

AGRI BITES

Meating expectations.

1 November 2024



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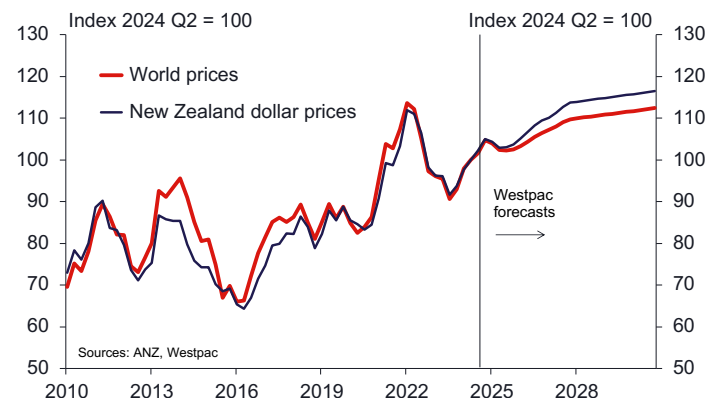


SUMMARY

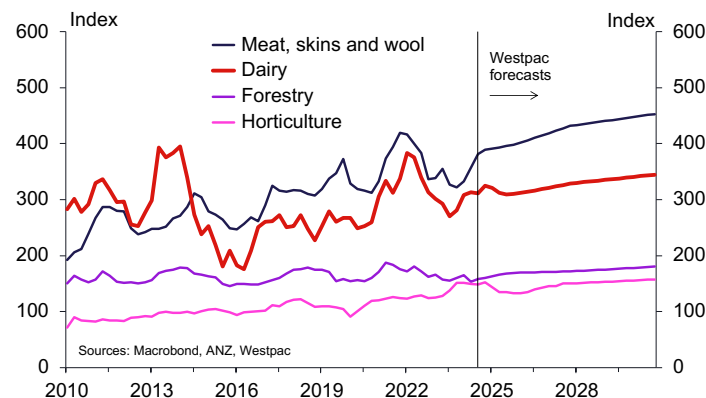
Better export prices, but not necessarily better farmgate prices.

- Overall commodity prices are forecast to lift off the back of higher dairy prices and better export prices for both beef and lamb.
- Dairy prices have lifted at recent auctions. That includes whole milk powder prices, which have ticked higher on the back of stronger buying out of China.
- Our farmgate milk price forecast of \$9.00/kgMS assumes sustained demand over the current season and a pickup in global production.
- Meat export prices are set to tip higher over the coming year. For beef, the key drivers will be ongoing strength in US demand and constrained global production. For lamb, it's more about lower export volumes out of New Zealand and Australia and firm demand in the EU and the US.
- By contrast, farmgate meat prices are likely to come off in coming months, with seasonal factors resulting in more livestock going to the works.
- Orchard gate returns for apple and kiwifruit are set to rise off higher production yields. Prices, which have been elevated, should begin to ease as increases in production begin to outweigh demand in key export markets.
- Recent policy announcements by the Chinese authorities focusing on property development should lift demand for logs, resulting in higher prices.

Commodity export prices



Commodity prices by category



DAIRY

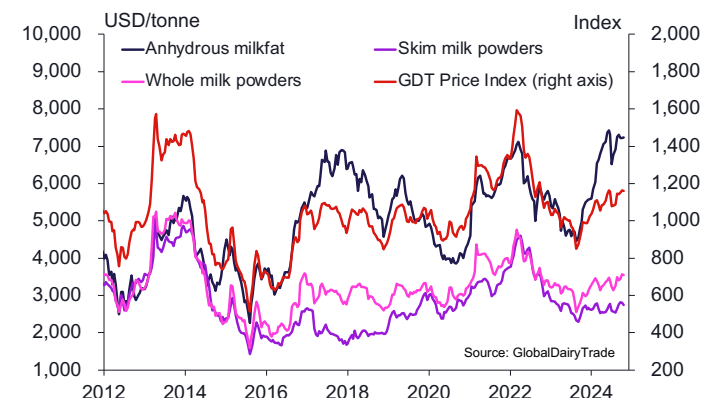
Milk price outlook remains favourable.

