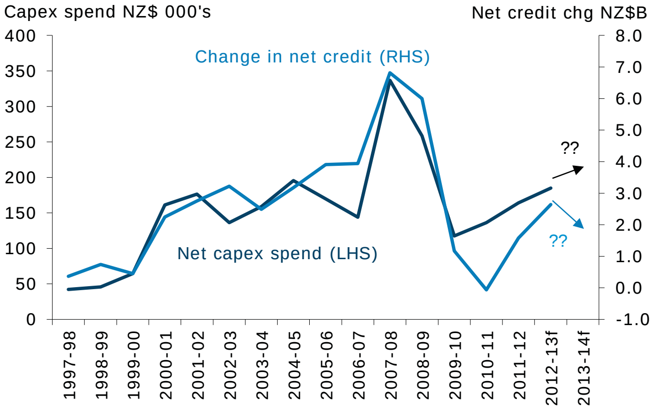
The historical experience in a large payout year has been a spend-up on catch-up maintenance, new toys/ drawings, a rising property market, increasing debt levels, and rising costs. History suggests **a dairy payout above $7 has led to increases of at least 5 percent in the cost of farm inputs** and total expenditure (volume) has adjusted higher. While a certain component of farm expenditure is flexible, **upward movements have been short and sharp and then slow to unwind when a lower milk price environment has emerged down the track.**

Another reason for less flexibility in cost structures has been an industry shift to more intensive farming systems over the last five years. This has been in part to try to capture the opportunities of a higher milk price via increasing production, but also a bid to try to better manage environmental externalities and increasing standards in this arena. These changes mean there is perhaps less "flex" in production decisions and expenditure than previously has been the case. But the flipside is droughts can be better managed and production/ productivity increased.

Nevertheless, as we have previously highlighted, a higher and less flexible cost structure means that as the milk price moves from $5.50 to $5.00 per kg MS the proportion of dairy farmers with liquidity issues (not making a cash profit) increases substantially.

With the prospects of a milk price above $8 per kg MS in 2013/14 some of **the current anecdotes starting to come through are suggesting the cost of key inputs are again on the move.** This is especially the case for many productive inputs (i.e. cow prices, grazing charges, grain and feed prices), which all seem to have moved materially higher in recent months. Many service providers have also noted increased capital expenditure on a range of things.

Agricultural credit vs. average dairy farm capital spend



Sources: ANZ, Dairy NZ Farm Survey

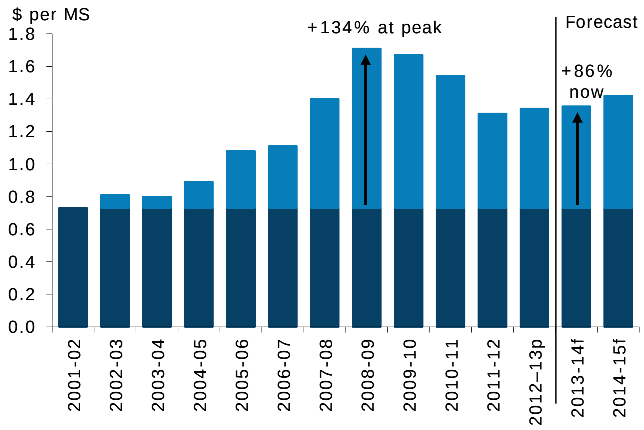
There has always been a reasonably strong relationship between the change in credit (debt) and the change in dairy farm capital expenditure (see chart above). **The problem is a business can only pay for capital expenditure out of equity for so long. But a changed focus to cashflow and its reinvestment back into the business was first highlighted in 2010/11 when a large payout saw a lift in capital expenditure and drop in credit.** This was the first deviation between the two in a number of years. The relationship reasserted itself somewhat in 2011/12 and probably in 2012/13 (with the drought and a lower payout). However, given the positive signs for cashflow over the next two years there is potential for the two to diverge once again.

The proportion of respondents in this year's ANZ Barometer that plan to repay some debt dropped a tad from the year before. The reality is the motivation to repay debt over the coming year is likely to be higher than back in 2010/11 because of increasing interest rates.

FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

Interest costs (on a per kg milk solids basis) have increased substantially since Fonterra was formed in the early 2000s. Since the global financial crisis (GFC) interest rates have come down. The effective rural interest rate has dropped from 9 percent in September 2008 to just below 6 percent now (due to lower interest rates and ongoing roll-off from fixed to floating). **However, during this period term debt has increased by nearly 60 percent on the average dairy farm, with half this offset by a 30 percent lift in milk solids production (both average size and productivity have increased).** With softer property prices this has led to an increase in average loan-to-value ratios. **So with forecast rises in interest rates and higher debt levels the decline in interest costs since 2008-09 is now set to reverse.**

Interest and rent costs for average dairy farmer

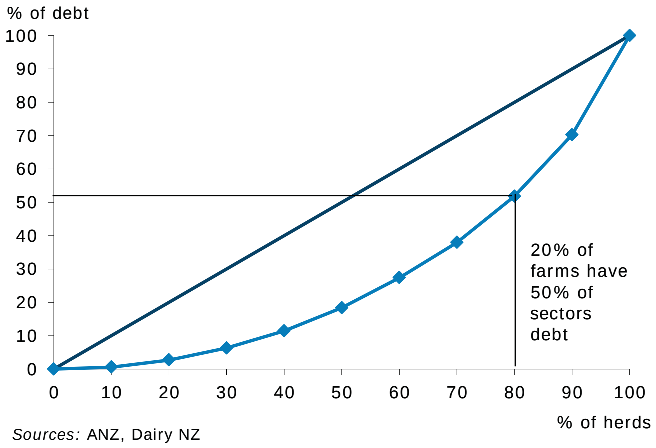


Sources: ANZ, Dairy NZ Economic Survey

It's not all one-way traffic though. These figures are for the average dairy farmer. According to Dairy NZ data, 20 percent of farms have 50 percent of the sector's debt (see chart at right). Expectations are for a volatile milk price to continue, even though the next two years look solid. **In a lower payout environment a rise in interest rates is likely to be a bigger issue for more highly leveraged farms compared with the rest.** For the other 80 percent of farmers, undertaking some form of interest rate hedging would likely be more than sufficient to manage their interest rate risk.

All up, the dairy sector seems to be in a bit of a strange place. The more indebted farmers have an ideal opportunity to pay some debt back, but the record payout means there is more than plenty to go around and we are already seeing signs of this flowing into increased reinvestment to build resilience and improve productivity. **The degree of divergence between credit growth (especially for those with already high levels of debt), land price appreciation, and net capital expenditure in 2013/14 will be the real litmus test for how far the dairy industry has come in moving toward a more cashflow and investment-oriented model.** This will prove, or disprove, that farmers are walking the talk on a change to profitability over capital gains.

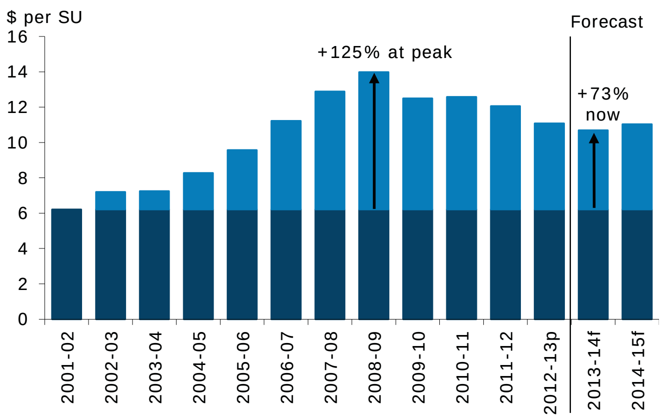
Lorenz Curve Debt Distribution - Dairy Farms



Sources: ANZ, Dairy NZ

For sectors outside dairying it will be interesting to see if debt repayment or reinvestment wins out. The scope for both will be more limited than in dairying as they are not experiencing the same lift in their terms of exchange. Prices are looking positive for most of the other main sectors, but are not skyrocketing to records. There is also likely to be some inflationary spillover from the dairy sector into the cost of inputs for other sectors. That said, the increase in debt levels hasn't been so large, especially since the GFC. In the meat and fibre sector for example the average interest cost per stock unit has increased, but not to the same extent as for dairying.

Interest costs for average meat & fibre farmer

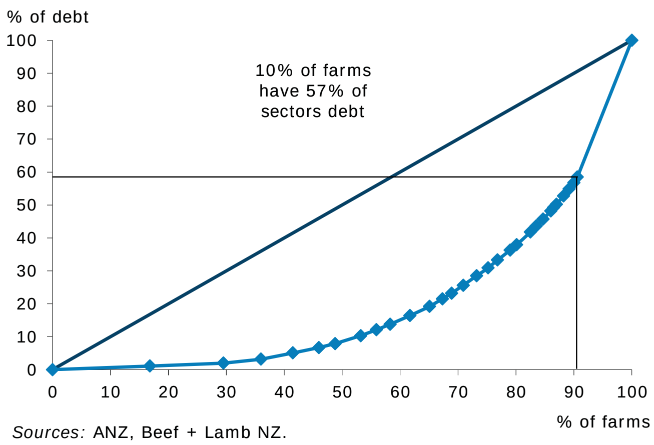


Sources: ANZ, Beef + Lamb NZ

FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

But just like the dairying sector there are pockets where debt repayment will be a higher priority in a rising interest rate environment. Beef + Lamb NZ data indicates approximately 10 percent of sheep and beef farms have 57 percent of the meat and fibre sector's debt.

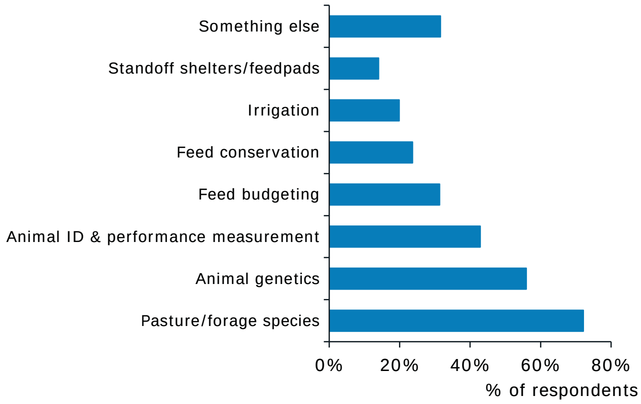
Lorenz Curve of Debt Distribution - Meat & Fibre



Sources: ANZ, Beef + Lamb NZ.

Key investment priority areas

Methods being considered to increase farm production



Source: ANZ

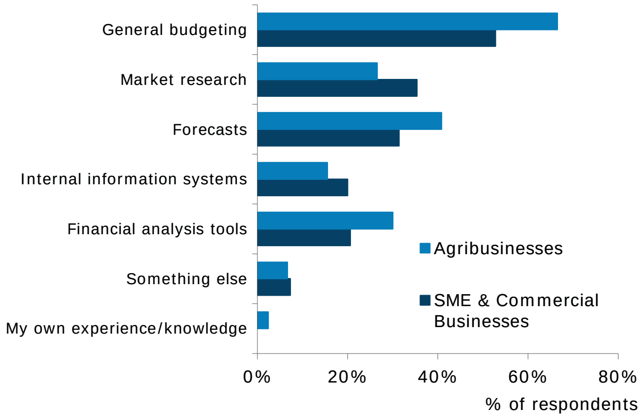
The ANZ Barometer identified a number of investment priorities for agribusiness this year, including improving pastures, animal genetics and identification, and performance measurement. Other priorities mentioned included water security and compliance with increasing environmental standards. **Regulatory compliance is a major issue for many**, producing a range of responses in the ANZ Barometer. Larger and more formally managed agribusinesses appear better resourced to meet challenges, while older farmers and smaller-scale farms see it as a threat. **There is also a new willingness to make capital expenditure in areas not related to farm acquisition, such as permanent infrastructure and land use change**, such as cow housing, or increasing the coverage of water on an already irrigated property.

Making smart investment decisions that will deliver sustainable and profitable growth can be challenging. Gaining sufficient and reliable information is often the first hurdle to overcome. Then careful analysis of the gathered information follows. Those who have been through the process of investigating substantial capital investment, such as irrigation, know these challenges well. The ability to share this experience is one of the farming sector's greatest competitive advantages – because there is little direct competition between farmers, new innovations and knowledge are shared more freely to help lift a whole sector.

A hunger for reliable knowledge and information to make smart investment decisions is highlighted by 88 percent of farmers indicating they would benefit from specialist advice in some area. More than 40 percent also indicated that they would benefit from more expert advice on improving farm productivity. Other areas mentioned were more specialised advice on growing and managing personal wealth, succession planning, and accessing capital for expansion or development.

On the analysis side, farmers are using budgeting, forecasts and financial analysis tools more than their commercial cousins, demonstrating more sophistication in the analysis phase of the gathered information.

Tools found beneficial when making last big decision



Source: ANZ

Farmers need to be mindful not to fall into the trap of having returns drive their investment decisions though. Rather, they should ensure their investment decisions are able to drive returns. While the ANZ Barometer showed that many farmers use budgets when making decisions

FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

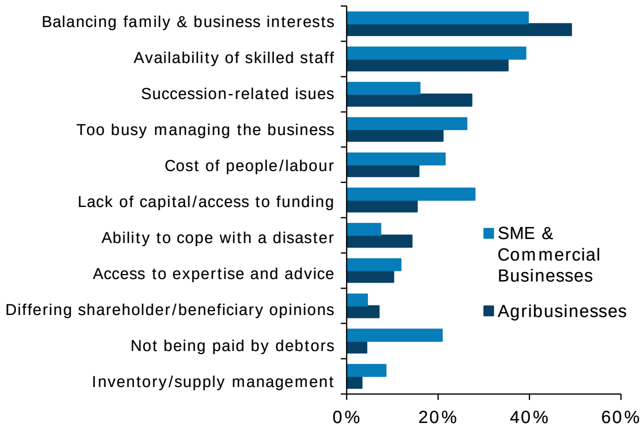
to invest, we find expectations for a return on investment are seldom set. **This results in an evolutionary process, rather than deliberate assessment of the decisions' likely success.**

People – setting direction and access to expertise

Discussions on investment usually focus on new plant, equipment and systems that deliver cost savings, and/or increase productivity. **But perhaps the most important investment any agribusiness can make is in its principal asset – people.**

Building people capability to run the farm for the next decade will arguably do more to create a sustainable business than any other investment. It may be through education opportunities, or farm leadership courses, where a cross-pollination of ideas from many sectors can stimulate new thinking and create new networks. It might be by reaching out to leaders in a farmer's own (or unrelated) industry, or being inspired by the latest management handbook or autobiography. For many, it is being open to new ideas, trends, and thinking that might be relevant to their business goals.

