



ANZ RESEARCH
AGRI FOCUS
OCTOBER 2022

**SNOW ONE DAY,
SUNSHINE THE NEXT**



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Global economic conditions are as volatile as our weather at present, making the outlook murky.

Purchasing power is deteriorating in many markets, impacting demand for the goods we export. But on the other hand, supply of these goods is relatively constrained, which is why prices are still high.

The weak NZ dollar is also bolstering returns at the farmgate level, but increasing the price of imported goods such as fertiliser and fuel.

The weather has been unsettled throughout the spring with several cold spells and most regions much wetter than normal. There have also been some really hot days and periods of high winds, meaning soils will dry rapidly once the rain slows.

Regulatory change continues at a pace that is hard to keep up with. Methane emissions pricing is now a step closer with the Government pricing proposal recently revealed.

The intent of all the new regulations is to push our primary industries in a positive direction that will set us up for the future, but the speed of the change is challenging to manage.

Prices at farm/orchard level relative to 10yr average

Dairy	Dairy commodity prices have started to ease, but there is a bit of room to move in our milk price forecast of \$8.75/kg MS for the current season.	Milk price Low High
Sheep	Lamb returns at the farmgate level are stable, but are expected to ease later in the season.	19kg lamb Low High
Beef	Beef prices in our international markets are under pressure, but this is yet to be felt at the farmgate price level.	Prime steer Low High
Forestry	Log returns at the wharfgate are being supported by the low NZD and lower shipping costs.	A-grade log Low High



ECONOMIC OVERVIEW

INFLATION THE KEY CONCERN

Global economic growth continues to slow and this is impacting demand for the food and fibre products we export. Interest rates are forecast to continue rising. Energy prices have eased a tad but are still at elevated levels. This, combined with the low NZD, is pushing up the cost of imported farm inputs.

HIGHER INTEREST RATES

The Reserve Bank of New Zealand (RBNZ) lifted the Official Cash Rate (OCR) by a **further 50bps in early October to 3.50%**. Higher interest rates are needed to dampen demand and thereby quell inflation.

We expect the RBNZ will continue lifting rates at the next few meetings, taking the OCR to 4.75% by the middle of 2023. We anticipate another 50bp lift in November, followed by 25bp hikes at each of the first three meetings in 2023.

If core inflation doesn't soon start to ease meaningfully, then the RBNZ may need to lift rates even further than we anticipate. But on the flipside, if global economic conditions deteriorate quickly, the OCR may not get this high. However, for the RBNZ to cut the OCR it will need to be very convinced that pipeline inflation is going to drop quickly. That would require a very different outlook for the labour market, and quite possibly our terms of trade as well, so may be a matter of "be careful what you wish for."

INFLATION IS PERSISTENT

Domestic inflation is showing few signs of letting up as yet. Acute labour scarcity and lingering supply chain constraints are making the RBNZ's job more difficult. Wage inflation has surged, suggesting the dreaded wage-price spiral is more developed than previously thought.

The unemployment rate is extremely low at present (near a record low). Although we are starting to see a small increase in migrant workers, migrant outflows are also rising. On an annual basis, net migration is currently negative (-12k) and it's expected to stay that way until 2023 before only gradually picking up. Net outflows are only adding to labour scarcity.

As monetary conditions continue to tighten, demand for both goods and labour is expected to ease. That will take the heat out of inflation, but long and variable lags between policy settings and the ultimate impact on inflation will keep a considerable degree of uncertainty in the OCR outlook for a while yet.

GLOBAL DEMAND

Global demand for goods is waning a little as monetary conditions tighten dramatically in major economies, with flow-on impacts for the broader global growth picture. This is starting to be reflected in the demand for goods exports and a reduction in freight costs across the main export routes. Ongoing lockdowns in China are also still impacting the supply of goods, but the bigger issue for global trade now is the reduced demand out of the likes of the US and Europe. There's a "bullwhip effect" as unusually high inventories of both consumer and intermediate goods that were built up over the past two years in response to supply disruptions are now being run down. That has exacerbated the volatility in orders for manufacturers in China and elsewhere – it's been a case of hero to zero in short order.

Unfortunately, the cost of freight goods from New Zealand to the rest of the world is yet to fall in a meaningful way. This is partially due to the higher costs of servicing New Zealand, which is further from markets than many other countries. Fuel costs are high, and shipping companies are also faced with tighter



ECONOMIC OVERVIEW

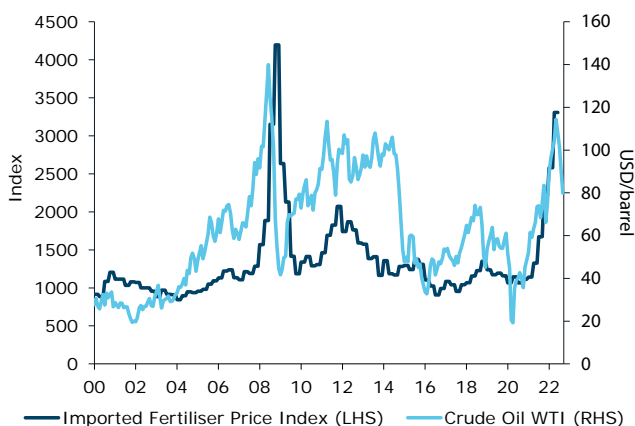
restrictions on emissions. In some cases, this means ships will sail more slowly, while others may abandon some routes altogether.

Throughout the pandemic we have seen reduced shipping services within New Zealand, with many of the international ships opting to call at only a few ports. This trend is expected to continue, which means our smaller ports are more reliant on coastal shipping services. They have generally had access to fewer sailings and have been subjected to more blank (cancelled) sailings.

ENERGY PRICES

Energy prices remain elevated, which is directly impacting the cost of fertiliser and fuel. It is unlikely that pressure on energy costs will dissipate any time soon, which does mean the cost of fertiliser this season will be much higher than last. Availability is also an issue for some types of fertilisers.