- We maintain our \$9.00/kgMS forecast milk payout for the 2024/25 season.
- Prices at the GlobalDairyTrade auctions continue to trend higher, with both whole milk powder and cheddar posting gains in recent months. Prices for skim milk powder and anhydrous milkfat have largely moved sideways at recent auctions.
- Butter prices at auction have fallen from their highs, but Fonterra is looking to sell butter through other channels to achieve better prices.
- The rise in dairy prices in part reflects the return of the Chinese buyers to the auctions over the last 6 months.

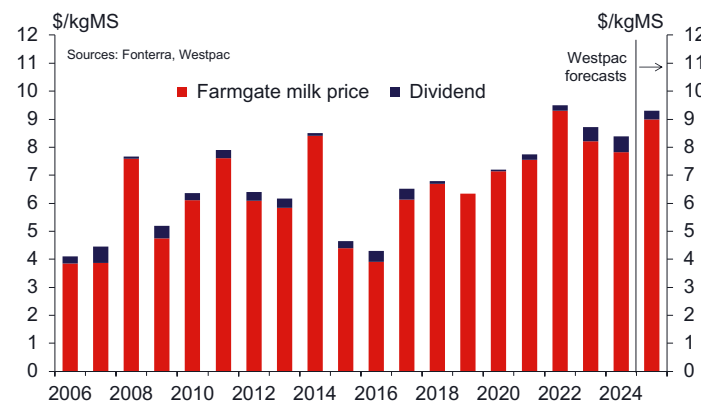
Global production remains the big unknown.

- Our milk price forecast payout assumes a modest pullback in world dairy prices over coming months.
- That largely reflects an expectation that milk production globally will rise this season. Milk production in New Zealand for the first four months of the current season is 6.3% higher than the corresponding period last year. Add to that an increase in US supply and an existing oversupply of milk in China, and it's likely that prices will soften.

Global Dairy Trade auction prices



Farmgate milk prices



SHEEP MEAT

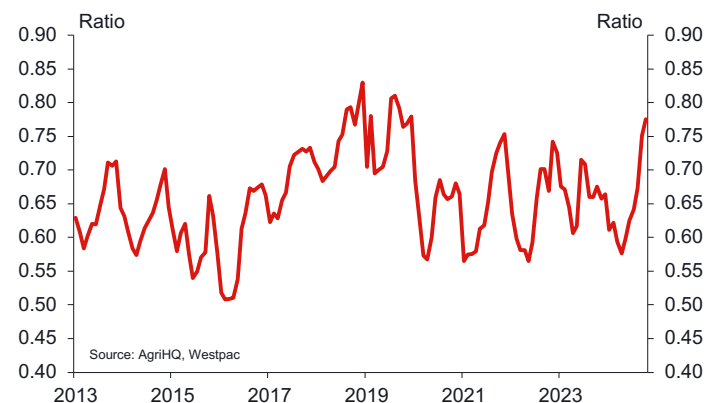
Farmgate prices remain at elevated levels.

- Slaughter prices may have plateaued recently but remain at elevated levels. That reflects the availability of lamb coming forward and extent of competition among processors.

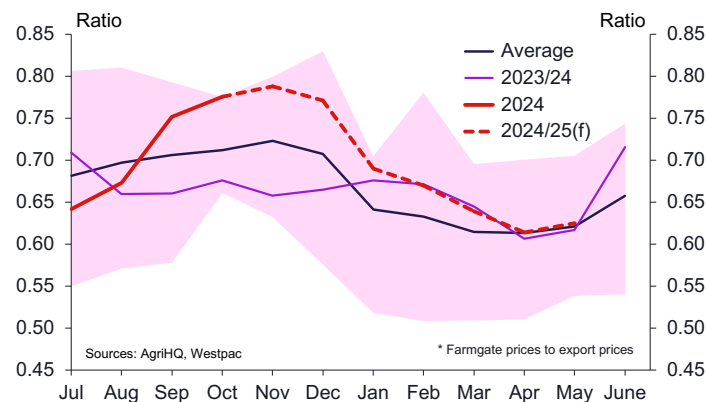
Farmgate prices set to dip on seasonal factors.