Factors of Most Concern (in your Business)



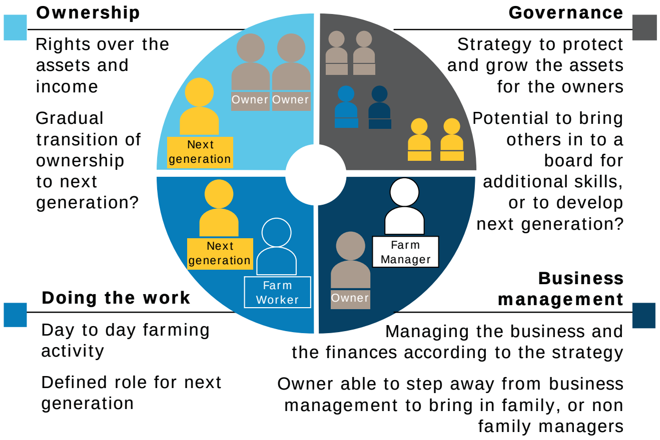
Source: ANZ

In fact, of the factors of most concern to farmers, four of the top five have a strong people element. Balancing family and business interests is top of the list for agribusinesses and small-to-medium enterprises, with 49 and 40 percent respectively of respondents reporting this as a concern. This isn't unexpected or uncommon, as many households struggle to keep pace with modern society's demands – "there aren't enough hours in the day" being a common expression. But the next four most common concerns are availability of skilled staff, succession-related issues, being too busy managing the business, and cost of people/labour. All these concerns have a strong people element, be it having the right people involved, or the owner's motivations and limitations. These have a big influence on the businesses direction, performance, and growth potential.

The evolving focus on profit and more sophistication within operations means a new approach to the different roles people play within a business is required. An additional factor is that the old succession model of passing the farm to the eldest son has largely become outdated as parents opinions on fairness, equality, equity and retirement needs have changed and the surge in land values has made family succession more challenging to engineer. This means many family members leave equity within a business, but are not involved in the day-to-day operations. Involving these members and their skills, as well as retaining the knowledge and intellectual property others have accumulated over the years, requires a different approach to including people in the right way.

Separating the key roles of business lets family be brought into different roles during various stages and where required. External expertise can also be easily brought in at any time. **If it is understood that the roles are separate, many more options open up for successful transition.**

Defining roles creates options – for advice, skills and involving the next generation



In the diagram above ownership is still passed partly into the hands of a third family member, but family and other expertise have been brought into governance. The next generation is starting to take some responsibility for the direction of the business. **The previous generation provides guidance and oversight, but the next generation is able to develop their skill set and experience to improve their contribution.**

This is an evolving process that creates a requirement to invest in people with skills and ensure those skills are kept current. Owners

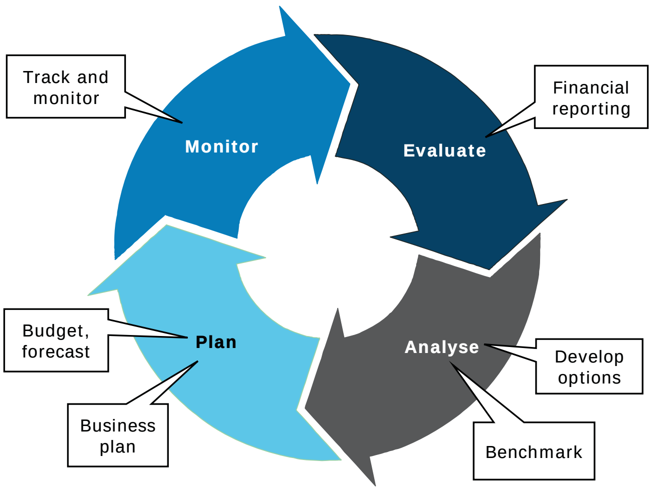
FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

should not overlook investment in their principal asset – themselves – to ensure they are well-equipped to lead the business. The business will also need to invest in technical skills in new areas by either employing specialists or the expertise of advisers. Respondents in the ANZ Barometer noted that nutrition and environmental compliance were areas where new skills are most needed.

This increasingly complex landscape requires a more formal planning process using more sophisticated business tools for projections, benchmarking, and modelling to establish achievable business goals and clear lines of responsibility. Families who have resolved to retain a long-term interest instead of selling their farm to another family member require defined financial controls and reporting, as well as governance protocols to protect the family capital funding the business.

We know from working with our agribusiness customers that those who have a written plan – and someone to hold them accountable to it – are more likely to achieve their objectives.

Planning Cycle



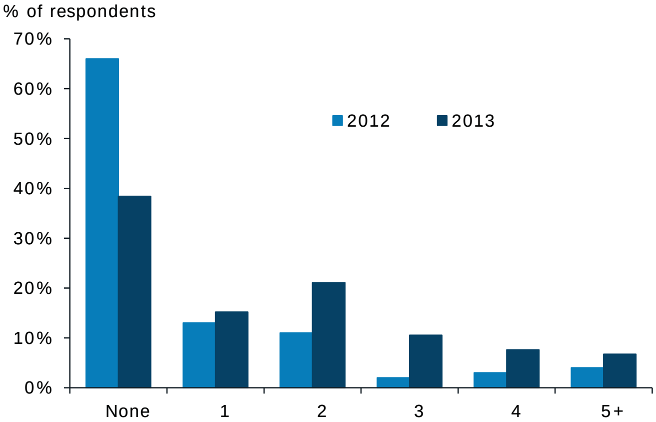
A good planning cycle is shown above. **It was encouraging that over 45 percent of farmers and agribusinesses responding to the ANZ Barometer thought it bore a close resemblance to the steps they go through in their business**, even if the process was a bit less formalised.

Planning is a means to achieve sustainable profitability. It keeps the goal in front of all those involved in the process, and makes a way for creating an investable business with options for future wealth and legacy.

The role of governance

With farmer interest in accessing more knowledge and expertise high, there is a clear opportunity for advisers to demonstrate their capability to add value. Likewise, there is increasing awareness of the benefits of formal boards, informal boards, and consultants to provide insight.

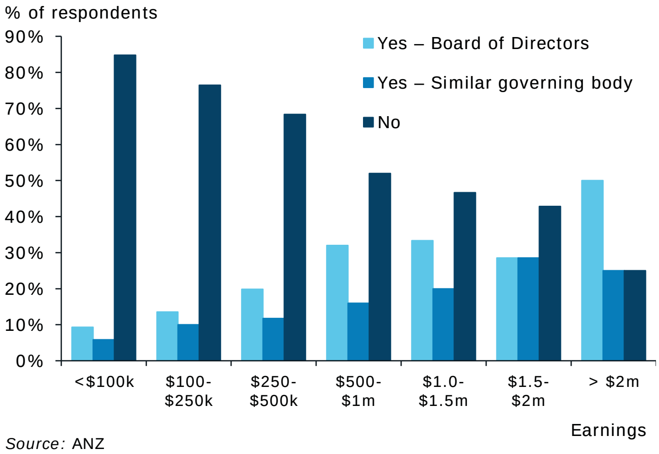
Number of Independent Directors on Board (Agri-businesses)



Source: ANZ

Over 30 percent of this year's agribusiness respondents noted the use of a board of directors, or similar governing body. This was well up on the previous year. The thirst for outside expertise in governance was highlighted by an increasing number of independent directors being included on boards. Of the respondents who said they had a board of directors, 38 percent said they have no independent directors, which was nearly half of the year before (66 percent). Of the 62 percent who did have independent directors, nearly 50 percent had more than one independent director.

Farm Earnings/EFS vs Governance Boards



Source: ANZ

FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

Some sort of board structure is becoming increasingly commonplace in larger agribusinesses that have more complex ownership and operational structures. This is highlighted in the chart below which shows a very strong correlation between the turnover of an agribusiness and the use of some sort of board structure. In the more than $2 million earnings category, 75 percent of respondents used some sort of board structure, compared with less than a third of respondents when earnings were $500,000 and below.

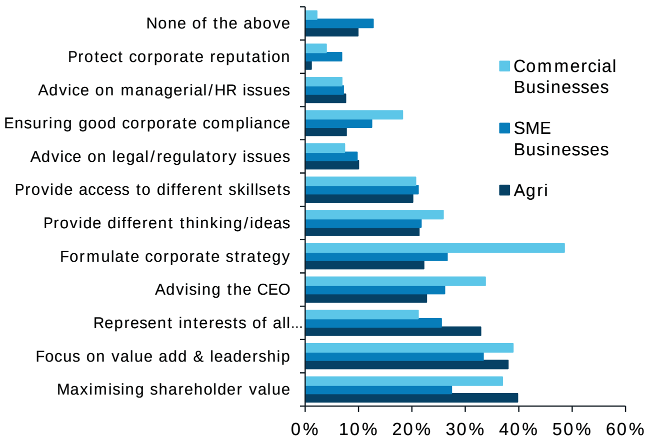
During 2010 ANZ hosted 18 workshops throughout New Zealand on "The myths and realities of management, leadership and governance". The workshops were facilitated by Dr James Lockhart, Massey University. The majority of businesses represented at the workshops were either companies and/or trusts. Only rarely were participants operating as sole traders or partnerships (also sole traders in a legal sense). **The most common model was to have land assets (and sometimes other assets) held by a trust, while operational transactions were conducted by a company.** Predictably, many relationships were observed to exist between the company and the trust, including shareholding, common governance and so on.

Numerous reasons were cited for having this structure. Trusts were still considered to be an appropriate vehicle for asset protection and tax minimisation, while companies were seen as appropriate to limit risk from potential financial liability. Seldom did workshop participants express the view that the business legal structure adopted was designed for the purpose of business growth.

The governance structure of trusts and companies held by the workshop participants also displayed consistent patterns. Outside of the providers of equity capital (typically the farming couple), appointments as trustees or company directors were most often the farm family's accountants and/or lawyers. While the motivation for such appointments is understood – they are the two best-known "professionals" to rural businessmen and women – it potentially sets up a conflict of interest that needs to be managed. **It would be highly irregular to find a corporate, or medium-sized business where the company lawyer or accountant, or those of substantial shareholders, sat on the company board.** Business owners need to know in what capacity the family lawyer or accountant is really being engaged – a trustee, a director, or a service provider.

But governance is much more about effective decision making than it is about structure and form. It is also about protecting the business and achieving the objectives of the owners.

It allows a business to involve additional skills and often to bring in the next generation to participate in setting and overseeing business strategy. The business is no longer limited to the working life span of the founder. No owner-operator business can last longer than a person's lifespan, but they can survive for hundreds of years with family succession. In this regard the respondents to this year's survey seem to be on the right track. Those businesses that have a board cite the main functions of the board as providing leadership, setting direction, and maximising shareholder value.



Source: ANZ

There is still much for the sector to learn about what more formal governance has to offer. With the increasing presence of governance structures it will be interesting to see how it evolves. There remain considerable prejudice about what directors can and cannot do. Similarly, the rights and responsibilities of shareholders do not appear to be especially well understood. **The roles and responsibilities of shareholders, directors, and employees need to be considerably better understood. We all need to wear multiple hats, but we must learn to wear one at a time.**

CONCLUSIONS

The ANZ Business Barometer showed the over-riding motivation of agribusinesses is to make money. The shift in focus toward a more investment-oriented decision making model and focus on cashflow and profit has been going on for a while now. In the dairy sector this will be tested by the degree of divergence between credit growth (especially among those with already high levels of debt), land price appreciation, and net capital expenditure in 2013/14. This will prove or disprove that farmers are walking the talk on a change to focusing on profitability rather than capital gains.

FEATURE ARTICLE: INSIGHTS FROM THE ANZ BUSINESS BAROMETER

In the coming year most respondents expect new investment to be focused on production growth and efficiency, particularly in areas such as **improving pastures, animal genetics and identification, and performance measurement.** In addition, there is increased willingness to make major capital expenditure unrelated to land purchase. For example, a surprisingly large numbers of farmers have intentions to consider cow housing, or increasing water coverage on already irrigated properties.

When it comes to choosing which investment will create the most value, agribusinesses have advantages over the commercial sector in their access to sector-specific business modelling, benchmarking resources, and the willingness of most to share experiences. As the shift to a more investment-driven model continues, decision-making will need to be based less on intuition and available cash, and more on the numbers and expected return on the investment. **Owners should also be careful not to overlook investment in their greatest resource – themselves and their people** – to ensure they are equipped to capture the opportunities ahead.

Those already doing it well have an ongoing planning process and are usually making use of the technology resources now available to model, plan, and monitor performance. Also evident is a move to more formal roles in larger businesses with a separation of operational, management and governance functions. This separation allows a clear focus on addressing the top issues facing most businesses, including people issues such as family succession and finding and retaining experienced staff.

THE MONTH IN REVIEW

SUMMARY

After a dry spell in November, the pressure was relieved with widespread rain late in the month. Generally speaking, pasture covers and quality have been better than normal. Annual milk production is odds-on to reach a new record this season. Viticulture is gearing up for another large crop also. While the 2013 lamb crop will be down, it is expected to be better than initial expectations due to good spring lambing conditions and less wastage. Combined with farmers adding more weight this will raise production estimates. As always Mother Nature will have the final say on how the season pans out.

October featured all four seasons in one month. **Generally it was wetter than average at the start, but wind and bouts of colder weather throughout slowed grass and animal growth/ production rates as the month progressed. In November rainfall was a bit patchy and generally below historical averages for many regions.** This led to some nervous murmurs that it was starting to get dry in some regions, until widespread rain and some thunderstorms late in the month relieved the pressure. Northland, the Bay of Plenty, and the east coasts of both islands reported drier than usual conditions. The exceptions were the Manawatu and Taranaki, which received better and more regular rainfall throughout.

Despite the mixed weather, pasture covers and quality were generally much better than normal in most of the drier areas, and the top-up rain at the end of November should ensure a good run through to Christmas for most. However, parts of Otago and South Canterbury – where some irrigators remain out of action – are still dry. Numerous reports have noted an increase in the area of planted cereal and cash/feed crops this spring. Generally good germination rates have been reported for spring-planted crops, but more regular rainfall is still required to achieve good yields.

DAIRY

Milk production exceeded expectations when it reached its seasonal peak in October, taking up virtually all of the additional processing capacity that was added this season. Fonterra have reported year-to-date milk collection is up 4.7 percent y/y to the end of October, with South Island growth (+5 percent) slightly ahead of the North Island (+4.5 percent). The annual growth in monthly milk intakes has recently slowed to 2-3 percent as the spring flush has passed and growing conditions have not been as favourable.

It's odds-on a new record will be set for annual milk production. The record milk price, good cow condition, reasonable pasture covers, and additional supplementary feeding to extend lactation are expected to support a strong finish. Mother Nature will have the final say, but these dynamics and the strong start to the season mean we now expect annual milk production to grow ~7 percent in the 2013/14 season.

MEAT AND FIBRE

In the sheep and beef sector the focus is on the size of this year's lamb crop. **Beef + Lamb NZ's lamb crop survey is expected to confirm a larger lamb crop than their current forecast of 24 million head (-2.5m head or -9.4 percent y/y).** The result is likely to be better than initially expected as the good winter/spring conditions allowed a quick recovery from the drought and led to very low lamb wastage in most of the main producing regions. This will increase production estimates from the current 18.6 million head for 2013/14.

The other dynamic that is likely to boost total production will be heavier finishing weights. Production figures for October suggest many farmers took a deeper cut than usual at weaning to take advantage of solid prices offered for Christmas trade. However, a recent slowing in slaughter rates suggests most are content to now add more weight. **The general belief is that growth rates for all finishing stock will offset most of the limited downside in schedule prices over the coming months.** There are also plenty of feed crops that need to be used, with plantain and clover mixes flavour of the month, followed by hybrid brassicas.