IMPORTED FERTILISER PRICE INDEX VS OIL PRICE



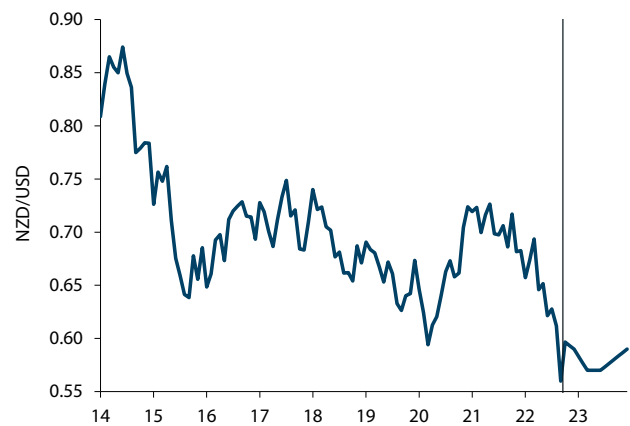
Source: Stats NZ, EIA, ANZ Research

CURRENCY CONCERNS

The weaker NZD is both a blessing and a curse. Farmgate prices are considerably stronger than otherwise due to the low NZD, particularly for industries where FX hedging is not typically done. Dairy processing companies tend to hedge their FX requirements well in advance, however, meaning the benefit of the low NZD will be less noticeable this season.

And meanwhile, the low NZD does mean imported products are more expensive. This has exacerbated the rise in fuel and fertiliser prices, which were already elevated due to the global energy shortage. It has also pushed up the cost of importing machinery.

NZD/USD



Source: Bloomberg, ANZ Research

REGULATORY CHANGE – KEEP UP!

The pace of regulatory change shows no signs of easing up, with the Government planning to finalise a lot more rule changes before the end of the year.

Recent changes have been numerous.

- A [National Policy Statement for Highly Productive Land](#). This aims to protect highly productive horticultural land from urban development. Some regions have had rules in place for decades to protect high-value land, but in other areas this hasn't been the case; hence the need for national-level guidelines. This doesn't mean the land can't be rezoned for urban uses at a later date, but it does put a more rigorous process in place to manage any changes.
- The Government recently announced an increase in the number of workers allowed into New Zealand under the [Recognised Seasonal Employer Scheme](#). The cap on worker numbers will be set at 19,000 for the 2022-23 season. That's 3,000 more than the previous season. The increase will certainly be welcomed by the horticultural sector, and hopefully getting seasonal workers into the country will be much more straightforward this season.
- Also under development is the [National Policy Statement for Indigenous Biodiversity](#), which is expected to be implemented by the end of the year. This may limit intensification of land use in some areas.
- The [Emissions Trading Scheme](#) is also constantly being tweaked. The big question at present is how to encourage emission reductions rather than simply offsetting. Offsetting emissions via planting trees is



ECONOMIC OVERVIEW

a short-term solution to our emissions problem. To meet our targets over the long term, we actually need to reduce emissions of both carbon and methane. Therefore, at some point we do expect to see some rule changes to this end.

- [Intensive winter grazing rules](#), which are part of the [National Policy Statement on Freshwater](#), are due to come into effect in November, after being deferred several times. Unfortunately, deferring it has not resulted in completion of the alternative regulatory framework, that being a certified freshwater farm plan. This means farmers who don't meet the guidelines will need to apply for resource consent to intensely winter graze, but councils are under-resourced to cope with this expected surge in consents.
- The [Resource Management Act \(RMA\)](#) is also currently being completely overhauled. This will create further regulatory change for councils to deal with. The RMA is to be replaced by three separate pieces of legislation, those being the [Natural and Built Environments Bill](#), the [Strategic Planning Bill](#), and the [Climate Adaptation Act](#).
- Water allocation is another topic that is being tackled. The [Three Waters Reform](#) relates to drinking water, waste water, and storm water. This mainly impacts urban facilities but some rural water schemes may also be impacted. Additionally, the processes used to allocate water for irrigation (and other uses) are to be reviewed. The current first-in-first-allocated process is expected to be replaced in some catchments, which may change how much water is able to be sourced, and the consenting time periods are likely to get shorter. Water is one of the few natural resources that New Zealand has in abundance, and is therefore one of our natural advantages when it comes to global food production. However, we do not have sufficient water when and where it is needed. Further investment in water storage, accurate ways to measure water requirements and usage, and efficient reticulation is imperative for New Zealand's food production systems to evolve.
- The [Government has also released its agricultural pricing proposal](#). A six-week consultation period now occurs, with Ministerial approval expected in early 2023. The proposal is generally based on what was proposed by the Government and industry partnership, He Waka Eke Noa, but it has been tweaked with the changes largely reflective of the recommendations made by the Climate Change Commission (CCC).

The scenario analysis provided by MPI provided grim reading for the beef and deer sectors, which are expected to be impacted the most by the pricing of methane emissions. The arable, horticultural, and forestry sectors stand to gain in terms of land use and output. The profitability of all livestock sectors is expected to fall, with meat producers hit the hardest.

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

DAIRY

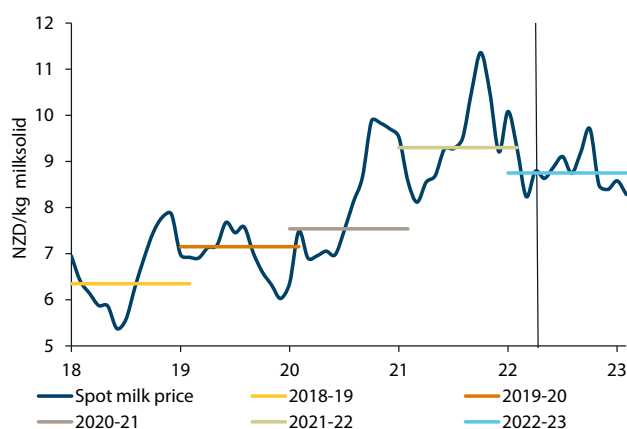
DEMAND AND SUPPLY BOTH WEAK

Dairy prices have strengthened a little in recent months but global demand looks fragile. Market uncertainty remains extremely high. Global milk supplies are tight, which will support prices, but demand for dairy products is weakening. It is not yet clear which will win out. Farmgate prices are being supported by the lower NZD.