- Tightness in New Zealand supply and a seasonal low in Australian lamb production continues to support export prices. What is available is being channelled into higher paying markets, particularly the EU and the US.
- That said, the ratio of farmgate to export prices seems to be unusually high for this time of year. All things being equal that strongly suggests tight processor margins.
- This situation is unlikely to be sustained. In the short term, seasonal factors point to weaker farmgate prices. While that may not come by the end of this year, we forecast a fall of about 20% over the next six months.
- Export prices are expected to lift off the back of firm demand in key markets and lower production in the coming year. That said, Chinese consumption remains low and that will weigh on export prices. Prices should gain more momentum if recent policy measures are successful in lifting consumer confidence and domestic spending.

Lamb: farmgate to export price ratio



Lamb: forecast farmgate to export price ratio*



BEEF

Slaughter prices have started to turn on greater availability.

- Beef slaughter prices, which had previously been on a tear, have now begun to ease with more cattle being sent to the processors. In nominal terms, they remain above levels seen in previous years.

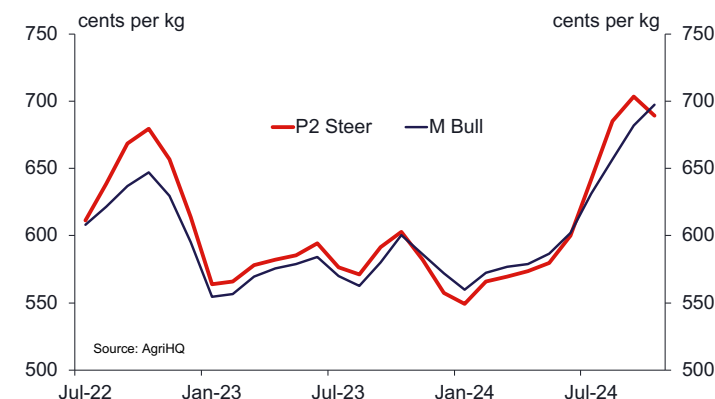
Export prices continue to trend higher, but outpaced by slaughter prices.

- While export prices have slipped modestly over recent weeks, a positive medium-term trend is underpinned by still firm demand in the US for lean trimmings. That is despite increased production from Australia and Brazil in recent months.
- Even so, farmgate prices for beef have clearly outpaced export prices in recent months.
- That will change though as seasonal factors lead to more cattle coming forward for slaughter over coming months.

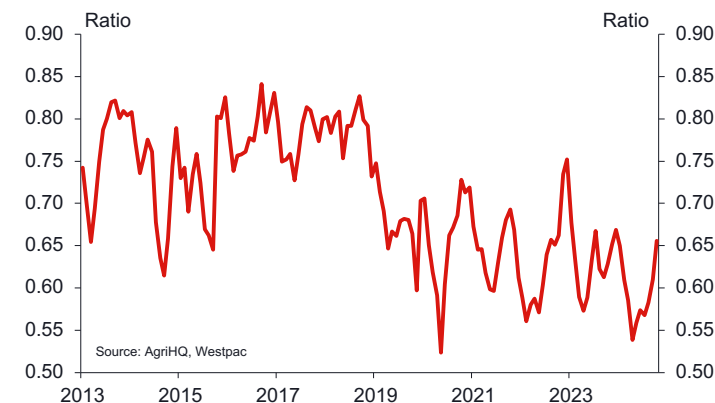
Further gains in export prices are likely over the coming year.

- We expect export prices to continue trending higher over the coming year with constrained production out of the US, China and the EU set to more than offset increased volumes out of Australia and Brazil.

Average slaughter prices - beef



Beef: farmgate to export price ratio



HORTICULTURE

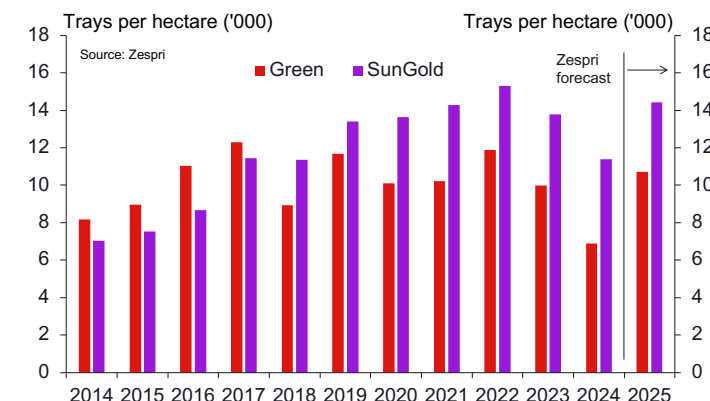
Increased production and still higher prices boosting kiwifruit growers.