HORTICULTURE AND VITICULTURE

A good flowering has been reported for many of the pipfruit and summer fruit crops in NZ's main growing regions. In the kiwifruit sector returns for the 2013 crop are some of the strongest on record. While Psa has been present during the spring, it hasn't done nearly as much damage as last year. Total Gold volume will be almost 60 percent less than it was in 2012/13, due to the loss of Hort16A to Psa and the move to Gold3. Early indications are that Gold3, although challenged, does continue to grow in a Psa environment, and Zespri is expecting that Gold volumes will increase next year after two years of decreases. However, it is too early to give a firm estimate of what Gold volumes might be.

In the viticulture sector there is potential for a very big crop with vines – especially in Marlborough – typically having been pruned for a large crop and shoots fruitful with high (and large) bunch numbers. However, with Sauvignon Blanc flowering only just beginning it is still too early to provide an estimated crop size. Many vineyard managers are mindful that crop management may be required in the event of an average (or better) flowering for the Sauvignon Blanc crop. In Marlborough there is some apprehension that wine tank capacity will not be sufficient following earthquake damage, given limited resources to rectify the damage in time. This is raising the prospect that some wine companies may not be able to take all contracted fruit.

RURAL PROPERTY MARKET

SUMMARY

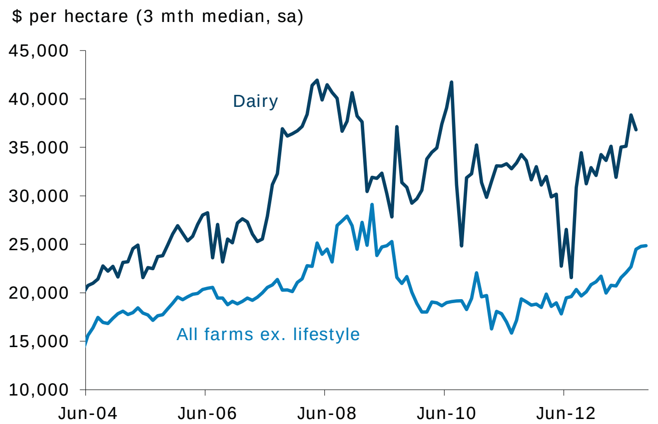
The main sales period for the 2013/14 season has started with a bang. Recent transactions of quality livestock/arable properties in desirable locations have ranged from $50,000-$70,000+/ha. Such prices have not been seen since 2007/08 and show the top end of the market is gaining some momentum. A rising tide is lifting most boats, and some pre-GFC behaviours are showing signs of re-emerging. Fundamentally the market looks well into overvaluation territory, but it's not clear cut and conclusions are dependent on the assumptions used. Location-wise the hotspots are the traditionally more expensive regions of Auckland, Waikato, Taranaki and Canterbury. Outside these regions things are a little more benign for now. The RBNZ will be watching the situation closely, and have made it clear they will have little tolerance for behaviours of old re-emerging.

The main spring/summer sales period for farms has started at a brisk clip. Turnover and prices are up on the same period last year for all property types except horticulture. Total turnover for the 3-month period to October moved up to 95 percent of the 10-year average, to sit at its highest level since September 2008. The average all-farm price moved up to $24,850/ha, the highest price achieved since mid-2009. The obvious driver since the drought has been the better outlook for farm-gate prices. While dairying is the most obvious beneficiary, many of the other sectors have also seen a steady improvement in farm-gate prices. The good recovery from the drought, which seems to have been very well managed by the majority, has also been influential in boosting confidence. Combined with other supportive factors such as low interest rates and easier lending criteria, this has turned confidence into conviction for many.

FARM SALES BY FARM TYPE

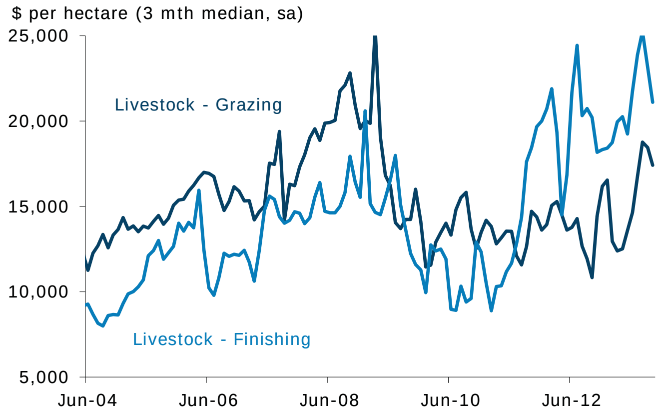
3-Month Seasonally Adjusted		Current Period	Previous Period	Last Year	10-Year Average	Chg. P/P	Chg. Y/Y	Chg. P/10yr
Dairy	Number of Sales	111	73	39	72	↑	↑	↑
	Median Price ($ per ha)	36,800	38,300	30,900	29,800	↓	↑	↑
Livestock – Finishing	Number of Sales	103	120	58	65	↓	↑	↑
	Median Price ($ per ha)	21,100	23,200	20,200	14,000	↓	↑	↑
Livestock – Grazing	Number of Sales	173	164	141	227	↑	↑	↓
	Median Price ($ per ha)	17,400	18,400	11,000	15,100	↓	↑	↑
Horticulture	Number of Sales	38	37	34	48	↑	↑	↓
	Median Price ($ per ha)	129,100	136,800	141,800	146,600	↓	↓	↓
Arable	Number of Sales	23	19	20	19	↑	↑	↑
	Median Price ($ per ha)	30,200	28,000	24,400	26,100	↑	↑	↑
All Farms ex. Lifestyle	Number of Sales	445	439	323	465	↑	↑	↓
	Median Price ($ per ha)	24,900	24,800	20,100	20,000	↑	↑	↑
Lifestyle	Number of Sales	1,682	1,669	1,434	1,590	↑	↑	↑
	Median Price	507,000	502,000	476,000	417,000	↑	↑	↑

Farm Sales, Median Price



Sources: ANZ, REINZ

Farm Sales, Median Price



Sources: ANZ, REINZ

RURAL PROPERTY MARKET

The key question that is developing is whether property prices are overvalued. This is especially important given the RBNZ has hinted it could use its expanded macroprudential toolkit – specifically on dairying – if the rural property market gets too heated and pre-GFC behaviours become embedded. **To assess the question it is useful to look at where recent land sales sit on traditional valuation metrics.** In the rural property market prices range hugely, depending on factors such as location, soil type, rainfall, topography, quality of facilities/improvements, access to water/irrigation, and so on. This means only broad generalisations on valuation metrics can be made, but they are useful to gauge general behaviours.

For dairying properties the average price (seasonally adjusted) seems to have crept up to sit around the $37,000/ha mark in recent months. This represents a step-up from the $32,000-$35,000/ha band that has been the norm since the events of 2008. **The land price paid per kg MS produced has broken through the $40/kg mark and averaged nearly $41/kg since July this year.** This is a 10 percent lift on the post-GFC average of $37/ha. Looking back through history the $40/kg mark has been an important psychological level.

Whether this price is fair comes down to the outlook for the milk payout. The land price multiple to the milk payout has averaged 4.8 since July. This is well below the 20-year average of 6.3. But this metric uses this year's farm-gate forecast of $8.62/kg MS (100% share backed). Given this is a record high, it seems unlikely to be the long-term average going forward. **If you assume a milk payout of $7.05/kg MS** (our current forecast for next season) and use the long-run average land price multiple to milk payout of 6.3, **this implies scope for average land values to head toward the $40,000/ha, or $45/kg milk produced mark over the coming year.** That is, this metric suggests no land price overvaluation currently.

However, these measures are perhaps a little misleading, as they only include the revenue and productivity sides of the equation. **Today there are higher costs**, which impact on the affordability of land. Additionally, there are higher capital requirements for shares, cows and other inputs. **A better measure to capture these dynamics is the cash rate of return.** Dairying cash rates of returns are likely to average 8-10 percent this year. This is the highest level since the early 2000s and well up on the 10-year average of 5 percent. Again using an average milk payout of $7.05/kg MS and the long-run cash rate of return of 5 percent, **these assumptions imply land values have scope to move up by $3,000/ha, or 9 percent on last year. The recent move up of $2,000/ha implies the market is making a similar assessment. This metric also suggests the land market has not yet become overheated when assessed against historical returns.**

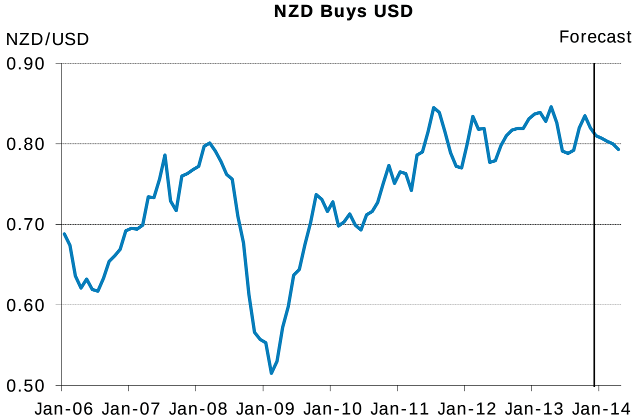
The spill-over effects of the larger milk payout into dairy support and arable land prices (especially with the move to more intensive dairying systems) are more difficult to assess. Finishing and arable land prices have moved higher. **Finishing land prices broke outside our 2-year range of $18,000-$20,000/ha in June, moving up aggressively to average $23,000/ha over the last 5 months.** Activity levels have been very strong in dairying-aligned regions and total turnover has been the strongest of all the farm types, at nearly 50 percent above the 10-year average. Looking back at average cash rates of return on B+LNZ Class 7 & 8 farms reveals a 10-year average of just 2 percent. On Class 8 farms the value of the land has been around the $22,400/ha mark, and returns 1.9 percent, over the past couple of years. Therefore, **recent prices don't seem too out of whack with history, but do imply rising expectations for dairy grazing and cash crop prices, as well as more conversions.** A move substantially higher with already slim rates of return seems unlikely – or at least unwarranted.

Average monthly arable prices have been in a range of $28,000-$30,000/ha since early 2013 with the drought helping boost grain prices. **This price has been a sharp lift from the two years prior**, where the average price was $23,000/ha. Again the flow-on from dairying will be helping, but such an increase is putting pressure on cash returns, which is likely to put a handbrake on buyers to some extent. Elsewhere **the monthly turnover of grazing properties has been flat at 75-80 percent of the 10-year average, but average prices have moved up to a $17,000-$19,000/ha range.** These prices have not been seen since before the global financial crisis and are well above the 10-year average. It would seem the mix of properties sold and locations is perhaps the most influential factor behind these recent price rises, with very few sales in the more traditional sheep and beef grazing areas of the East Coast and deep South. All-up, very similar conclusions to that of the arable and finishing properties sold can be drawn.

Rising confidence continues to stimulate interest in horticultural enterprises. This is highlighted by turnover having remained robust in recent months at nearly 80 percent of the 10-year average. With Psa less prevalent over the last year, G3 grafting showing reasonable tolerance to Psa, and solid orchard-gate prices anticipated, confidence and demand for kiwifruit orchards has lifted. Although few have hit the market, upcoming sales of Gold orchards and G3 licenses are expected to tender for over $70k/ha compared to Zespri's issue price of $8k/ha and average tender price of $40k/ha 6 months ago. In the viticulture space large wine companies continue to look to secure supply and make strategic purchases of brands to complement existing business. This activity has seen a number of land sales over 2013 transacted between $150,000-$200,000/ha.

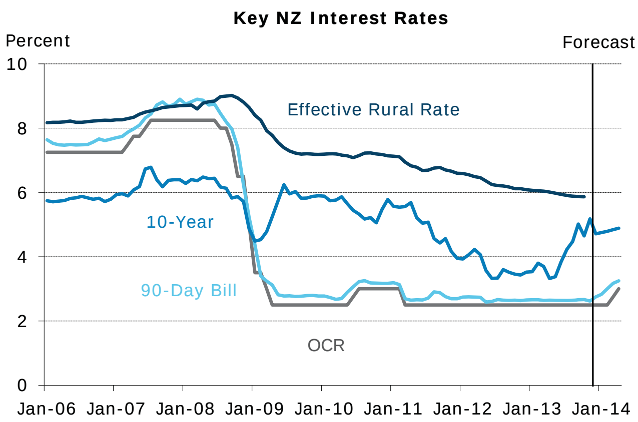
ECONOMIC INDICATORS

EXCHANGE RATES	Current Month	Last Month	Last Year	Chg. M / M	Chg. Y / Y
NZD/USD	0.820	0.816	0.819	↑	↑
NZD/EUR	0.599	0.606	0.639	↓	↓
NZD/GBP	0.513	0.514	0.513	↓	↔
NZD/AUD	0.867	0.877	0.788	↓	↑
NZD/JPY	82.46	79.91	66.30	↑	↑
NZD/TWI	75.97	75.52	73.43	↑	↑



Sources: ANZ, Bloomberg

NZ INTEREST RATES	Current Month	Last Month	Last Year	Chg. M / M	Chg. Y / Y
Official Cash Rate	2.50	2.50	2.50	↔	↔
90 Day Bill Rate	2.62	2.67	2.63	↓	↓
1 yr	3.13	3.06	2.48	↑	↑
2 yr	3.66	3.23	2.47	↑	↑
3 yr	4.05	3.57	2.55	↑	↑
5 yr	4.58	4.13	2.44	↑	↑
10 yr	5.18	4.65	3.43	↑	↑
Effective Rural Rate	5.86	5.87	6.12	↓	↓
Agricultural Debt ($b)	51.83	51.20	49.75	↑	↑



Sources: ANZ, RBNZ

NZD / USD continues to range-trade. While it tends to be well supported in the low 0.80s, it struggled to sustainably hold above 0.8400. **The majority of domestic drivers point to a higher NZD.** These include stratospheric levels of business confidence, elevated commodity prices, the highest interest rates in the so-called G10 group of most actively traded currencies, and the prospect of early rate hikes by the RBNZ. Indeed, in recent weeks, correlated variables such as the NZ/US 2-year interest rate spread have moved to a fresh high. On the face of it, this suggests the NZD has scope to appreciate further.

Why is the NZD still range-trading and failing to kick-on? Markets continue to eye prospects for **Fed tapering** (less quantitative easing); the **NZD is not far off record highs** already, making it harder to attain new highs; and markets are nervously eyeing credit conditions in China and other emerging markets. These nations were big borrowers following the global financial crisis.

The NZD / AUD is elevated and looks set to remain so. While this cross looks overvalued relative to macroeconomic "fundamentals" like relative commodity prices, relative growth rates, unemployment rate differentials and the like, in recent years it has tended to follow interest rate differentials more closely. Of note, these are projected to move further in the NZD's favour as the RBNZ lifts the OCR, while the RBA leaves policy on hold.

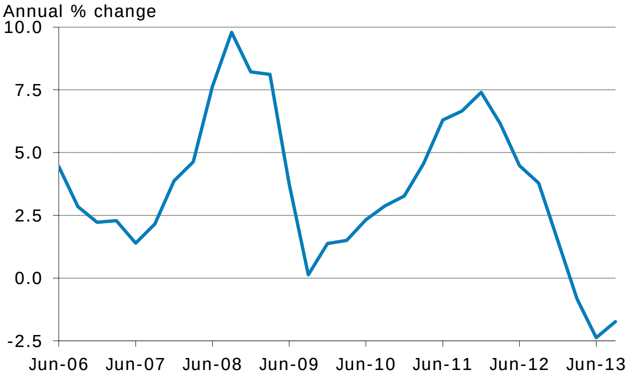
Interest rates continue to move higher, but whereas a few months ago it was global interest rates punching the long end higher, at the moment the short end of the yield curve is rising as the market debates the timing of the RBNZ's first rate hike. We continue to forecast a March start to the tightening cycle, but the risk of a January hike is building, and this is adding pressure to front-end interest rates.