Deteriorating global economic conditions are starting to impact demand, and this will test the dairy market in coming months.

The volume of product offered on the Global Dairy Trade platform is now increasing. The lift in volume tends to coincide with peak milk production in New Zealand during October and November. How the market performs during these two months will be key to farmgate returns for the 2022-23 season.

FARMGATE MILK PRICE HISTORIC AND FORECAST



Source: Fonterra, ANZ Research

At this stage, we forecast a farmgate milk price of \$8.75/kg MS for the 2022-23 season. The lower NZD provides some upside risk for this forecast. Any strengthening in dairy commodity prices would also bolster farmgate returns, but there is no certainty that prices will trend higher. We have assumed some softening in prices in our forecast.

Global milk production is still weak, but production in the main dairy-exporting countries is not falling as quickly as it was earlier in 2022. Production is now easing in the Northern Hemisphere, as is normal for this time of the season, while it's ramping up in the Southern Hemisphere.

The New Zealand production season has had a slow start. August milk intakes were down 4.8% y/y according to DCANZ data, while Fonterra's milk intakes were back 5%. Milk production data for August (and September) are not necessarily reflective of production for the full season. Small changes in calving dates, tight feed conditions, and inclement weather can cause large variations in milk intakes during these two months. October milk production data will provide a much better steer on the full season's production, although that month is also expected to be weak due to the excessively wet weather.

Pasture production has been poor early this season due to excessive moisture. The damage to pastures caused by cattle and machinery this spring has the potential to reduce pasture production in the coming months, and therefore milk production.

At this stage, we anticipate a relatively small reduction in milk intakes for the full 2022-23 season of approximately 1%, as some dairying land is being moved into other uses, farms are becoming more self-reliant (buying in less feed and/or grazing off less stock), and easing stocking rates. This follows a sharp drop last season when milk intakes fell 4% on a milksolid basis. There were some hopes of a recovery in production this season initially,



DAIRY

but this now seems unlikely given the slow start, and the general uncertainty the industry has been facing in terms of regulatory change.

INTERNATIONAL DEMAND CONCERNS

The biggest concern in the international market at present is how much dairy product China will import. China is by far the largest importer of dairy products and its economy is suffering from ongoing lockdowns to contain the spread of COVID-19, a rapidly cooling housing market, and a hit to employment (particularly youth employment) from reduced demand for its manufactured exports. This has meant fewer visits to bakeries and consumers easing back on 'luxury' purchases, a category into which many dairy products fall.

China is expected to remain the world's largest dairy importer, but there are clear signs that its import volumes are pulling back.

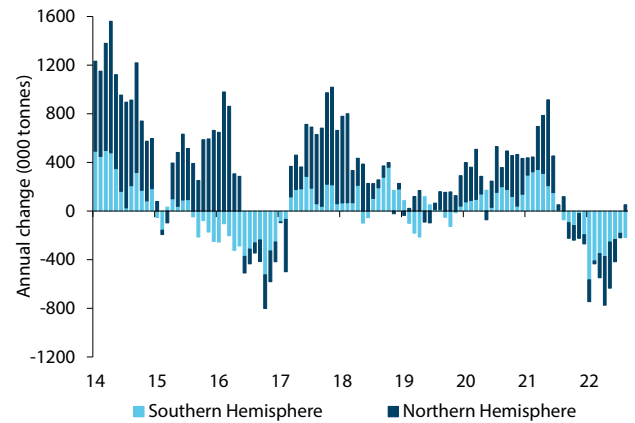
If this trend evolves further, global dairy prices are likely to come under pressure. At present this scenario is not reflected in NZX milk powder future prices. Futures prices for whole milk powder (WMP) trading on the NZX-SGX platform are trending upward at present, as are skim milk powder (SMP) futures. But this trend is less evident in other global dairy futures markets, and is also less evident for fat products.

SUPPLY STARTING TO STABILISE IN SOME REGIONS

In the US, milk output has been trending higher (relative to the same months in the previous year) for the past three months. Cow numbers are also lifting, indicating this trend is likely to continue. Due to weaker output earlier in 2022, milk intakes for the calendar year to date are still slightly (-0.3%) behind. However, the USDA is now forecasting a small (+0.2%) increase across the 2022 calendar year.

In Europe, milk intakes had been behind for most of the year, but this changed in July. Milk intakes for July were ahead across the EU as a whole, and notably in some of the major milk-producing nations, including France, the Netherlands and Poland. Feed shortages and high fertiliser prices are expected to check production in the coming months, but output doesn't look quite as weak as it did earlier in the season.

MILK PRODUCTION IN THE MAJOR DAIRY EXPORTING COUNTRIES

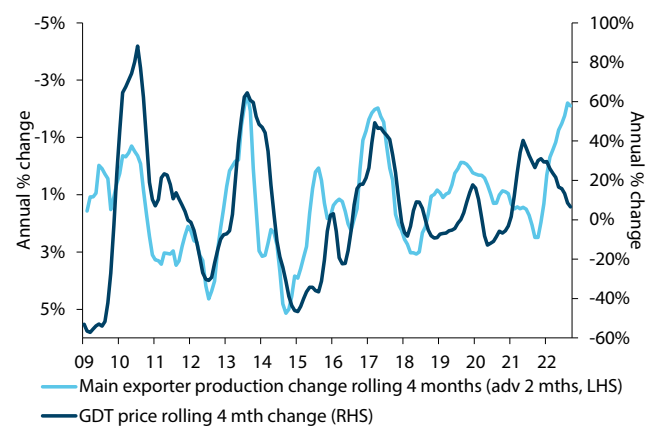


Source: USDA, Eurostat, DCANZ, Dairy Australia, CLAL, ANZ Research

Milk production has been particularly weak in Australia this year. Total intakes are running 7% behind last season, with all major milk-producing regions currently down on last year. Across the 2022-23 season (which runs to June 2023), Dairy Australia is forecasting milk intakes will be similar to the previous season. In the 2021-22 season, milk intakes in Australia fell 4.3%.