- Export demand for kiwifruit remains strong, with the value of exports jumping 20% to \$3.1bn for the year ending August 2024. Much of that reflects ongoing demand in key markets as well as increased production volumes following the impact of adverse weather events last year.
- Importantly, average export prices remain elevated. That should change as kiwifruit production continues to expand.
- While we expect export prices to ease from current levels, the more than offsetting effect of higher production volumes should mean better orchard gate returns on a per hectare basis.

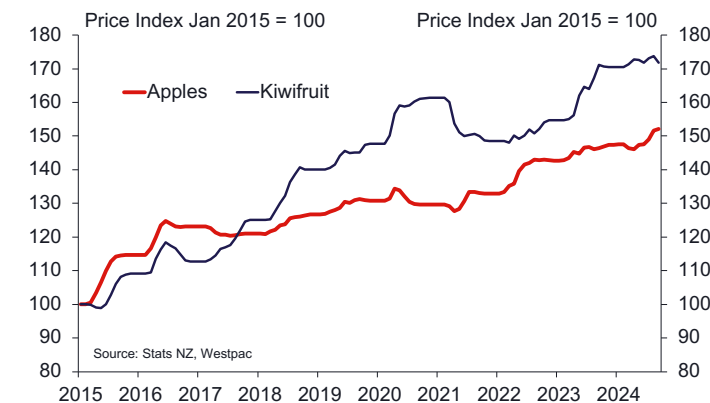
Apple growers also to benefit from gains in production.

- Ditto for apples, where exports have continued to grow strongly. Growth in apple production largely reflects productivity gains, greater investment in higher value varieties that deliver better returns (and a reduced focus on those that don't), as well the diversification of international markets.
- That said, growers face challenges. While average apple prices have been sustained, some premium apple varieties such as Rockit have seen significant price declines. And while better yields have kept a lid on unit costs, grower profitability has come under pressure as costs structures have lifted.

Kiwifruit – production yields



Apple prices



FORESTRY

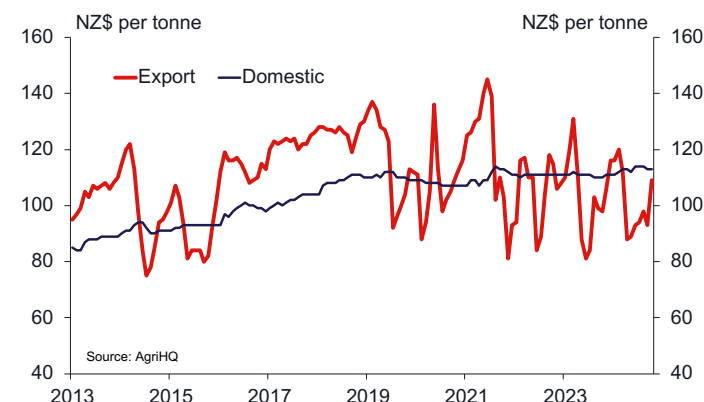
Export market for logs has picked up slightly.

- The level of port inventories in China has dropped below 3m m³ and daily offtakes have risen from 47k m³ to 60k m³ per day. That has encouraged restocking, leading to a sharp uptick in export prices this month.
- There has also been a significant increase in log exports to India in recent months – a market increasingly seen as a potential replacement for China. Importantly, India is currently offering better prices for low-grade logs and as such better returns than can be achieved in China.
- That said, log exports to India are tiny compared to China. The latest increase comes off a low base and are well off previous highs achieved back in 2016.