Financial markets continue to price in an aggressive tightening cycle (an OCR of 4.9 percent by 2016). For sure, taking the OCR to 4.9 percent is hardly aggressive by historical standards, but we are mindful that a 4.9 percent OCR is not the *effective* OCR given the structural shift in credit markets. Moreover, with global interest rates likely to remain low (the US Fed is projecting it'll start lifting rates from zero in 2016), the NZD likely to remain elevated, and prudential policy instruments at the RBNZ's disposal, **we're more comfortable calling a slow and steady grind higher in the OCR** as opposed to rapid moves.

ECONOMIC INDICATORS

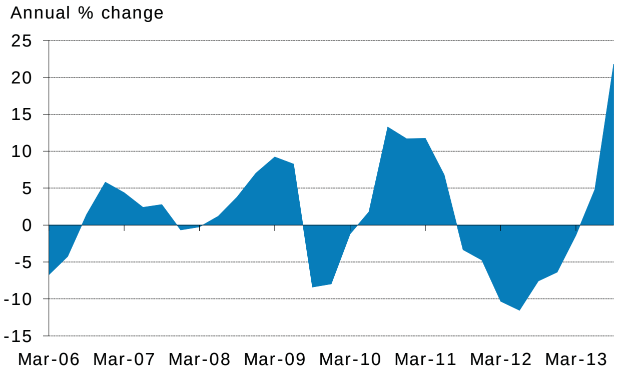
INFLATION GAUGES					
Annual % change	**Current Qtr**	**Last Qtr**	**Last Year**	**Chg. Q/Q**	**Chg. Y/Y**
Consumer Price Index	1.4	0.7	0.8	↑	↑
Farm Input	-1.7	-2.4	3.8	↑	↓
Net Imp. Margins PPI	21.8	4.8	-7.6	↑	↑

Farm Input Inflation Gauge



Sources: ANZ, Statistics NZ

Net Implied Margins PPI
Ag/Forestry/Fishing (Outputs - Inputs)



Sources: ANZ, Statistics NZ

The cost of farm inputs has definitely started to move up since the start of the 2013/14 season and recovery from the drought. The turning point showed up in the Agri farm cost index in September, which registered its first quarterly increase (+0.7 percent) since the end of the 2011/12 season. However, on an annual basis the index is still 1.7 percent below last year, suggesting the 2013/14 season should deliver good bottom-lines. But an inflexion point for the cost of on-farm inputs has been reached and pressures on costs are expected to intensify over coming quarters. This could potentially whittle away some of this year's better farm-gate prices, but more importantly, is likely to set a higher cost structure in place for 2014/15.

A higher cost base in 2014/15 of course carries risks if farm-gate prices have a dramatic readjustment. This is not our central scenario, though we do expect an adjustment lower in the dairy payout. We would just note volatility in soft commodity prices has doubled since 2006, and none of the drivers for the increase in volatility have changed.

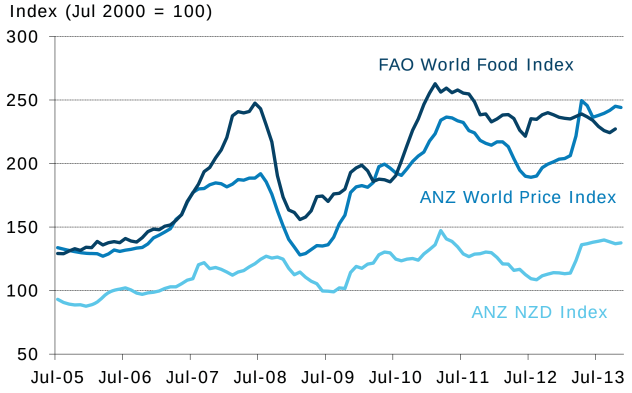
The two drivers of the expected acceleration in on-farm cost pressures are a lift in the economy's general inflation, and spill-over effects from this year's record milk price into service providers' pricing intentions, and eventually, prices. With the NZ economy hitting expansion mode the economy's spare capacity will continue to be soaked up over coming quarters, and as this happens, inflation pressures will rise. **We expect to see headline inflation increase toward 2.2 percent y/y in 2014 (up from 1.4 percent at present).** This will spill over into general cost pressures for all farm types. A spend-up by the dairy sector would add fuel to the fire. Most of the recent pressure has been on productive dairy inputs so far, such as cow prices, grazing fees and feed prices. However, there are likely to be spill-over effects into other services and inputs as the season progresses. This will affect all farmers/growers as there are many inputs that are used by all.

Annual PPI margins surged by 22 percent in the September quarter, largely due to a 55 percent lift for dairying. Equally encouraging, though, was that all the other sectors – apart from fishing and aquaculture – also experienced a lift in margins. The surge in dairying margins was due to the record milk powder prices in recent quarters lifting dairy outputs by 54 percent y/y. Apart from the sheep and beef sector all the other sectors also experienced a lift in output prices. Horticulture, viticulture, forestry and other livestock farming output prices were all up by nearly 6 percent y/y. **Annual input prices declined for the third quarter in a row (Sep -1.2 percent y/y) giving additional support to margins.**

KEY COMMODITIES: OVERALL INDEX AND DAIRY

SOFT COMMODITY PRICE INDICES	Current Month	Last Month	Last Year	Chg. M/M	Chg. Y/Y
ANZ NZ Index	137	139	114	↓	↑
ANZ World Index	244	240	201	↑	↑
FAO World Food Index	227	226	238	↑	↓

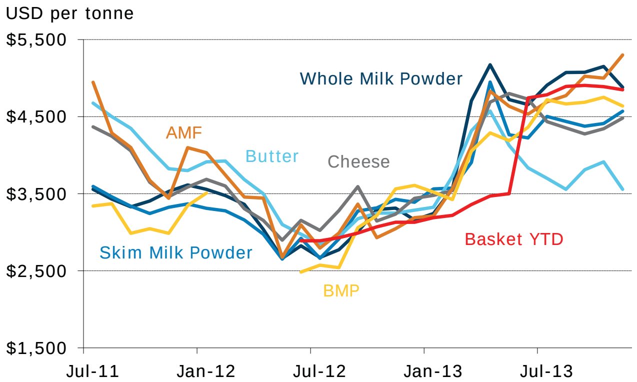
Soft Commodity Price Indices



Sources: ANZ, FAO

OCEANIA DAIRY PRICE INDICATORS USD per tonne	Current Month	3 Mth Trend	Last Year	Chg. M/3M	Chg. Y/Y
Milk Price YTD ($ per MS)	8.20	8.25	5.35	↓	↑
Milk Price Forecast ($ per MS)	8.30	8.15	5.50	↑	↑
Whole Milk Powder	4,880	5,101	3,314	↓	↑
Skim Milk Powder	4,571	4,408	3,426	↑	↑
Butter	3,556	3,760	3,250	↓	↑
Anhydrous Milk Fat	5,299	4,932	3,046	↑	↑
Butter Milk Powder	4,638	4,700	3,563	↓	↑
Cheese	4,482	4,324	3,236	↑	↑
Basket YTD	4,850	4,896	3,130	↓	↑

Dairy Products - NZ Export Market Prices



Sources: ANZ, GlobalDairyTrade, USDA

Recent stabilisation of global soft commodity prices after five months of declines is positive for NZ's long-term outlook. In total the FAO index declined by 6.2 percent over the five months to September. However, October saw a 1.3 percent m/m rise largely driven by a surge in sugar prices, but all the other main commodity categories improved also. The decline over the middle of 2013 was largely due to a better Northern Hemisphere growing season for cereals, whose prices declined by 15 percent over this period. The other main commodity categories were back a more modest 1-5 percent over the same period. **Stabilisation (especially for cereals) means there won't be so much substitution pressure on NZ's main soft commodities over the longer term.** Combined with a generally softer NZD over the first part of the 2013/14 this is ensuring farm-gate prices are benefitting, with the NZD index averaging 5.3 percent above the 2010/11 season average, when the index hit its all-time peak.

The dairy market remains intriguing with the supply response from the major exporters not yet strong enough to tip the balance and see a sustained adjustment lower in prices. China remains the focal point, as import demand looks to be moderating as record domestic farm-gate prices stabilise their own domestic production. However, Agrifax recently highlighted the extent of Chinese import demand, estimating additional requirements of 400,000 tonnes of whole milk powder equivalents in 2013. This was due to lower domestic production in the first seven months of 2013 and continued demand increases. In 2012 China imported approximately 1.1 million tonnes of dairy commodities, of which approximately half were supplied by NZ. If milk production in NZ grows by 7 percent this season (as we are currently forecasting) and all of this goes into product destined for China, then this would equate to approximately half the additional product estimated to be required by China. **So while paying higher prices, China has mopped up not only NZ's extra supply, but that of other countries also.**

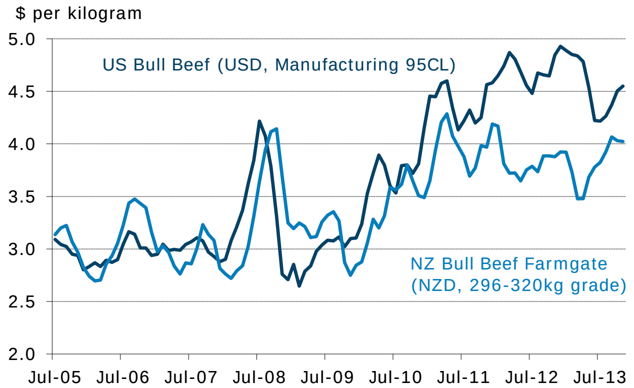
While this has been occurring, other countries who have not been willing/able to pay the higher prices have been running down stocks. **China demand now looks to be moderating, but with other markets having run down stocks it seems prices are likely to drift lower, rather than fall dramatically.** The main catalyst for a sustained adjustment lower will be the supply response from Northern Hemisphere producers as their production peaks in March/May. But this is likely to be more influential for the 2014/15 milk price, with most dairy companies reportedly well forward sold. **Our current forecast milk price for 2013/14 continues to creep up toward Fonterra's current forecast of $8.30/kg MS. Many others have forecasts around the mid $8's.**

KEY COMMODITIES: BEEF AND LAMB

BEEF PRICE INDICATORS					
$ per kg	**Current Month**	**3 Mth Trend**	**Last Year**	**Chg. M/3M**	**Chg. Y/Y**
NZ Bull Beef[1]	4.02	4.01	3.88	↑	↑
NZ Steer[1]	4.24	4.24	3.93	↔	↑
NZ Heifer[1]	3.65	3.66	3.33	↓	↑
NZ Cow[1]	2.87	2.90	2.92	↓	↓
US Bull Beef[2]	4.55	4.38	4.85	↑	↓
US Manu Cow[3]	4.30	4.15	4.56	↑	↓
Steer Primal Cuts	7.15	7.08	6.66	↑	↑
Hides[4]	72.0	71.7	51.2	↑	↑
By-Products[4]	50.0	48.5	42.8	↑	↑

[1] (NZD, 296-320kg Grade Bull & Steer), (NZD, 195-220kg Grade Heifer) (NZD, 160-195kg Grade Cow)
[2] USD, Manufacturing 95 CL [3] USD Manufacturing 90 CL [4] USD$ per Hide

Beef Indicator Prices

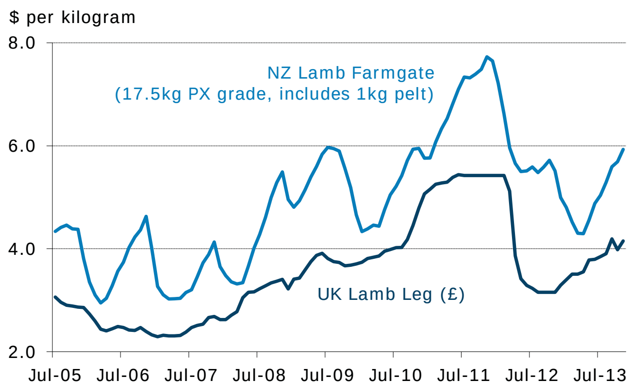


Sources: ANZ, Agrifax

LAMB PRICE INDICATORS					
$ per kg	**Current Month**	**3 Mth Trend**	**Last Year**	**Chg. M/3M**	**Chg. Y/Y**
NZ Lamb[1] (NZD)	5.93	5.52	5.51	↑	↑
UK Lamb Leg (£)	4.15	4.02	3.15	↑	↑
Rack US (USD)	15.9	15.6	20.6	↑	↓
Flaps (USD)	5.58	5.18	4.36	↑	↑
Skins[2]	8.25	7.55	2.97	↑	↑

[1] 17.5kg PX grade, including 1kg pelt [2] USD per skin

Lamb Indicator Prices



Sources: ANZ, Agrifax

It looks like a Mexican stand-off is developing between farmers and meat processors. In recent months schedule prices have tracked 4 to 8 percent ahead of last year, but US manufacturing prices (in NZD) have been back by 6 percent. Part of the support seems to be better prices for primal cuts and co-products, but that doesn't seem to explain the whole situation. **Through put for the likes of bull beef and steers has been slow, and it seems with lower stocking rates and good pasture covers farmers are adding weight before selling.** Hence processors have to pay higher premiums to attract stock, and this is likely to continue.

Another support factor for prices is that US domestic beef cow through put continues to track well below last year and the 5-year average. This is expected to continue throughout 2014 as cow-calf operators rebuild herds. This bodes well for US import demand and prices. **However, the big uncertainty continues to be overall demand.** Higher prices pressure demand, and competition from the pork and poultry sectors will be on the rise with lower grain prices. The price of 50CL fat trimmings have also surged (58 percent y/y). NZ isn't directly involved in this market, but NZ's lean beef is blended with it in meat patty formulations. Therefore, higher prices generally suppress lean meat prices and/or overall demand if passed through to consumers.

In-market prices for the main lamb cuts have continued to improve in recent months. Good prices were achieved for the European Christmas chilled trade, with focus now turning to the frozen market. **Traditionally the decline in the schedule price from the Christmas shoulder to the March/April period is 15-20 percent. This would imply a schedule price of $5.00-$5.25/kg.** However, inventory of frozen product is a lot lower than last year, and combined with the smaller lamb crop this means prices won't adjust down to the normal extent. With fewer lambs and good pasture conditions there will also be a strong incentive for farmers to add more weight, flattening out the supply curve. However, processor margins were still slim in 2012/13 and balance sheets are weaker than in 2011/12, which will limit meat processors' ability to pay large procurement premiums.