La Nina weather conditions are expected to bring a lot of rain to both Australia and New Zealand during the spring, and this is certainly what is happening presently. Weather during the summer is expected to be hotter and drier than normal, which may restrict pasture production. However, only a mild La Nina is expected; therefore the weather is likely to be determined by other factors.

CHANGES IN MILK PRODUCTION VS CHANGES IN PRICES



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



DAIRY

At present, we are seeing global milk production fall, but prices have also trended lower (on a four month rolling average). The historic inverse relationship between milk supply and prices is no longer strong, indicating other forces are at play. Dairy demand has traditionally grown at a steady pace, but this is no longer occurring. Therefore, the balance between milk supply and prices has been upset.

It is not yet clear how the high costs of fertiliser, fuel, and supplementary feed will impact global milk production. Grain shortages are an issue in Europe, and in some countries there is less land being utilised for arable production. However, some farmers are opting to reduce risks by growing for the fodder markets rather than producing crops for human consumption, which require more inputs and stricter management. This means the market for feed grains may not be as short as first feared.

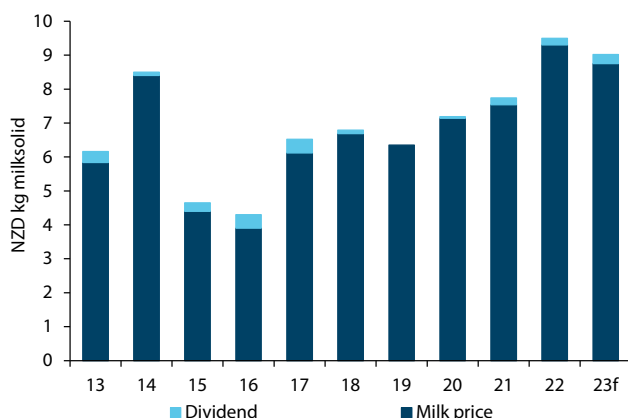
LOOKING BACK

Fonterra finalised their 2021-22 milk price at a record \$9.30/kg MS. That's the exact milk price we had forecast, so no surprises there.

Fonterra paid an annual dividend of 20c per share for the second year in a row after lifting total normalised earnings by 1c to 35 cents per share. This represented 59% of earnings.

Milk intakes for Fonterra decreased by 4% across their New Zealand business. This was in line with changes in milk production across the country, meaning Fonterra maintained their share of total milk intakes at 79.1%.

FONTERRA FARMGATE MILK PRICE AND DIVIDEND



Source: Fonterra, ANZ Research

Fonterra are expecting to improve their earnings this season and have forecast a normalised earnings guidance range of 45-60 cents per share, implying a dividend in the range of 18c-36c. Fonterra aims to increase its dividends to ~40-45c per share by 2030.

Fonterra's debt levels are still higher than they would like. In FY22 Fonterra's debt/EBITDA was 3.2x (versus target of <2.5x by FY24) and they have a gearing ratio of 42% (compared to a target of <35%).

Fonterra's capital restructure is progressing. The amendment to the Dairy Industry Restructuring Act 2001 (DIRA) that is required by Fonterra had its first reading in parliament in September, with the select committee process expected to be completed before Christmas.

LAMB & WOOL

MARKETS UNDER PRESSURE

Global lamb markets are starting to show signs of strain and it is becoming more challenging to sell product into our main markets. The low NZD is supportive, meaning farmgate prices are still expected to be relatively strong this season, but lower than last season.

Lambing is near complete in the warmer regions and well underway in the cooler southern regions. The weather has been extremely wet, with sporadic cold spells, which has made it challenging and may result in higher lamb losses for some farms.

A few cold spells have delivered snow to our southern and high country regions, but these polar blasts have mostly been short-lived.

In the warmer areas, farms are now busy docking/tailing lambs so we should soon get some guidance on lamb numbers for this season.

Most areas are still very wet underfoot, which has restricted spring pasture growth and slowed the planting of feed crops. However, as paddocks start to dry out, spring pastures should bolt away.

INTERNATIONAL MARKETS MIXED

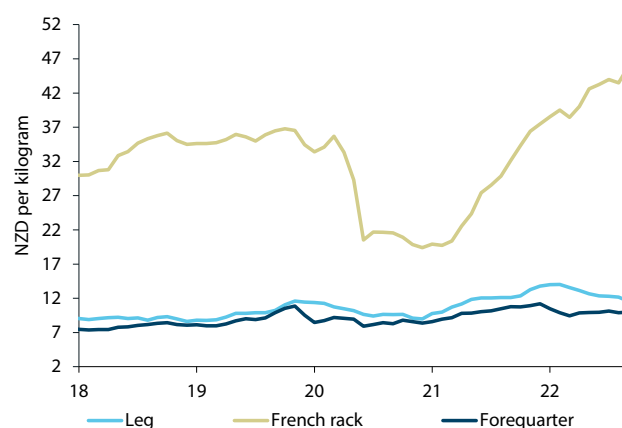
The in-market price for leg cuts have been trending down since March, but the price of French racks has firmed. Meanwhile, the price of forequarters has been bouncing around over the past six months, but demand from China has weakened in recent weeks, putting downward pressure on prices for the cheaper cuts of lamb and mutton.

Leg cuts are primarily traded with the UK and EU countries. This part of the world is struggling from an economic point of view, which means it is challenging to sell high-value meats. French racks go into a range of markets, but increasingly this product is being sold into

the US, which is in better shape than Europe. Also the depreciation of the NZD against the USD means any sales that are made in US currency are actually worth more when transferred back to NZD.

The GBP and the EUR have also depreciated against the USD, meaning there is no currency windfall gain on these sales.

LAMB CUT PRICES



Source: AgriHQ, ANZ Research

FARMGATE PRICES STRONG FOR NOW

The increase in international returns has helped keep prices buoyant at the farmgate level. There is some variation, but farmgate prices are generally in the \$9.40-\$9.70/kg CW range. There are some contracts at \$10/kg CW and there is procurement pressure in some areas. Generally, there has been a flurry of late-season lambs coming through, and in some areas, there are still delays getting processing space due to capacity that is normally used for sheep currently being dedicated to bobby calves.