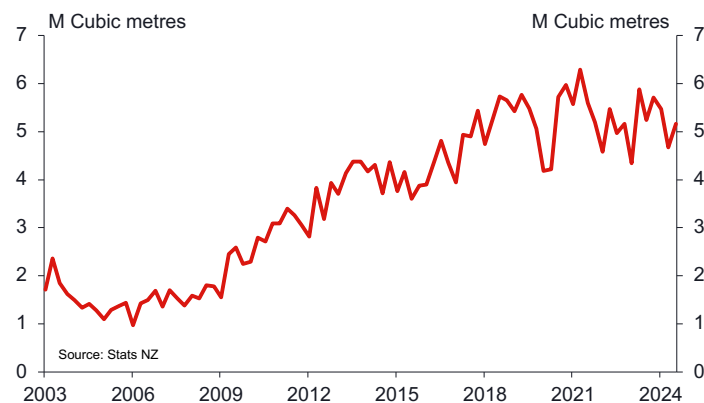
The outlook is looking a bit more promising.

- Stimulus measures aimed at propping up China's ailing property market, such as lower interest rates and providing easier access to home loans, have yet to ignite the housing and residential building markets.
- That said, more recent policy interventions announced by the Chinese authorities, particularly those that focus on completing already-started developments and refurbishing existing buildings, hold more promise. Increased activity should lift demand for logs, and that should translate into slightly better prices over the coming year.

Export and domestic log prices



Log export volumes

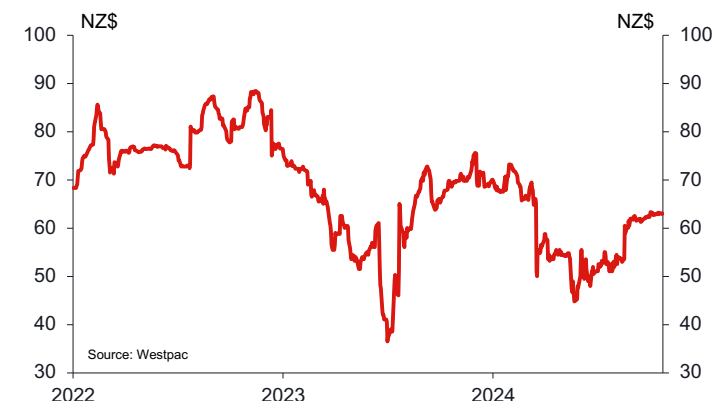


CARBON

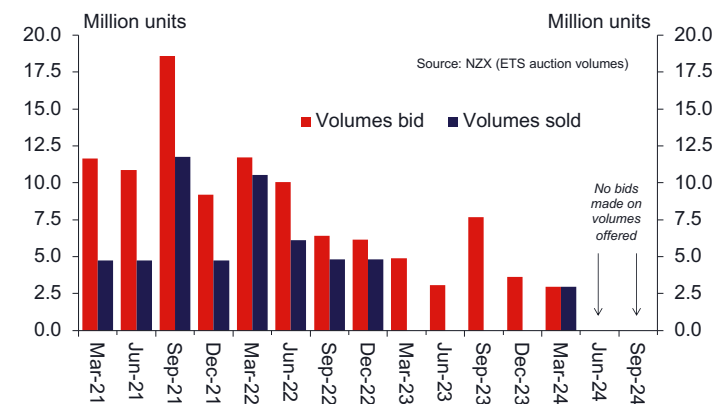
Change to ETS auctions should help lift NZU prices.

- New Zealand Units have traded between \$61.25 and \$63.25 over the last couple of months with the large volume of units available for the next auction in December likely to have capped prices.
- 11,125,700 NZUs are available (excluding the cost containment reserve volume) for the December auction at a floor price of \$64. That includes 7,600,700 NZUs offered but not sold at the previous three auctions.
- In 2025, the volume of NZUs on offer will fall to 1.5m per auction (excluding the cost containment reserve) and the floor price will rise to \$68.
- On 23 October, the government announced that it had started consultations to reduce the per hectare charge levied each year on forestry owners that participate in the Forestry Emissions Trading Scheme Registry, from \$30.35 to \$14.90. The proposed new charge would apply to the 2024/25 financial year.
- In its action plan for the fourth quarter released on 30 September, the Government indicated that a policy to limit conversion of high-quality farmland into forests would be announced by the end of 2024.
- Conversion limits are seen as a way to ensure food security in New Zealand. Beef and lamb stock numbers have experienced a significant decline in recent years as farmers have pursued better returns available from carbon farming.