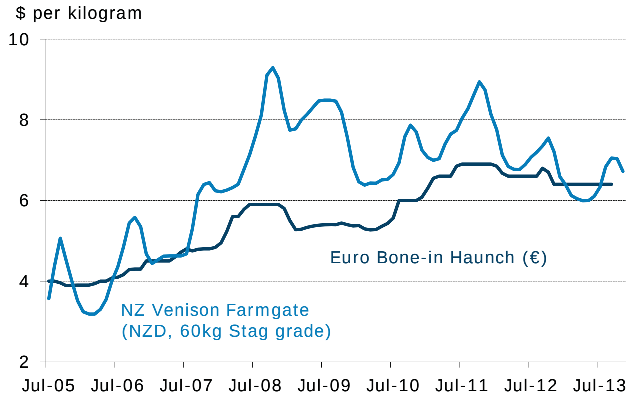
In-market product is flowing more freely across the border in China, although some niggles remain. End demand is strong, as evidenced by flap prices continuing to post new highs, as well as a higher mutton price. In the UK frozen lamb leg prices are almost 30 percent higher than 12 months ago and demand seems to be holding up, with retail purchases of legs up a massive 35 percent versus the lows a year earlier. Importers and retailers will be wary of pushing the price too high and burning off demand, as happened in 2011/12. But the lift in retail demand across leg and other cuts will help importer confidence when it comes to paying higher asking prices. **On balance it seems schedule prices could be around the mid $5/kg mark in Jan-April.**

KEY COMMODITIES: VENISON AND WOOL

VENISON PRICE INDICATORS					
$ per kg	**Current Month**	**3 Mth Trend**	**Last Year**	**Chg. M/3M**	**Chg. Y/Y**
NZ Stag[1]	6.72	6.97	7.21	↓	↓
NZ Hind[1]	6.61	6.87	7.10	↓	↓
Euro Bone-in Haunch (€)	6.40	6.40	6.40	↔	↔
Boneless Shoulder (€)	4.58	4.70	5.48	↓	↓
Loin (€)	13.70	14.12	16.38	↓	↓

[1] (60kg Stag AP grade), (50kg Hind AP grade)

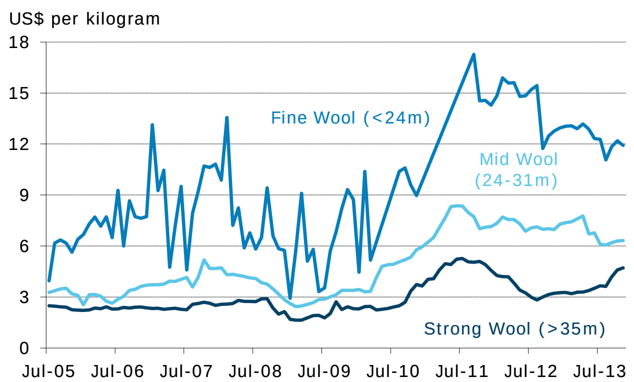
Venison Indicator Prices



Sources: ANZ, Agrifax

CLEAN WOOL INDICATOR PRICES					
$ per kg	**Current Month**	**3 Mth Trend**	**Last Year**	**Chg. M/3M**	**Chg. Y/Y**
NZ Fine Wool (>24m)	14.53	14.34	15.58	↑	↓
NZ Mid Wool (24-31m)	7.71	7.58	8.50	↑	↓
NZ Strong Wool (>32m)	5.74	5.06	3.93	↑	↑
USD Fine Wool (>24m)	11.91	11.70	12.76	↑	↓
USD Mid Wool (24-31m)	6.32	6.18	6.96	↑	↓
USD Strong Wool (>32m)	4.71	4.13	3.22	↑	↑

Wool Indicator Prices (Clean)



Sources: ANZ, Beef + Lamb NZ, Wool Services International

Farm-gate prices for venison disappointed this season, peaking around the $7.20/kg mark in September/October. This was well down on the average of last five years ($8.30/kg). **A higher NZD/EUR in recent times can explain quite a bit of the historical difference, but other factors seem to have compounded the situation this year.**

In-market there were reasonable sales of chilled product with volumes picking up during the August to October period. But overall chilled volumes were still tracking 3 percent behind year-to-date and prices were flat. **Frozen product sales were slower during the European autumn, mostly due to warmer weather, but also due to stronger competition from other European game producers.** Other game meats have increased both their quality and quantity over the last two seasons and this has eaten into the premium NZ venison can command. With both factors taking a toll this reduced in-market frozen pricing by 15-20 percent depending on the cut.

Processing numbers during the August to October period were little changed from the year before, but carcass weights were back 3 percent. Part of this was a drought impact, but there has also been a higher proportion of hinds slaughtered. **This suggests a reduction in the number of breeding hinds, which will reduce future venison production.**

Strong wool prices corrected lower in late November after pushing up to the $5.80/kg mark during October. The main driver of the push higher during this period was constant disruption to shearing and reduced supply. Over the first 17 weeks of the season supply across NZ auctions was estimated to be back by 15 percent y/y. Despite the lower supply, total auction sales over the same period were up 8 percent y/y, with high clearance rates above 90 percent as buyers competed for product.

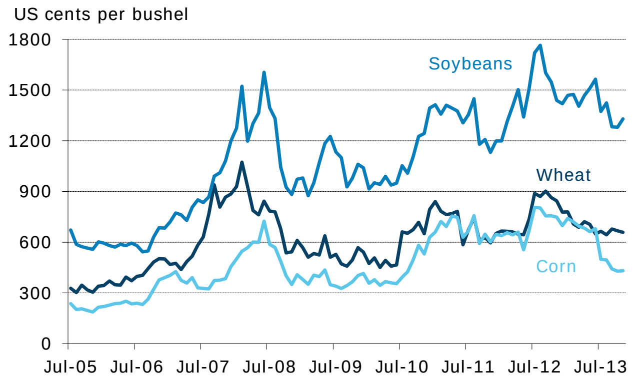
The inevitable snap back came in late November with buyers stepping back from the elevated price levels on the anticipated seasonal lift in supply that is beginning to come through. Prices were also looking stretched against competing fibres such as cotton. As we highlighted in our last update, annual supply might not drop to the extent some are thinking, and with competing fibre prices fairly flat there are limits to how far up prices can move. Variability in prices is expected to continue, with many importers continuing to live hand-to-mouth, but most will be hoping they flatten back out around the early $5/kg mark. For the finer end of the clip the gap to strong wool has been the closest since 2005, but both seem to have found a base in recent months.

KEY COMMODITIES: GRAINS

GRAIN & OILSEED PRICE INDICATORS	Current Month	3 Mth Trend	Last Year	Chg. M/3M	Chg. Y/Y
NZ Milling Wheat[1]	420	418	425	↑	↓
NZ Feed Wheat[1]	391	394	365	↓	↑
NZ Feed Barley[1]	402	395	358	↑	↑
Palm Kernel Expeller[1]	315	307	300	↑	↑
US Wheat[2]	6.6	6.6	8.4	↓	↓
US Soybeans[2]	13.3	13.3	14.4	↔	↓
US Corn[2]	4.3	4.5	7.5	↓	↓
Australian Hard Wheat[1]	398	407	463	↓	↓

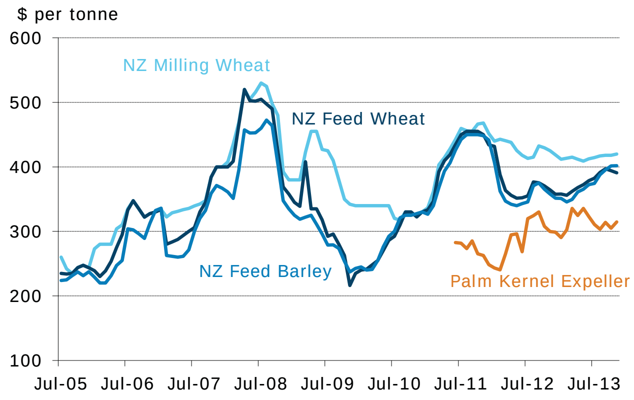
[1] NZD per tonne
[2] USD per bushel

CBOT Future Grain & Oilseed Indicator Prices



Sources: ANZ, Bloomberg

Key NZ Grain Prices



Sources: ANZ, Agrifax

The tussle between more expensive domestic sources of grain and cheaper Australian imports seems to be heating up. Contracts for 2014 feed wheat and barley have been difficult to settle with buyers unwilling to bring prices up due to the potential for cheaper Australian imports next year. Global supply of wheat is expected to rebound from a poor season last year. Along with corn prices hitting a three-year low recently, this has put downward pressure on Australian grain prices. In particular, forward pricing for feed barley is low, and this is likely to influence the NZ barley price as there is an increase in imports. **NZ import prices for barley into the North Island will likely be NZ$350-$360/t in January/February, while domestically sourced spot prices have been around the $400/t mark over the last four months.**

At the moment growers are resisting dropping contract prices for 2014 much below current spot prices. The tight supply situation and high current spot prices have been driven up primarily by the drought and dairy sector demand. The latter is expected to continue into 2014, with many dairy farmers keen to extend lactation to take advantage of the record milk price and favourable margins.

But it seems the market may tip in the favour of buyers due to two factors. At this stage it looks as though larger-scale mills and big to mid-range users are looking to fill their requirements with cheaper imports. Many are already locking in import options rather than domestic contracts, thus removing demand for domestically sourced grain.

Secondly, autumn and spring planting intentions from the AIMI survey suggest a decent increase in the area of feed wheat and maize to be harvested in 2014. Feed wheat plantings are expected to be well above the last two years, with the AIMI surveyed planting intentions suggesting a 17 percent y/y increase in the area that will be harvested in 2014. The total amount of feed barley is expected to be very similar to previous years, though this contradicts industry reports of higher-than-normal seed sales in the spring period. Maize grain planting is expected to increase by almost 12 percent y/y. The maize crop is expected to be nearly entirely contracted before harvest. Contracts have been going for around $420/t in the upper North Island and around $410-415/t in Manawatu. **Combined with a lot of other feed crops, which will be growing well with widespread rain in late November, this means there will be plenty of domestic feed options available for dairy farmers to choose from.**

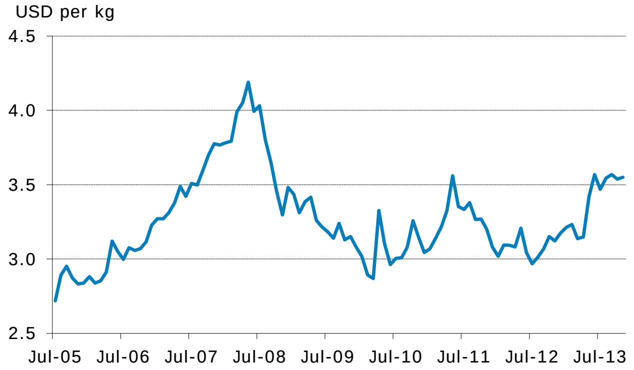
KEY COMMODITIES: HORTICULTURE

HORTICULTURE PRICE INDICATORS

	Current Month	3 Mth Trend	Last Year	Chg. M/3M	Chg. Y/Y
Kiwifruit (USD per kg)	3.5	3.6	3.1	↓	↑
Apples (Weighted Index)	265	267	247	↓	↑
Average Wine Price[1]	5.5	5.7	5.7	↓	↓
Packaged White Wine[1]	6.5	6.4	6.5	↑	↑
Packaged Red Wine[1]	9.5	9.7	9.1	↓	↑
Bulk wine[1]	3.1	3.2	3.2	↓	↓

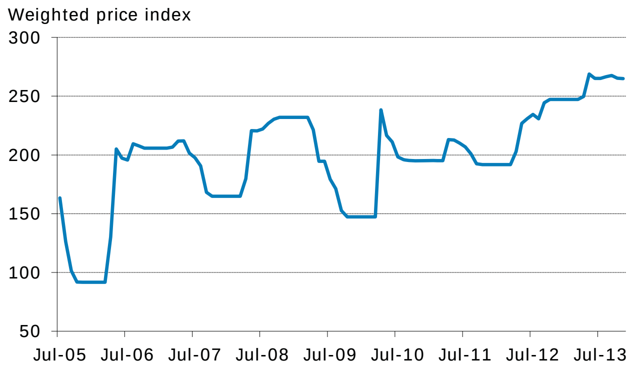
[1] USD per litre

Kiwifruit Indicator Price



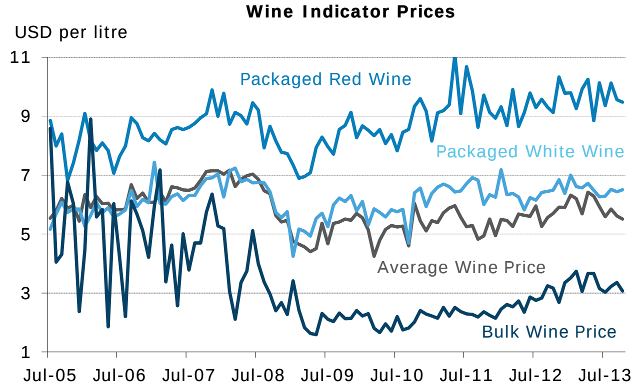
Sources: ANZ, Zentrale Markt- und Preisberichtstelle

Apple Indicator Price Index



Sources: ANZ, Zentrale Markt- und Preisberichtstelle

Wine Indicator Prices



Sources: ANZ, NZ Winegrowers

Zespri raised their forecast 2013/14 orchard returns in October, and with the majority of fruit sold they won't change much from here. Across all categories, forecast returns increased as a result of strong in-market prices, improved market mix, reduced post-harvest costs, and very low fruit loss levels. The price increases, combined with Psa generally being less prevalent in the likes of the Bay of Plenty, have increased confidence in the future.

For Green the orchard gate return was lifted by $0.39 to $5.01 per tray. This is a 8.4 percent increase on last season and will be the highest price achieved in 10 years, when there was a much lower NZD. The number of Green trays supplied was 69.3 million. This was at the top end of early season expectations and only 7 percent behind the five-year average despite Psa challenges over recent seasons. **The result gives an average yield of 8,170 trays per hectare and orchard gate revenue of $40,916/ha.** This return is the highest we have on record (back to late 90's), but generally higher costs – and additional costs to manage Psa – mean bottom-lines will not show a record result.

For Gold the news was equally as bright on the price side of things, but not for production. Gold orchard gate prices were lifted by $1.80 to $12.25 per tray. This is a 17 percent increase on last season and by surpassing last year sets a new record. Of course this has been primarily driven by the change-over of Gold varieties from Hort16A to Gold3, dramatically reducing supply. **Total Gold trays supplied were 11.1 million, which was less than half the prior season and toward the bottom end of early season expectations.** So while average orchard revenue hits nearly $102,000/ha for the first time ever, many growers would have sold little – if any – fruit at the record prices.

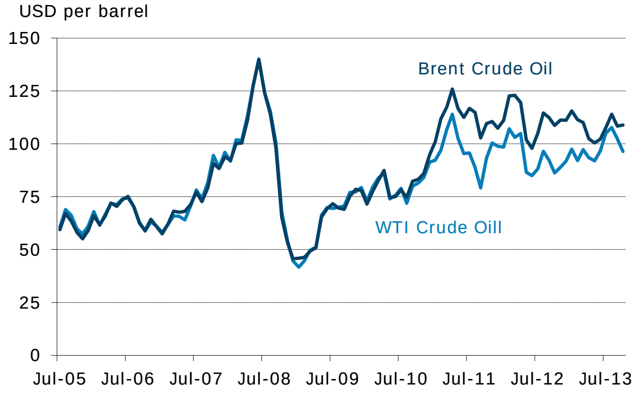
In the viticulture sector there is potential for a very big 2014 vintage, with vines – especially in Marlborough – typically having been pruned for a large crop and shoots fruitful with high (and large) bunch numbers. **This will see some nervousness over pricing, with global wine production forecast to bounce back and reach its highest level since 2006. The main indicator to watch will be bulk wine prices, as this is where pricing pressure is likely to first show itself.** Better bulk wine prices and stabilisation of bulk sales as a proportion of total sales has been the major driver behind better grape prices. Over the last four months bulk prices have averaged around the $4/litre mark. This is well up on the five-year average of $3.37/litre. Packaged white wine continues to achieve prices around the $8/litre mark and packaged red wine between the high $11 to nearly $13/litre range.