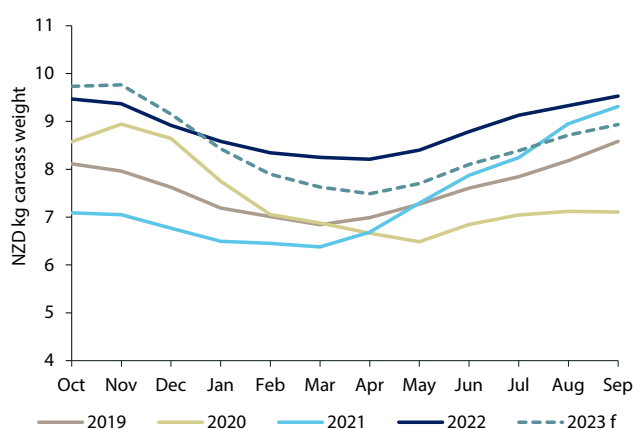


LAMB & WOOL

At present, farmgate prices are, on average, a tad stronger than they were this time last season. But across the full season, 2022-23 farmgate prices are expected to be slightly down on last season as more challenging global economic conditions negatively impact the demand for high-value proteins.

That said, the weighted average farmgate price is forecast to be above \$8/kg CW, but prices are expected to dip below this level during the peak processing months.

FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

In the past year, the volume of lamb exported by Australia was very similar to the previous year. The biggest difference is this year, Australia exported less lamb to China (down 19% y/y) but significantly increased its exports to South Korea, Papua New Guinea and Malaysia. The US remains by far the largest market for Australian lamb.

China has imported considerably less lamb from both New Zealand and Australia in the past year. New Zealand exports of lamb to North Asia have dropped 25% in the year to August 2022, while Australian lamb exports to China have fallen 19%. Total export volumes from New Zealand are back about 5%, but exports have increased to the EU, Middle East, and the US.

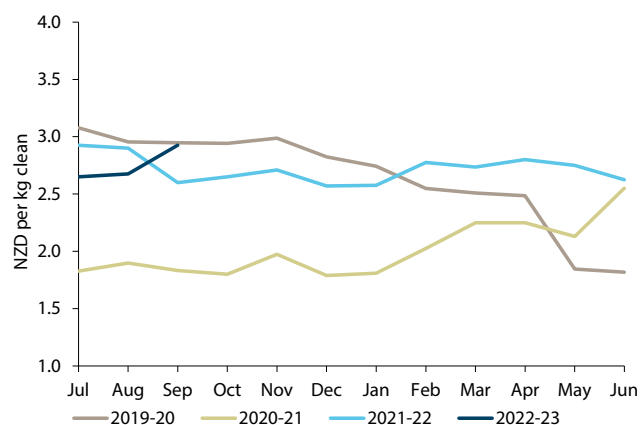
Prices were particularly strong last year, which meant returns for lamb exported from New Zealand actually increased by 18%. However, this year we are already seeing pressure on some key markets, namely China and Europe, which means returns are not likely to be as robust this season.

Uncertainty surrounding end-user demand, along with ongoing disruptions in shipping, means we are likely to continue to see a reduction in the volume of lamb shipped in chilled format this season. While chilled lamb typically commands a premium over frozen product, the shorter shelf life makes it a less viable option when there is so much uncertainty in the markets.

WOOL MARKETS FRAGILE

Wool prices have improved in the past couple of months, but the lift in prices for coarse wools has been insufficient to offset the increase in shearing costs.

COARSE WOOL PRICES



Source: PGG Wrightson, ANZ Research

Shearing is a labour-intensive activity and contractors need to pay higher rates to attract and retain staff in this physically demanding occupation. This means some farms are looking hard at their shearing policies, and in some cases reducing the frequency of shearing.

The recent increases in prices are positive, but the market remains very tentative. Wool buyers say there is not a strong pipeline of demand. Ongoing, frequent shutdowns of textile factories in China mean buyers are being cautious regarding forward commitments.

Freight remains challenging, with ongoing delays and disruptions. On a more positive note, freight prices have eased a little, but remain high relative to historic levels.

At present, there is reasonable demand for good-quality wools but finding buyers for the poorer-quality wools is challenging. The extremely wet conditions mean there are more bales of wool with a high content of mud. These are not favoured by buyers.

BEEF

OVERSEAS MARKETS UNDER PRESSURE

Global beef demand has deteriorated in our major markets, but the low NZD is supporting farmgate prices. However, we expect returns to ease as the season progresses.

Wet on-farm conditions are making it challenging to carry older cattle, but they will be needed to Hoover up surplus pasture in the months ahead.

FARMGATE PRICES RELATIVELY STRONG

Farmgate prices for most grades of beef are currently 5-10% stronger than a year ago, thanks to the lower NZD. The exception is manufacturing cow, which is on par with last season.

US demand for imported meat is weaker than normal due to the surge in domestic supply. The hot, dry summer in the US means farmers are short of feed so are culling more stock, and earlier than normal.

The increase in slaughter numbers this season in the US will reduce breeding herds, meaning fewer calves are expected to be born next year. While the reduction in stock numbers may be beneficial in the longer term, for now the extra meat on offer is keeping prices subdued.

The volume of beef exported from New Zealand at present is low, as not a lot of cattle are processed at this time of the season. The timing is fortuitous, in that demand from both the US and China is relatively weak at present.

Demand from China has been impacted by their lockdowns. There are also ample supplies from South America heading to China. Brazil supplies the majority of the beef imported by China. Supplies from New Zealand account for only about 8% of China's imported beef.

LOOKING TO THE EAST, NOT WEST

New Zealand beef exports to the US dropped 24% in the 11 months to August 2022. Over the same period, exports of New Zealand beef to Asia lifted: China +10%, Japan +16%, South Korea +35%. Total beef exports from New Zealand dropped 4% in volume terms in the past 11 months but lifted 25% in value terms.