Westpac NZU mid-price



ETS: Volumes bid versus sold

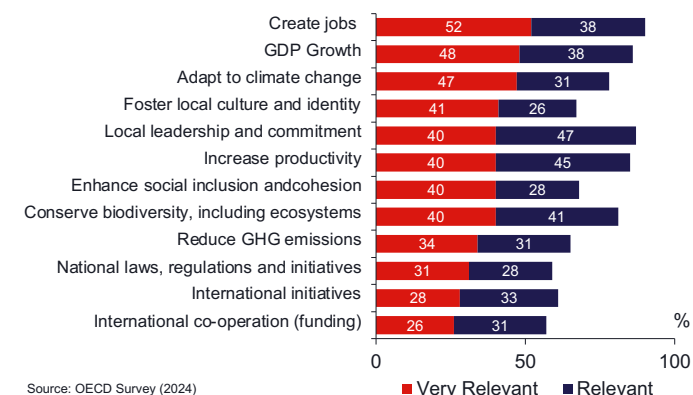


SPECIAL FOCUS: MARINE ECONOMY

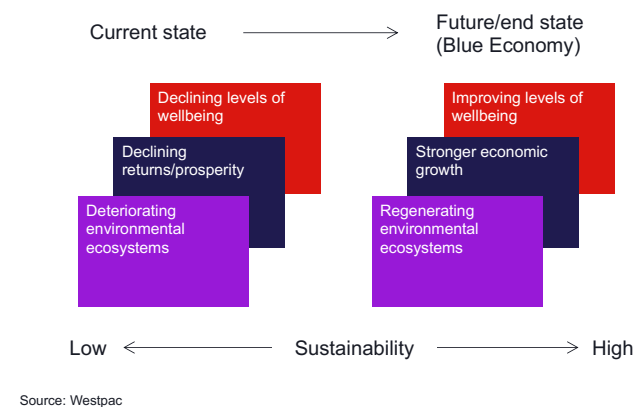
Parallels between the blue marine and green agricultural economies.

- We think that the transition of the New Zealand's marine economy towards the "blue economy" could hold important lessons for those involved in agriculture.
- The marine economy refers to activities that utilise ocean resources. The blue economy also refers to these activities but incorporates sustainability and environmental considerations.
- As such it represents an end state for the marine economy, much as aspects of the "green economy" represent an end state for the agricultural sector.
- Transitioning to these end states is likely to be challenging. In part that is because any transition has to be inclusive. It requires a collaborative partnership between government, producers, and local communities.
- It also must encourage productive, sustainable and resilient resource use.
- To that end, transitioning should not impose additional costs that threaten the viability of producers, cause undue disruption to operations and reduce value add. New digital technologies have a key part to play here.
- Transition also requires a large amount of investment. Success here, for both the marine economy and the agricultural sector, depends on the ability to deliver superior returns.

Main drivers behind blue economy activities



Dimensions of sustainability



FORECASTS

New Zealand commodity prices (end of period)

	Latest	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
NZ commodities index	364	363	356	355	357	359	362	365	369	373	376
Dairy price index	319	316	304	303	304	307	309	312	314	316	319
Whole milk powder USD/t	3,396	3,350	3,375	3,400	3,450	3,500	3,526	3,553	3,580	3,607	3,634
Skim milk powder USD/t	2,753	2,600	2,600	2,600	2,650	2,700	2,720	2,741	2,761	2,782	2,803
Lamb price index	473	458	461	465	470	475	483	490	498	506	513
Beef price index	301	293	294	295	296	297	299	301	303	305	308
Forestry price index	157	160	163	165	168	168	169	170	170	170	171

New Zealand commodity prices (annual averages)

	Levels				% change			
	2023	2024f	2025f	2026f	2023	2024f	2025f	2026f
NZ commodities index	330	354	357	367	-12.4	7.4	0.8	3.0
Dairy price index	286	312	305	313	-18.8	8.9	-2.4	2.7
Whole milk powder USD/t	3081	3368	3415	3555	-20.8	9.3	1.4	4.1
Skim milk powder USD/t	2640	2656	2627	2743	-30.9	0.6	-1.1	4.4
Lamb price index	461	451	466	492	-15.5	-2.2	3.5	5.4
Beef price index	271	282	295	301	-15.3	3.8	4.7	2.2
Forestry price index	160	159	166	170	-6.9	-0.3	4.3	2.3

Forecasts as at 31 October 2024.

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