KEY COMMODITIES: OIL, FREIGHT AND FERTILISER

OTHER COST INDICATORS	Current Month	3 Mth Trend	Last Year	Chg. M/3M	Chg. Y/Y
WTI Oil[1]	94	102	89	↓	↑
Brent Oil[1]	111	110	111	↑	↓
Ocean Freight[2]	1,492	1,546	1,086	↓	↑

[1] USD per barrel, grade WTI
[2] Baltic Dry Index

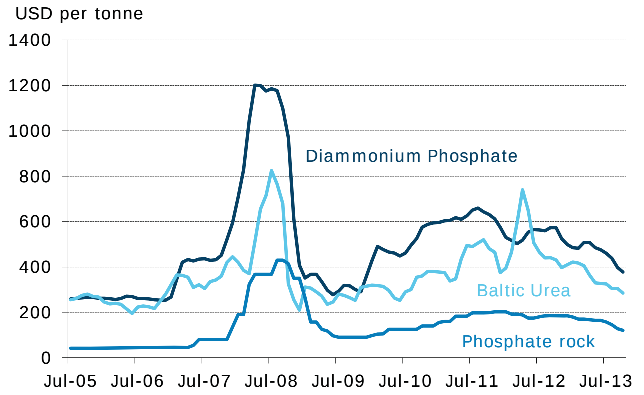
Crude Oil Indicator Prices



Sources: ANZ, Bloomberg

FERTILISER PRICE INDICATORS USD per tonne	Current Month	3 Mth Trend	Last Year	Chg. M/3M	Chg. Y/Y
DAP (USD)	377	432	573	↓	↓
Urea (USD)	285	312	397	↓	↓
Phosphate Rock (USD)	121	143	185	↓	↓
Farm-gate DAP (NZD)	856	856	NA	↔	NA
Farm-gate Urea (NZD)	645	645	NA	↔	NA
Farm-gate Super phosphate (NZD)	337	337	NA	↔	NA

Indicative International Fertiliser Prices



Sources: ANZ, Bloomberg

Oil prices are expected to remain relatively steady leading into the New Year. However, the current 8-month high differential between the two global crude oil markers, Brent and WTI prices, should moderate. Market direction in the two benchmarks is likely to offset, resulting in a neutral global market with key themes continuing to be an overhang in US supply and an improving global economic outlook.

The relative weakness in WTI has been driven by US oil production supported by the "shale revolution". Production in the US continues to spike, with a new high reached in mid-November of almost 8mmb/d. Whilst production growth isn't showing any signs of slowing, other drivers have the potential to support prices. Cooler weather in the US typically ushers in stronger heating oil demand. And as US refiners move toward semi-annual maintenance and changes in output configuration from gasoline to distillate, some of the weight from oversupply should ease and stronger demand should support WTI into the New Year.

In contrast Brent prices should edge lower as short-term sovereign issues fall away. Political risk premiums seem to have been overpriced in the Brent market, with Libyan supply shortages already passing and noise around Iran's nuclear program having little impact on fundamental global supply. Reintroduction of supply from North Sea producers – returning from extended periods of maintenance – also supports some resistance to higher Brent prices.

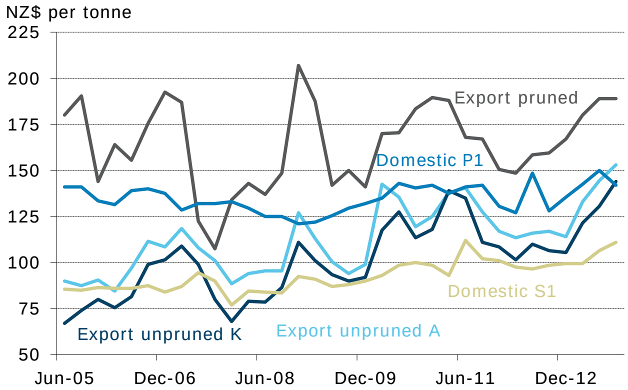
Farm-gate prices for the main fertiliser types remain unchanged since our last update. However, global fertiliser prices have remained under pressure, with many importers living hand-to-mouth and not purchasing large volumes. Expectations are that prices are starting to reach a floor though, as supply tightens and speculation that low inventories may mean key importers will soon have to start restocking. There is also speculation the Chinese Government is considering changes to the low export tax policy in 2014 for nitrogen and phosphate.

Overall Urea prices are currently 34 percent below the same time last year. A boost in supply has been the main driver, with new sources of supply coming from the Middle East and North African regions. Higher Chinese exports during their low-export tax window have boosted tradable product also. Global phosphate prices are 35 percent below last year. Increased export availability from China has met lower activity from Indian importers. **Combined with the high NZD this implies there might be some scope for farm-gate prices to move lower.**

KEY COMMODITIES: FORESTRY

OTHER COST INDICATORS					
	Current Quarter	3 Period Trend	Last Year	Chg. P/3P	Chg. Y/Y
Export: (NZ$ per JAS m3 f.o.b.)					
Pruned	189	179	160	↑	↑
Unpruned A Grade	153	131	117	↑	↑
Unpruned K Grade	144	119	107	↑	↑
Pulp	130	104	106	↑	↑
Domestic: (NZ$ per tonne delivered at mill)					
P1	142	143	128	↓	↑
P2	120	122	119	↓	↑
S1	111	102	99	↑	↑
S2	100	98	92	↑	↑
Pulp	51	49	48	↑	↑

NZ Forestry Indicator Prices



Sources: ANZ, MPI

The underlying strength of the log export market is continuing to support excellent returns for logs this year. Export prices have been steadily rising over the course of the past 12 months, and domestic prices have followed. During the last quarter, demand and prices in China have rebounded to their earlier three-year highs. Settlement prices in US dollars per cubic metre of logs landed in China have risen. However, in late September shipping rates rose for a period, and combined with the strengthening NZD, have meant New Zealand wharf gate prices have risen by slightly less during the same period.

Monthly log cargoes from New Zealand have been running at about a million tonnes, with a record 1.28 million tonnes exported in August. **Seasonal demand has exceeded expectations, with inventory levels of softwood logs across the eastern seaboard dropping slightly compared to demand.**

China's demand for wood products has led to massive demand for NZ logs. NZ log exports to China in the third quarter were over 3 million cubic metres, a 40 percent y/y increase, and made up 71 percent of NZ's total log exports. Current softwood inventory levels from all sources in China eastern seaboard ports have risen slightly from 2.2-2.3 million cubic metres to 2.4-2.5 million cubic metres, but usage has risen at the same time. **New Zealand remains the single largest supplier of softwood logs into this market.** In fact, companies owned in part or wholly by New Zealand based entities manage or control 70 per cent of all softwood logs going to China from New Zealand, Australia and the US.

Most regions of New Zealand are reporting log price increases, driven by continuing firming in export log prices and rising domestic demand. Auckland and Christchurch are the two epicentres of local demand. However price increases remain modest so far. Complaints about poor margins from sawmill owners continue to pervade the supply and price negotiations up and down the country.

In the past month log prices have risen to the highest levels yet this year, with A-grade logs now reaching $114/t delivered to the wharf gate. This is a 23 percent y/y rise, and is the driver for most other log types rising in price. The average A-grade price delivered to the wharf this year has been $109/t, compared with an average of $96/t for the whole year in 2011.

ECONOMIC BACKDROP

SUMMARY

The NZ data-flow is increasingly corroborating anecdotes that the slow-grind economic recovery has evolved into a genuine expansion. The question is whether the NZ economy can digest the unbalanced pipeline of growth, which is heavily focused on housing construction. The RBNZ will tolerate necessary relative price movements, but has made it clear that any spill-over of higher construction costs and asset prices (read housing and land values) into general inflation will not be tolerated. Rapidly rising asset prices also represent a financial stability risk, and limits on high-LVR lending for the housing market are just the first step in a game the RBNZ is determined to win.

OVERVIEW

The economy is receiving huge support from an array of forces. Commodity prices are very high. The ANZ Commodity Price Index is up 23 percent on the year, driven primarily – but by no means solely – by dairy prices. This represents an enormous income boost to New Zealand. Financial conditions are loose. Asset prices are rising. Migration is lifting. The resurgent housing market is supporting consumption, for better or worse. The Canterbury rebuild is kicking into gear, supporting gains in employment and incomes. A mild winter and generally kind spring have turbo-charged the primary sector's drought recovery. Confidence across the economy is strong, and this is now manifesting in the creation of more jobs, a critical ingredient for a recovery to blossom into a full-blown economic expansion.

Three percent real GDP growth looks easily within reach over the coming couple of years. That's mild relative to previous upswings – testament to the powerful headwinds that remain in the background, including a high currency and weak national balance sheet. However, that sort of growth rate will be achieved by precious few nations across the OECD.

The demand is clearly there. The emerging question is **whether the NZ economy has the capacity to meet that demand without blowing a gasket.** The likes of the agri sector can only meet demand if supply inputs (staffing, skills, investment) are available. Building such capacity needs to be more of a focal point. Such dynamics are often overlooked, but are critical.

The pipeline of growth is highly construction-centric; the need to grow Auckland at the same time as rebuilding Christchurch is a very tall order indeed. You can also add agri investment, such as irrigation and dairy conversions, to the list. This will put pressure on the construction sector. The RBNZ has made it clear they are not willing to tolerate any spill-over from a construction boom into generalised core inflation and wages. While some parts of the world are talking deflation still, medium-term inflation risks for NZ are starting to look biased to the other side, and we expect the OCR to begin a gradual, stop-start trek back towards neutrality from the early part of next year. **For a construction boom to be accommodated, the sacrificial pawn must be consumption.** We're seeing this on the government side, but uncertainty surrounds private consumption, with behaviours of old emerging. Restrictions on high-LVR lending have been brought in as a policy response, and invariably the OCR will come into play as well. The economy simply doesn't have the resource capacity – or balance sheet strength – to absorb both a construction and a consumption boom simultaneously.

There are also huge tensions to manage. Frictions continue to percolate from offsetting forces: a weak national balance sheet versus signs of re-leveraging (pre-LVR restrictions at least); building 30,000 houses in Auckland while staying mindful of affordability issues; a city rebuild versus contractionary fiscal policy; and a high currency versus a record dairy payout (terms of trade boom). These secular forces will be around for a long time. Offshore challenges have also not disappeared. The US is looking better but Europe remains a mess. More uncertainty surrounds China – a nation that is a huge source of support to the wider agri story – with widening credit spreads symptomatic of poor quality investment and a rising portfolio of potential non-performing loans.

The global scene is beyond our control (so we've got our fingers and toes crossed) but how local tensions are managed will be heavily influenced by:

- **The microeconomic agenda.** Two critical examples are getting the supply-side response into Auckland housing promptly, and mobilising labour into Christchurch. Microeconomic "tweaks" can help dampen economic frictions and tensions. The last thing NZ needs is for the "big" events to derail or dominate everything else, thereby forcing the OCR up further.
- **Productivity growth across the economy.** Under the bonnet we think the productivity story for NZ.Inc is improving rapidly. Official measures are haphazard and suffer measurement deficiencies, but partial indicators such as energy-intensity proxies and talking to firms on the ground are far more encouraging. The underlying productivity story will have a huge bearing on the output-inflation nexus over the coming years, and determine how far the OCR needs to head up. One of NZ's pending challenges will be managing the human psychology that often accompanies moving into an economic expansion – complacency.

BORROWING STRATEGY

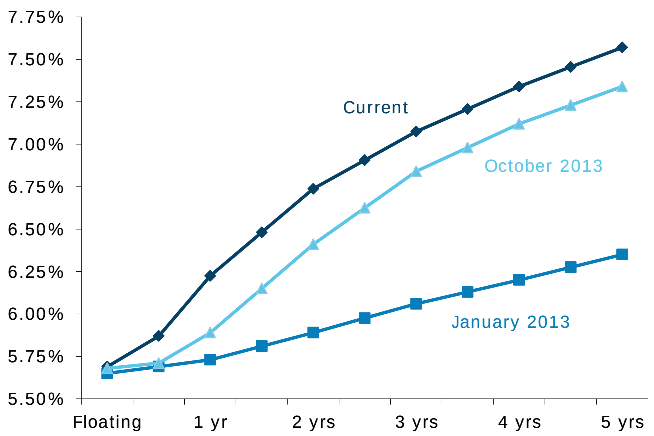
SUMMARY

Indicative rural fixed lending rates have moved even higher since our last edition, taking the 5 year rate above 7.5 percent. With no change to the OCR, the floating rate remains broadly unchanged, and as a consequence, the rural lending curve has "steepened". The culprit has been a steady run of strong domestic data releases that has ignited the debate about the possibility of a January start to the RBNZ tightening cycle – amidst the usual gyrations from offshore. We remain of the view that the OCR won't rise till March, but the risk of an earlier move is building. Nonetheless, with so much now already priced in, the proverbial horse has bolted for those considering fixing. Global risks have not disappeared, which urges caution. The OCR is moving up, but we doubt it'll be as aggressively as the market implies. Consequently, at current levels we see minimal value in fixing for more than 1 year.

OUR VIEW

Indicative fixed lending rates have ratcheted even higher since our last edition, adding to the already sharp rise in rates seen since January. Of note, 3 and 5 year rates are over 7 and 7.5 percent respectively. As a consequence, the spread between floating (the cheapest rate) and the 5 year rate (the highest rate) is now close to 2 percent.

Indicative Rural Lending Rates

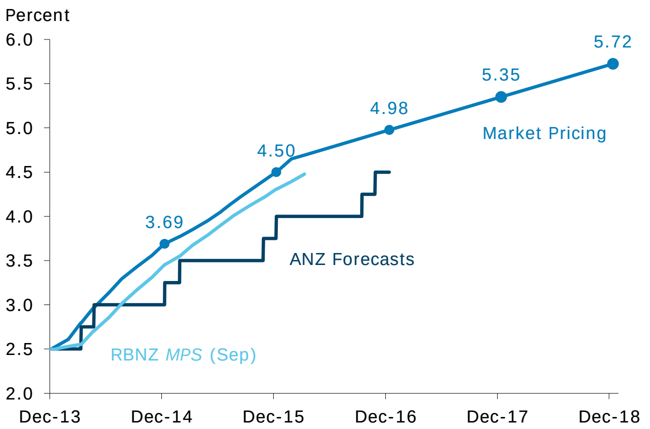


Sources: ANZ, Bloomberg

With no change to the OCR, the floating rate is unchanged, and this has led to a significant "steepening" of the rural lending yield curve since January, as the chart above shows. **As we noted in our last edition, with such a large spread between fixed and floating, borrowers ought to be cautious about fixing.** Now that the step-up from floating to 5 years has widened to almost 2 percent, even more caution is now required. While there are more factors than just the cost to consider, if we put them to one side for a moment, and focus purely on financial metrics, the question a borrower must now ask if they do wish to fix for 5 years is, how will they "recover" the near 2 percent margin in the future? **For every day a borrower pays a margin over floating, they need to expect to save an equivalent amount in the future. In other words, the question becomes, how quickly must interest rates rise in order for fixing to be worthwhile?** We can tackle this question in two ways.