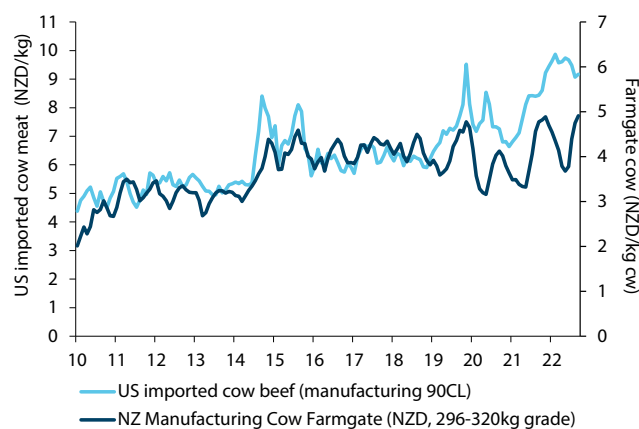
Australia is focusing its efforts on the affluent Asian markets. It normally exports similar amounts of product to the US, China, Japan and South Korea. New Zealand mainly exports to the US and China.

The value of the US market to Australia has slipped this year and looks like it may be the smallest of Australia's major export markets this year.

FARMGATE PRICES STILL LIFTING

The gap between international prices and farmgate prices is quickly closing as international prices retreat and farmgate prices lift.

COW MEAT PRICES



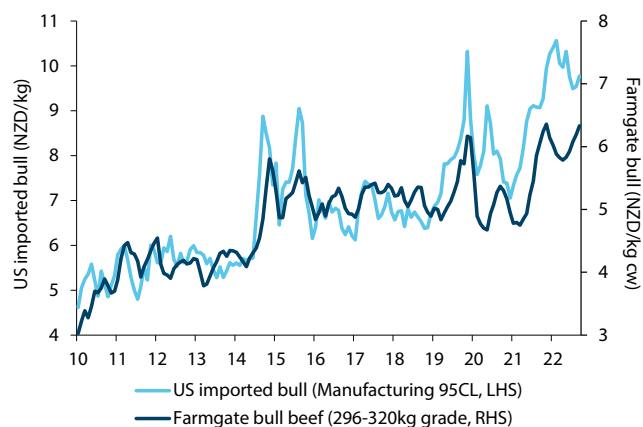
Source: AgriHQ, ANZ Research



BEEF

This trend is evident for both manufacturing grade bull and cow. The reduced margins and weakness in the international markets are not reflected in schedule prices.

BULL MEAT PRICES



Source: AgriHQ, ANZ Research

Schedule prices have continued to trend higher over the past couple of months, supported by both the level of international prices and the weak NZD.

Schedule prices didn't lift as quickly as international prices did back in the autumn, given this is the peak processing time for cattle. Labour shortages at the processors have also limited capacity. Given international market volatility, issues getting produce to market, and the quantity of meat in storage, it is not surprising that processors didn't push schedule prices higher earlier in the season.



DEER

FOCUS ON CHILLED

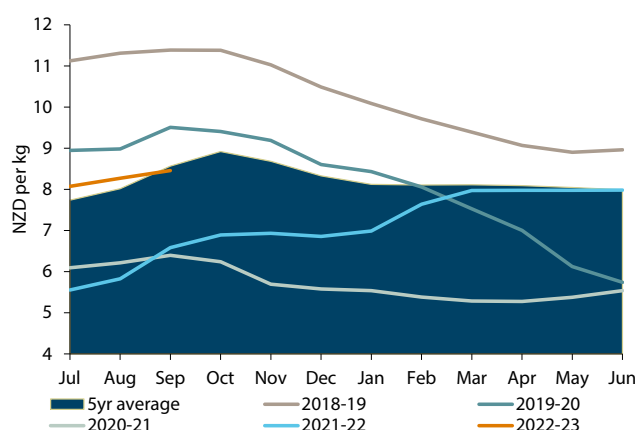
Venison returns at the farmgate level are increasing again, in line with the typical seasonal pattern.

Venison prices have improved, with farmgate prices now stabilising at about \$8.50/kg CW. Prices are slightly stronger in the South Island, which is typical.

Exporters are concentrating on supplying the high-value chilled markets, where prices on offer are better than we've seen in recent years. Prices are still well below the lofty levels reached prior to the pandemic.

It is more challenging getting product to market than when farmgate prices were over \$10/kg CW. Shipping is now more expensive and less reliable, while airfreight is now so expensive that this option is likely to be only occasionally used.

FARMGATE VENISON (YOUNG 60KG STAG)



Source: AgriHQ

Demand from traditional European markets is steady, but buyers are tending to be cautious due to the deteriorating economic conditions.

Venison remains a high-end product relative to other meats, so deteriorating macroeconomic conditions can have a large impact on demand and prices. However, being a niche product does mean that a few favourable deals can make quite a difference, so there is a lot of pressure on European sales teams to deliver.

There has been a steady diversification into other markets throughout the pandemic. This includes selling more venison into the US, and into affluent Asian markets such as Japan and China. Venison is not a traditional food in China, so most of the current demand comes from high-end western-style restaurants.

The US and China have been identified by the industry as key growth markets. That said, neither of these markets are likely to match the size of our traditional European markets any time soon.

At present, exporters are focusing on supplying chilled product to Europe. Venison exports need to be on the water this month in order to arrive in time for the high demand during the Christmas festive season.

Reliable shipping is proving to be a real challenge this season (again). Getting product to Europe in a timely manner is extremely difficult. This means product will need to be on the water earlier than normal to ensure delivery. Therefore, some processors plan to cut off the processing period for the chilled market before the end of October.

Once this chilled window closes, we are likely to see farmgate prices ease as processors switch back to supplying frozen venison.

GRAIN

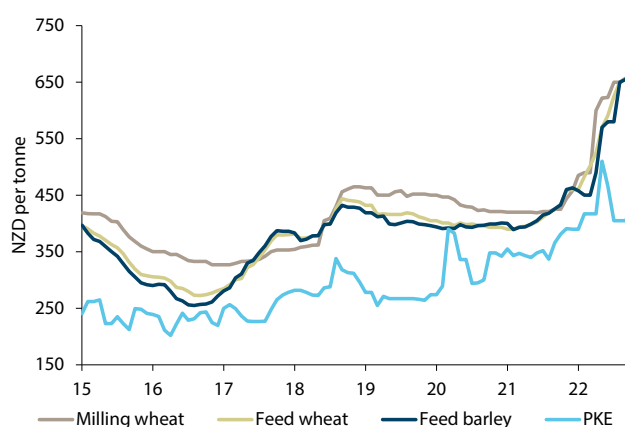
TRENDING HIGHER

Grain prices have continued to trend up over the past month, but contracts for next season's grain are priced below the current spot market. The recent wet weather has impacted the planting schedule and some paddocks will need to be re-drilled due to flood damage.

TIGHT GRAIN MARKET BOLSTERS SPOT PRICES

Grain prices continue to firm. Prices for both feed wheat and barley have lifted about 65% in the past two years. This price increase is pretty consistent across all types of feed grains, ie wheat, barley and maize.

NEW ZEALAND GRAIN PRICES



Source: NZX

High grain prices are great news for growers who are facing big increases in production costs, particularly fuel, fertiliser and labour. However, it's not such great news for grain buyers.

Demand from the dairy industry for feed grain is expected to be compromised by high prices. Profit margins are being squeezed on-farm as milk prices this season are expected to be a little weaker than last season.

WET WEATHER CHALLENGING

Spring plantings were on track in major growing regions in the South Island earlier in the season, although the recent cold and wet spell has caused some delays. In the North Island, many paddocks are still saturated and that's delayed planting.

Spring planting remains extremely difficult as the ongoing heavy rains mean heavy machinery can't be used on the sodden soils.

The delays in getting crops into the ground may limit planting choices. It will be more challenging to get crops established and yields may be compromised depending on how the season unfolds. The total area planted is also likely to be less than previously anticipated as some cropping plans are abandoned.

STRONG SHORT-TERM DAIRY DEMAND

Demand for feed grains and palm kernel has lifted as farmers look to fill feed gaps owing to poor pasture production this season, and high wastage. But the demand for supplementary feed is expected to be short-lived with most dairy farms are looking to control costs, which means rationing the use of bought-in feed.

Palm kernel prices have eased recently, but prices are about 25% higher than they were two years ago.

FORESTRY

IN-MARKET STOCKS DISSIPATE

In-market prices for logs have stabilised, and some relief in terms of shipping prices is helping returns at the wharfgate level.

Meanwhile, demand for land for planting trees remains strong as carbon returns lift. Returns from forests planted either solely for carbon, or for a combination of carbon and harvesting, remain favourable relative to other land uses.

Regulatory changes continue at pace, but it is clear further changes are required for rules to become more closely aligned with the desired outcomes of more trees being planted, but in ways that also support the viability of rural communities.

DOMESTIC DEMAND WEAKER

Home renovations are expected to slow as travel opens up, providing more options for discretionary spending. Interest costs are rising rapidly, meaning there is less incentive to borrow money to build or renovate.

Falling house prices are expected to weigh on residential investment, with consents for houses already trending lower.

Local demand for timber has also been affected by the inclement weather of recent months. Demand for timber, particularly by the DIY market, tends to peak during the warmer summer months.

There aren't a lot of pruned logs available at present, so this has been somewhat supportive of prices. Mills have been quieter than usual and exports of sawn timber are currently very low.

HARVESTING CONDITIONS TOUGH

It is very difficult to harvest timber in many regions at present due to the excessively wet ground conditions. Hauling timber from forests is difficult enough in dry conditions and virtually impossible at present. This means the supply of logs has been constrained in many regions, but particularly in the top of the South Island.

Harvest volumes are currently much smaller than normal, but this has coincided with reduced domestic demand, and the lower supply has worked in favour of pricing in our international markets.

IN-MARKET PRICES STABLE

In-market log prices are relatively stable in USD terms. However, given most currencies have weakened against the USD, prices have increased in both NZD terms and CNY terms.

UNPRUNED A-GRADE IN-MARKET PRICE



Source: AgriHQ



FORESTRY

Therefore, logs are now more expensive for Chinese buyers despite the in-market price not changing. The volume of logs on China's wharves is reducing, due primarily to reduced shipments from New Zealand. Lower stocks tend to work in favour of sellers and New Zealand exporters are currently trying to push prices higher.

However, end-user demand in China remains relatively weak due to the ongoing lockdowns, which have disrupted demand for many goods, and therefore timber for use in wooden shipping pallets.

The sharp deterioration in the Chinese residential property market means demand from this part of the industry is still subdued. However, the Chinese government is still building new infrastructure and these projects are helping support demand.

Overall, though, it is clear that the Chinese economy is not in great shape, and it therefore seems unlikely that demand will improve significantly any time soon.

WHARFGATE PRICES

Returns at the wharfgate level in New Zealand have lifted as shipping costs soften and the NZD weakens.

The cost of shipping logs has eased to a greater degree than the cost of containerised freight. This has been particularly helpful as freight now accounts for a significant chunk of the cost of a log landed in China.

The relatively weak NZD has also had a positive impact on wharfgate prices. Logs are traded in USD terms, so although in-market prices have not changed, wharfgate returns are higher due simply to the exchange rate effect.



HORTICULTURE

MARKET CONDITIONS CHALLENGING

Exporters are focusing on selling the last of the fruit picked last season, which is proving challenging given quality issues.

The horticultural industry has welcomed news that the Government plans to lift the cap on seasonal worker numbers this season.

The cap on the Recognised Seasonal Employer (RSE) scheme will be set at 19,000 for the 2022/23 year, an increase of 3,000 on the previous season.

The extremely tight New Zealand labour market means fewer workers will be looking to pick up seasonal work, making it all the more difficult to attract sufficient labour to our orchards when it's needed. Backpackers are the other major channel for orchard labour. The backpacker market is expected to improve this year as global travel is becoming more straightforward. However, air travel is much more expensive than it once was, meaning we are likely to see few Northern Hemisphere travellers heading to New Zealand than prior to the pandemic.

Another legislative change that has been welcomed by the horticultural industry is the National Policy Statement for Highly Productive Land, which aims to stop houses being built on highly productive soils. The national guidelines mean councils will need to have a plan in place that will help to contain the urban sprawl that is being experienced in some regions. It doesn't mean the land can't be rezoned for housing, but it does mean that a considered approach will need to be taken.