The first is via a brief analysis of forward rates. As the chart below shows, market implied forward rates rise more rapidly than our forecasts, and take the OCR to 5.72 percent in 5 years time. That's around 3.2 percent higher than the current OCR, and is broadly consistent with 12-13 separate 25bps OCR hikes by the RBNZ. By comparison, we forecast "just" eight 25bps hikes in the upcoming cycle. Even though we don't forecast rates beyond 3 years, and there is a possibility that rates do trend higher beyond our forecasts, we are also mindful that fiscal policy tightening, macroprudential policy, global fragilities (with attention turning more and more on China and others), and the high NZD will likely dampen the magnitude of the upcoming tightening cycle.

OCR Expectations



Sources: ANZ, RBNZ, Bloomberg

At face value then, the market looks somewhat over-extended. It may well extend further yet, particularly if mortgage and corporate borrowers rush to fix, which would put temporary – but potentially significant – upward pressure on market interest rates. But the point is, from a valuation perspective, rates already look elevated.

The second approach is breakeven analysis, as we typically do each month. While it is essentially the same as forward rate analysis, it allows borrowers to directly compare one strategy (e.g. fixing for 2 years

BORROWING STRATEGY

and then rolling for a further year in one year's time) against another (e.g. fixing for 3 years now).

Of note, what our breakeven analysis shows is that **the term structure of interest rates out to 3 years needs to lift by between 0.35 and 0.69 percent in the next 6 months, and by between 0.62 and 1.15 percent in the next 12 months in order to be no worse off fixing now. That's pretty aggressive given that we expect the OCR to rise by "just" 0.75 percent over the next 12 months.** In other words, the market is "fully priced".

Rural Lending Rates (incl. typical margin)		Breakeven rates			
Term	Current	in 6mths	in 1yr	in 2 yrs	in 3 yrs
Floating	5.70%				
6 months	5.89%	6.58%	7.04%	7.63%	7.98%
1 year	6.24%	6.81%	7.30%	7.80%	8.10%
2 years	6.77%	7.20%	7.55%	7.95%	8.36%
3 years	7.11%	7.46%	7.73%	8.17%	
4 years	7.36%	7.69%	7.96%		
5 years	7.61%				

There is no doubt that the economy is on a strong footing, and that the NZ economy will be one of the best-performing developed economies in the world over the next year at least. **But equally, there is a limit to how quickly the RBNZ can "go it alone" in raising rates given how low policy rates are across the major economies, and given signs of stress emerging in parts of Asia.**

Consequently, **we prefer to** take a more cautious approach at current levels, and **either stick to floating now that the horse has bolted, or fix for a shorter, less expensive term such as 6 months or 1 year.** We did discuss the merits of fixing for term earlier in the year, but at the moment, the value proposition simply doesn't stack up.

EDUCATION CORNER: KPMG GUEST EDITORIAL

SUMMARY

Challenging growth targets are in place for New Zealand's primary sectors for the next 12 years. Our ability to exploit key markets will depend on how well we know the end consumer, as well as the understanding and relationships we maintain with the conduit to these consumers, in particular the major global retailers. Eight key barriers have been identified during discussions with industry leaders that are limiting the performance of the primary sectors in global markets. If these issues can be successfully navigated then this will go a long way to helping the agribusiness community achieve its goals. Key focus areas identified in this endeavour are "attribute marketing" (selling quality, not quantity), owning relationships with customers, responding flexibly to government intervention, achieving market immersion to understand ever-changing market dynamics, innovating constantly, prioritising consumer trust, consolidating market positions of scale, and articulating New Zealand's story of safe and quality produce.

INTRODUCTION

This month we feature a guest editorial from KPMG's Head of Agribusiness, Ian Proudfoot. Ian talks about evolving New Zealand's agribusinesses into truly customer-centric industries. This includes some of the barriers that need to be overcome to achieve the growth goals the Government and individual sectors have set themselves. Many of these insights came from 15 roundtable discussions KPMG held with leaders from a variety of sectors in early 2013. This editorial is a summary of these and more detail can be found in the third edition of KPMG's Agribusiness agenda: Evolving to a truly customer-centric industry.

UNDERSTANDING THE GLOBAL CONSUMER; DELIVERING TO CURRENT NEEDS AND ANTICIPATING FUTURE REQUIREMENTS

The New Zealand Government has challenged the primary sector to more than double the value of its exports to over $60 billion between now and 2025. Given the growth in consumer demand globally for premium food, fibre and timber products this is a stretch, but an achievable goal for a customer-centric industry focused on the market opportunities that offer the greatest potential to deliver premium returns back to producers.

The question is whether our primary sector is sufficiently customer focused to exploit the best market opportunities and deliver on these growth expectations. The real challenge for the primary sector is to ensure that it consistently puts the needs of these target consumers front and centre in designing its supply chain and product offerings. This is critical to delivering the innovation and flexibility required to consistently win in key niche markets over a sustained period. We cannot assume that the market conditions we face today will prevail into the future as competitors respond to disruptive changes in global markets.

The shifting balance of global economic power towards Asia has been well documented and has major implications on the type of products consumers will demand from us. We are geographically fortunate that the greater Asian market, not just China, is on our doorstep, making us an obvious potential supplier to these rapidly growing markets. The scale of market opportunity in Asia is huge (3.2 billion middle class consumers by 2030, 68 million people moving from rural to urban areas every year to 2050, huge growth in demand for more complex animal proteins – particularly poultry and pork) and all create new market niches for our producers to explore and target.

It is critical we continually reassess what we produce to ensure it delivers to meet the needs of premium consumers around the globe rather than assume that they will carry on demanding the products that we have produced and exported over the last twenty years.

While our physical location and reputation for producing high-quality food positions us well to benefit from the Asian growth story, it also creates significant opportunities for our competitors, focused on similar market niches, to exploit. European Union producers in particular will be unleashed by the removal of the Common Agricultural Policy (CAP) quotas in 2015, have a reputation for producing premium quality product and are already scoping out market opportunities in Asian growth markets.

The interest in the growth opportunities in China, Indonesia, India and Vietnam were all talking points with Irish dairy producers on a recent trip to Ireland. With the lifting of the CAP quotas, Irish producers are expecting to be able to grow their milk production by around 50 percent in three to four years, having produced around 5 billion litres for the last 20 years or more due to the quotas. All the additional production will be exported, with Asian growth markets high on their list of opportunities.

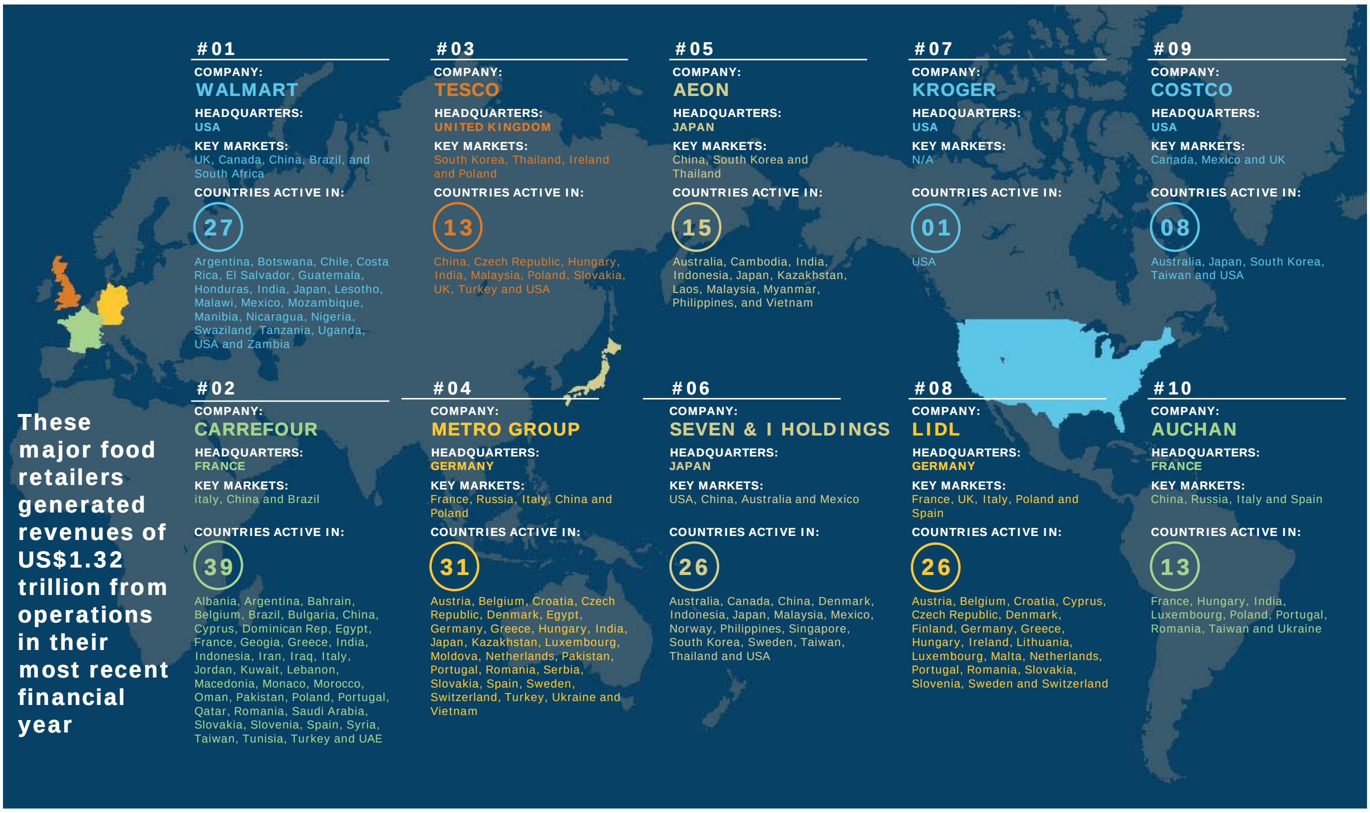
Our ability to win in these markets will depend on how well we understand the end consumer of the products, as well as the understanding and relationships we maintain with the conduit to these consumers, in particular the major global retailers. In preparing the Agribusiness Agenda series this year, we analysed the key strategies of the 10 largest retailers in the world; a group of companies that report turnover of around US$1.3 trillion and operate stores in over 90 countries (but interestingly, not New Zealand).

It is these companies, five of which are headquartered in Europe (and all but two of them having extensive operations in Europe),

EDUCATION CORNER: KPMG GUEST EDITORIAL

which will have a major bearing on our economy, our lifestyle and ultimately, the prosperity of this country. There is a high degree of consistency in the strategic priorities and future direction of these retailers which our producers, processors and marketers should be ensuring they design their products and supply chains to meet:

- **The majority of retailers are adopting multiple retail format approaches within their businesses to enable them to effortlessly fit into the lifestyles and spending patterns of increasingly diverse groups of consumers.** As a consequence, the same retailer can be transacting in completely different ways with budget and premium consumers; however, their procurement requirements are consistent across the spectrum of their business and a bottom line for developing a trading relationship.
- **Globally, retailers are very aware of the impact that post Global Financial Crisis government austerity measures in many countries are having on consumers' purchasing power.** This is being reflected in strong focus being placed on delivering greater value and everyday low prices to consumers, making it very important that our products are viewed as solutions rather than commodities, or price will be carrying the greatest weight in the procurement equation. With our production costs increasing this is not a market we want to be competing in.
- **There is a strong trend amongst retailers to shift a greater proportion of their sales from branded to house-branded products.** It is notable however, that this no longer necessarily means cheap and cheerful, with most retailers maintaining a portfolio of brands focused at different market segments with top-end brands being a way to deliver innovative, premium products to consumers. This creates alternative avenues for our products to be supplied into growth markets if our exporters can build business models that are able to create value through supplying house-branded products.
- **Another common theme is the trend to support local producers with the objective of giving an international retail brand a domestic personality in each country that the company operates in.** One retailer aims to source as much as 75 percent of the products it sells in each country from local producers. This presents a threat to an exporter such as New Zealand; however, it challenges us to think innovatively as to how we can respond to "buy local" trends through using new technologies to connect our producers to their consumers and tell the stories of the unique attributes of our products.
- **The companies all have a strong commitment to improve the environmental and social performance of their businesses.** This is being realised through sourcing strategies, product packaging innovation, and the environmental



EDUCATION CORNER: KPMG GUEST EDITORIAL

efficiency of the store operations. As we discuss in the Agenda series, the importance of sustainability to key customers continues to grow. We can no longer afford not to take action to remove the license to farm from the operators that consistently fail to meet the basic sustainability standards required to preserve our ability to transact with these global retailers.

Building effective relationships with these retailers to provide a conduit for our premium products to be presented to the customers with the greatest capacity to pay is important if the industry is to deliver on the Government's challenge to the primary sector. However, we need to recognise that these retailers are changing the ways they do business and consistently diversifying their operating models requiring us to continually evaluate how we work with them.

During the roundtable discussions, industry leaders raised a range of issues around the performance of the primary sectors in global markets. We distilled these into the eight key barriers that are most restricting the agribusiness community to consistently maximise its value in international markets. The table below provides a summary, as well as the key focus to overcoming, or managing these issues.

We can no longer keep doing the same things that we have done for 20 years or more and hope that they keep on working. Exporters that are prepared to look at the world through a different lens are more likely to succeed than those that rely on the tried and true – particularly in light of unleashed competition from European producers as CAP quotas are lifted. It is the producers that are not only innovative and responsive to the needs of their consumers, but who are prepared to position themselves to anticipate the future needs of these consumers that will win in the long run – it is those that are prepared to be the Apple of primary producers that will win in the long run.

With thanks to:

Ian Proudfoot
Global Agribusiness Leader
KPMG New Zealand
E-mail: iproudfoot@kpmg.co.nz
www.fieldnotes.co.nz

CREATING A CUSTOMER CENTRIC INDUSTRY – BARRIERS TO MAXIMISING VALUE

Barrier	Key focus
The industry has a trading mentality, focused on maximising volumes and selling on price rather than attributes.	**Realising the benefits of attribute marketing** Producers need to understand the most important attributes to a potential consumer and articulate the inherent attributes of their products to clearly demonstrate value to consumers.
Tendency to work with distributors or intermediaries rather than seeking partners to develop direct consumer relationships.	**Integrating into customer businesses** It is critical that whenever possible our producers own the relationships with their customers. This creates opportunities to assist customers in achieving success and creates value for producers.
Governments need to provide their populations with sufficient, affordable food leads to market intervention and distortion.	**Responding flexibly to government intervention** Business models need to have flexibility to respond to unexpected regulation changes. NZ Government also needs to effectively fulfill its role as facilitator/regulator of our trading relationships.
Each market has unique characteristics and requires detailed market knowledge rather than taking a one size fits all approach.	**Achieving market immersion** Market dynamics are constantly changing. It is critical that NZ exporters have people immersed in market to analyse these trends so our products are targeted towards valuable market niches.
The speed of innovation in markets continues to accelerate; thus our exporters cannot keep adopting the same tactics year after year.	**Creating next generation business models** Changes in the global agri-food system require constant innovation. Producers need "to take a blank sheet of paper" to seek ways to employ technology and innovation across their business.
Customer relationships will not survive a breach of trust. Scares have resulted in consumers questioning supply chain integrity.	**Preserving consumer trust** Trust is developed slowly over time, but can be lost as a result of a single careless action. Our reputation relies on every company exporting from NZ doing the right thing every time.
As a small producer in the global market we often lack sufficient scale to compete on anything other than price.	**Consolidating market positions of scale** Scale delivers a sector greater control over its own destiny. Without regulation to create more single desk structures, scale will be developed and value delivered through commercial collaboration.
100% Pure has been adopted to promote NZ primary products; however, this tourism brand does not fully tell the integrity story of our primary production.	**Articulating New Zealand's story** At the core of New Zealand's primary provenance story is the safety and quality of the products produced. The story we project to global markets must be backed by core, widely-accepted values.