The recently announced agricultural emissions pricing proposal should be favourable to the horticultural sector. Modelled land-use change suggests an increase in the production of kiwifruit and berry fruit of up to 4.8%, and an increase in vegetable production by as much as 6.6%.

The actual change in land use will be highly dependent on availability of resources and inputs such as labour, water, and technology.

FROST RISKS

The cold spring has the potential to destroy some of this season's crops.

Some of our berry fruits have been wiped out by the recent cold snap. Grapes are very vulnerable at this time of the season too, so vineyard managers are keeping a close eye on the weather and deploying frost prevention measures where warranted. So far, most grape-growing regions seem to have managed through the recent cold spells as the buds are yet to form on the later grape varieties. Where frosts have occurred, this has been actively managed, which has helped to limit the damage.

QUALITY ISSUES

Quality issues have plagued both the apple and kiwifruit industry this year. Wet conditions at harvest, along with labour shortages, meant fruit was not harvested in optimal conditions and therefore the quantity of fruit that has deteriorated in the cool stores has been much greater than normal.

The kiwifruit industry is taking learnings from last season, and planning on realigning their incentive payments to optimise fruit quality within the limitations of current processing capacity. More details on changes to the grower payment structure are due to be released soon.

MARKET CONDITIONS CHALLENGING

In-market prices have generally softened due to the quality of the end-of-season fruit being poorer than normal. It is important that consumers have a good eating experience as one bad apple (or kiwifruit) can put consumers off a particular brand of fruit for a long time.



HORTICULTURE

At the end of September, about 75% of last season's kiwifruit crop had been delivered to our international markets.

FREIGHT REMAINS A CHALLENGE

Freight prices are falling globally, but most New Zealand exporters are yet to see any material decrease in shipping prices. Exporters continue to experience delays in shipping services as congestion at international ports disrupt shipping schedules.

RURAL PROPERTY MARKET

EMISSIONS PRICING TO IMPACT VALUES

The value of livestock properties is expected to adjust as pricing for methane emissions becomes clearer. The recently released Government proposal does not state what the emissions prices will be, but does outline what aspects of the recommendations from He Waka Eke Noa and the Climate Change Commission they plan to incorporate into the pricing structure.

There is now an elevated risk that work required to price emissions on-farm will not be completed before 2025. This would mean emissions would need to be accounted for at a processor level. This is not the desired outcome, as it does little to incentivise reducing emissions, but will impact farm profits.

CONFLICTING SIGNALS FOR DAIRY PRICES

The data for the latest three months of farm sales show dairy farm prices have fallen quite sharply, but if you look at data for the past 12 months, prices have trended higher.

Data from REINZ shows that dairy farms traded in the past 12 months have been at a median price of \$42,000 per ha, 27% higher than the median price for the prior 12-month period.

It is clear that dairy farm prices did recover quite a lot in the past year. However, data from just the latest quarter (June-August) show prices falling again. These data thus tell conflicting stories, but there is also a seasonal element involved, as not a lot of properties have actually changed hands this winter.

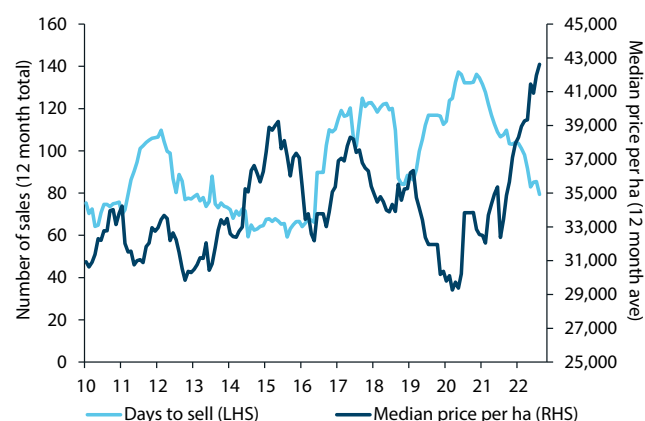
However, we may be starting to see a new trend emerge. The higher prices for dairy farms in the past years appear to be driven mainly by the improvement in milk prices

in the past couple of seasons. But in this high inflation environment, costs are now rising rapidly, so profits are being squeezed. To date, there is little indication that buyers have been factoring in higher costs of production when considering farm purchases.

The additional costs associated with managing and mitigating greenhouse gases also do not appear to have been fully considered in farm purchases.

There is still some ambiguity as to what these costs will be. The cap on emissions prices from 2025-2028 that was proposed by He Waka Eke Noa has been rejected by the Government. Therefore, there is no certainty in either the short or the long term as to where the pricing for emissions will actually land. Over time the emissions price will be adjusted to get the desired reduction in emissions.

DAIRY FARM SALES (12 MONTH ROLLING AVERAGE)



Source: REINZ

The uncertainty relating to methane prices, along with many other legislative changes, is making investing in land a more challenging proposition



RURAL PROPERTY MARKET

FARM SALES BY FARM TYPE

Annual average/total		Past 12 months	Previous 12 months	10-Year Avg.	Chg. Y/Y	Chg. P/10yr
Dairy	Number of Sales	269	264	222	↑	↑
	Median Price (\$ per ha)	42,618	33,464	34,486	↑	↑
Livestock	Number of Sales	853	1,014	1,002	↓	↓
	Median Price (\$ per ha)	21,833	20,725	18,681	↑	↑
Horticulture	Number of Sales	146	191	193	↓	↓
	Median Price (\$ per ha)	422,364	304,750	216,678	↑	↑
Arable	Number of Sales	45	49	95	↓	↓
	Median Price (\$ per ha)	37,400	45,892	38,373	↓	↓
Forestry	Number of Sales	56	62	53	↓	↑
	Median Price (\$ per ha)	14,883	9,819	8,174	↑	↑
All Farms	Number of Sales	1,453	1,684	1,592	↓	↓
	Median Price (\$ per ha)	29,683	27,133	25,250	↑	↑

Source: REINZ

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