KEY TABLES AND FORECASTS

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Oct-13	Nov-13	6-Dec	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
NZD/USD	0.829	0.812	0.822	0.80	0.78	0.76	0.75	0.75	0.75	0.75
NZD/AUD	0.871	0.892	0.907	0.87	0.87	0.86	0.86	0.86	0.86	0.86
NZD/EUR	0.607	0.598	0.601	0.57	0.56	0.54	0.52	0.52	0.54	0.54
NZD/JPY	81.43	83.22	83.57	84.0	81.9	79.8	78.8	78.8	78.8	78.8
NZD/GBP	0.518	0.496	0.503	0.51	0.49	0.48	0.46	0.46	0.46	0.46
NZ TWI	76.5	76.1	77.1	74.6	73.1	71.2	70.1	70.0	70.7	70.7

INTEREST RATES	ACTUAL			FORECAST (END MONTH)						
	Oct-13	Nov-13	6-Dec	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
NZ OCR	2.50	2.50	2.50	2.75	3.00	3.00	3.25	3.50	3.50	3.75
NZ 90 day bill	2.69	2.70	2.70	3.20	3.30	3.30	3.70	3.80	3.80	4.20
NZ 10-yr bond	4.51	4.78	4.76	5.00	5.10	5.20	5.30	5.30	5.40	5.60
US Fed Funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75
US 3-mth	0.24	0.24	0.24	0.40	0.40	0.40	0.50	0.60	0.80	1.10
AU Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.25
AU 3-mth	2.60	2.61	2.61	2.70	2.70	2.70	2.70	2.90	3.20	3.40

ECONOMIC INDICATORS	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
GDP (% q/q)	0.2	**1.3**	**0.6**	**0.8**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**
GDP (% y/y)	2.5	**3.5**	**2.6**	**3.0**	**3.6**	**3.0**	**3.0**	**2.8**	**2.5**	**2.3**
CPI (% q/q)	0.2	0.9	**0.1**	**0.6**	**0.5**	**0.7**	**0.2**	**0.7**	**0.7**	**0.8**
CPI (% y/y)	0.7	1.4	**1.7**	**1.9**	**2.2**	**2.0**	**2.1**	**2.2**	**2.3**	**2.4**
Employment (% q/q)	0.4	1.2	**0.2**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% y/y)	0.7	2.4	**2.1**	**2.3**	**2.2**	**1.3**	**1.4**	**1.3**	**1.2**	**1.1**
Unemployment Rate (% sa)	6.4	6.2	**6.1**	**5.9**	**5.8**	**5.7**	**5.6**	**5.5**	**5.5**	**5.5**
Current Account (% GDP)	–4.3	**–4.1**	**–4.1**	**–4.2**	**–4.4**	**–4.6**	**–4.7**	**–4.8**	**–5.0**	**–5.2**
Terms of Trade (% q/q)	4.6	7.5	**1.3**	**0.4**	**–0.1**	**–0.3**	**–0.6**	**–0.7**	**–0.9**	**–1.0**
Terms of Trade (% y/y)	4.3	15.9	**18.8**	**14.4**	**9.1**	**1.2**	**–0.7**	**–1.7**	**–2.4**	**–3.1**

Figures in bold are forecasts. q/q: Quarter-on-Quarter, y/y: Year-on-Year

NEW ZEALAND'S 20 LARGEST EXPORT MARKETS

NZ'S TOP EXPORT MARKETS FOR THE 12 MONTHS ENDED OCTOBER 2013 (NZ$M)

	Global Total	Australia	China	USA	Japan	Korea	UK	Germany	Singapore	Hong Kong	Malaysia	Indonesia	Taiwan	India	Saudi Arabia	Philippines	Thailand	UAE	Nether-lands	Canada	Algeria
Sheepmeat	2,696	5	627	219	47	4	529	233	12	30	40		36		81	1	4	9	138	87	6
Beef	2,109	12	190	930	185	110	26	10	34	35	30	36	125		23	31	10	23	30	73	
Other Meat	457	46	22	24	36	28	28	63	5	30	6	3	3		10	4	2		23	5	1
Milk Powder	7,636	59	3,070	8	38	11			244	137	360	295	198		209	272	226	383	2	7	294
Butter	2,005	79	205	99	9	14	2		33	19	51	71	54		82	71	35	50	15	9	55
Cheese	1,446	220	106	40	319	126	14		10	17	30	57	35	1	60	55	15	16	25		24
Whey/Casein	1,858	52	262	665	217	47	3	133	64	1	21	46	12	7	27	21	9	1	8	30	1
Kiwifruit	851	59	84	19	228	36		179	10	24	12	9	60	4		2	7	4		3	
Apples	504		22	72	6		56	53	15	21	13	7	14	21		1	45	28	52	13	
Other Fruit/Vege	830	355	14	34	161	22	14	8	12	8	34	8	17	2	1	1	12	2	17	3	3
Wine	1,238	378	21	296	15	2	282	12	18	20	3	1	1			1	2	5	29	77	
Wool	779	42	406	16	18	1	46	43		7	6	1	6	31			7	1	1	3	
Skins/Hides	597	21	204	2	6	25	3	1		29		5	4	18			8				
Logs	2,300		1,612		149	325							12	193			4				
Sawn Timber	1,113	318	172	168	71	59	1	1	5	1	15	19	46	3	21	36	30	8	16	1	
Fibreboard/Plywood	334	40	24	13	194	1					5	21	4	5		10	1			1	
Wood Pulp	601	68	161		56	67			1		17	113	21	13		4	16				
Fish/Seafood	1,448	275	419	137	112	29	12	24	27	59	7	3	7		2	14	27	10	7	11	
Crude Oil	1,718	1,527							166												
Aluminium	1,029	81	32	33	497	150	48	1	2	11	1	5	3	15			2		54	2	
Remainder	15,247	5,545	1,220	1,369	503	562	337	185	321	348	256	164	201	402	60	212	195	74	185	211	1
TOTAL	**46,796**	**9,182**	**8,873**	**4,146**	**2,867**	**1,619**	**1,402**	**946**	**981**	**796**	**906**	**865**	**858**	**713**	**576**	**737**	**658**	**614**	**602**	**537**	**386**

NZ MERCHANDISE EXPORTS ANNUAL CHANGE BETWEEN THE 12 MONTHS ENDED OCTOBER 2013 AND A 12 MONTH SPAN A YEAR EARLIER (NZ$M)

	Global Total	Australia	China	USA	Japan	Korea	UK	Germany	Singapore	Hong Kong	Malaysia	Indonesia	Taiwan	India	Saudi Arabia	Philippines	Thailand	UAE	Nether-lands	Canada	Algeria
Sheepmeat	79	-3	346	-33				-34	1	-2	-8		-16		-14		1	-2	-17		-7
Beef	71	-6	159	63	-15	-10	-3	-8	-17	-8	4	-18	-9		15	-10	1	1	-2	-32	
Other Meat	1	8	6	2	-4		1	-4	-2	5	-3	-6	1		-1	1	1		-1	1	1
Milk Powder	671	1	1,152	-5	14	1			41	35	25	20	32	-12	-41	46	2	-35	-8	7	-28
Butter	-125	-14	2	-9	-10	-6	2		-9	2	-5	21	2	-30	-23	3	-5	10	5	-11	8
Cheese	60	4	19	24	13	12	-17		1		1	1	6	1	-9	-5	1	-2	2		7
Whey/Casein	-109	-10	13	-110	7	-6	-2	-19	8	-1	-9	8	-1	2		-7	7		-1	-4	1
Kiwifruit	-238	-7	-37	-6	-92	-28		-16		-7	-3		-41	1			1	1		-1	
Apples	136		19	26			8	12	4	-3	1	1	-5	-2		1	14	10	20	7	
Other Fruit/Vege	-31	-36	4	-3	-25	-3	5	1	1	1	12	2			1	-1	-4		5	2	
Wine	23	-6	-7	37	2		-15	3	4	1								-2	1	2	
Wool	-31	-16	31	-9	-3	-1	-9	4		3	-2	1	-6	-3			-3				
Skins/Hides	32	3	-8		-4	2	-3			-7		-5	2	7			-2				
Logs	739		652		-17	77							2	23			-1				
Sawn Timber	-1	-9	21	7	-16	7		-1	-2			-4	12		-5	-22	-1	-4	9		
Fibreboard/Plywood	-65	-23	-2	2	-31						-5	-2	1	1	-1	3					
Wood Pulp	2	7	-15		-29	-11			-6		-3	32	-3			-1	-11				
Fish/Seafood	-36	-1	105	-2	-23	-18		6	-15	-73			-1		1	9	2	5	1	-3	
Crude Oil	-443	-464			-33				77			-24									
Aluminium	9	-7	1	-28	19	36	-8	-1		-5	-1	2					1		-24	-1	
Remainder	-274	-376	5	73	-169	24	29	46	25	-5	-7	-5	36	-110	-17	13	-16	2	31	-2	
TOTAL	**471**	**-954**	**2,467**	**28**	**-419**	**79**	**-11**	**-12**	**110**	**-65**	**-2**	**26**	**14**	**-121**	**-96**	**31**	**-13**	**-15**	**22**	**-36**	**-19**

NZ MERCHANDISE EXPORTS ANNUAL CHANGE BETWEEN THE 3 MONTHS ENDED OCTOBER 2013 AND A 3 MONTH SPAN A YEAR EARLIER (NZ$M)

	Global Total	Australia	China	USA	Japan	Korea	UK	Germany	Singapore	Hong Kong	Malaysia	Indonesia	Taiwan	India	Saudi Arabia	Philippines	Thailand	UAE	Nether-lands	Canada	Algeria
Sheepmeat	-11	-2	39	5	2		-8	-8	-1		-1		-7		-5				3	-1	
Beef	-8	-1	2	12	-3	-2	-1	-2	-5	2	1	4			3	-3	-1	1	2	-11	
Other Meat	8	1	1	2	-2	-1	-1	2	-1	1					-1		1		2		
Milk Powder	878	6	757	-7		1			17	-21	26	22	23		-11	49	20	23	-3		-9
Butter	62	9	25	-12	4	1				3	6	14	1		-13	5	5	11	1	-6	13
Cheese	9	11	5	-9	9	-5					1	-3			-6	-5		-1			-2
Whey/Casein	32	5	-2	29	6	-2		-11	3		-1		-1		-4	-2	5		-2	1	
Kiwifruit	-64	-4	-12	-2	-31	-2		9	1	-4			-17								
Apples	9		1	1			-1		1	1							1	2			
Other Fruit/Vege	12	4		3	3	-1				1	3						-2			1	1
Wine	9	-1	-5	6	1		-1	2	2	1								-1	2	-2	
Wool	29	-2	22	-2	-1		1	4					-1	1			-1	1		1	
Skins/Hides	24	-1					1							2			-1				
Logs	306		252		-2	31							2	21							
Sawn Timber	15	-3	-2	6		3		1	-1		-1	2	1	1		-4	-1	1	2		
Fibreboard/Plywood	-12	-4	-2	1	-5						-1	1				-1					
Wood Pulp	12	1	-7		-3	5			-2			11	-1	-1			-4				
Fish/Seafood	15	-5	23	8	-1	-5			1	3	-1	-1				1		5		-1	
Crude Oil	-86	-140							53												
Aluminium	76	2	-1	-6	72	25	-6	-1				2		-1					-16		
Remainder	-7	-82	-53	49	-10	-25	19	8	-14	-5	6	-30	2	-25	-6	19	4	7	3	5	
TOTAL	**1,308**	**-206**	**1,042**	**81**	**38**	**25**	**3**	**4**	**54**	**-20**	**40**	**19**	**2**	**-3**	**-41**	**58**	**27**	**50**	**-3**	**-14**	**3**

IMPORTANT INFORMATION

IMPORTANT INFORMATION

India. This publication is distributed in India by ANZ on a cross-border basis. If this publication is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing. Further copying or duplication of this publication is strictly prohibited.

New Zealand. This publication is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008.

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

People's Republic of China. If and when the material accompanying this publication does not only relate to the products and/or services of Australia and New Zealand Bank (China) Company Limited ("ANZ China"), it is noted that: This publication is distributed by ANZ or an affiliate. No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this publication in the People's Republic of China ("PRC"). Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this publication or any other method. This publication may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this publication relates to the products and/or services of ANZ China only, it is noted that: This publication is distributed by ANZ China in the Mainland of the PRC.

Qatar. This publication has not been, and will not be lodged or registered with, or reviewed or approved by, the Qatar Central Bank ("QCB"), the Qatar Financial Centre ("QFC") Authority, QFC Regulatory Authority or any other authority in the State of Qatar ("Qatar"); or authorised or licensed for distribution in Qatar; and the information contained in this publication does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this publication have not been, and will not be registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar. Accordingly, the financial products or services described in this publication are not being, and will not be, offered, issued or sold in Qatar, and this publication is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this publication and distribution of this publication is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this publication must abide by this restriction and not distribute this publication in breach of this restriction. This publication is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This publication is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore. In respect of any matters arising from, or in connection with the distribution of this publication in Singapore, contact your ANZ point of contact.

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

United States. If and when this publication is received by any person in the United States or a "U.S. person" (as defined in Regulation S under the US Securities Act of 1933, as amended) ("US Person") or any person acting for the account or benefit of a US Person, it is noted that ANZ Securities, Inc. ("ANZ S") is a member of FINRA (www.finra.org) and registered with the SEC. ANZ S' address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). Except where this is a FX- related or commodity-related publication, this publication is distributed in the United States by ANZ S (a wholly owned subsidiary of ANZ), which accepts responsibility for its content. Information on any securities referred to in this publication may be obtained from ANZ S upon request. Any US Person receiving this publication and wishing to effect transactions in any securities referred to in this publication must contact ANZ S, not its affiliates. Where this is an FX- related or commodity-related publication, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). Commodity-related products are not insured by any U.S. governmental agency, and are not guaranteed by ANZ or any of its affiliates. Transacting in these products may involve substantial risks and could result in a significant loss. You should carefully consider whether transacting in commodity-related products is suitable for you in light of your financial condition and investment objectives. ANZ S is authorised as a broker-dealer only for US Persons who are institutions, not for US Persons who are individuals. If you have registered to use this website or have otherwise received this publication and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this publication in any way.

This document has been prepared by ANZ Bank New Zealand Limited, Level 7, 1 Victoria Street, Wellington 6011, New Zealand,
Ph 64-4-802 2361, Fax 64-4-496 8639, e-mail nzeconomics@anz.com, http://www.anz.co.nz