AGRI BITES

Momentum building into the new year.

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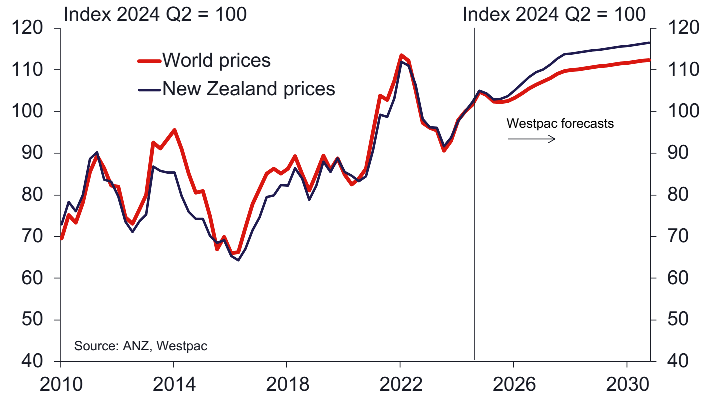
SUMMARY

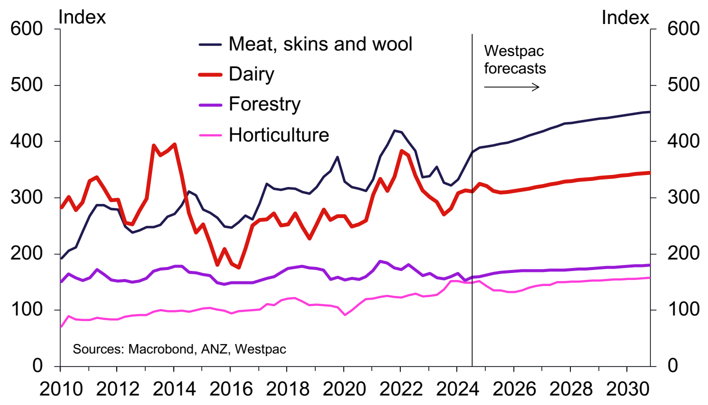
A positive end to the year for the agricultural sector.

- Dairy prices are leading the charge. We have raised our farmgate milk price forecast from $9.00 to $10.00/kgMS, mainly off the back of stronger buying out of China.
- Meat export prices are also on the rise. For beef, strong US import demand and constrained global production remain key drivers. For lamb, it's more about lower production for export out of New Zealand and Australia.
- Farmgate meat prices will continue to reflect the inability of processing capacity to adjust to changes in livestock coming forward for slaughter. Given a structural decline in herd size, a right-sizing seems inevitable.
- Apple and kiwifruit growers continue to see elevated prices for most varieties of fruit. While prices are likely to soften slightly from current levels, orchard gate returns are likely to be boosted by higher production yields.
- Despite a noticeable jump in log prices recently, the outlook remains subdued. Stimulus measures introduced in China should help lift prices, although gains are likely to be limited given softer activity indicators.
- Agriculture has been formally removed from the Emission Trading Scheme through the passing of the Climate Change Response Amendment Bill. A separate pricing system for on-farm emissions is to be implemented by 2030.

Commodity prices – World and NZ$ denominated



Commodity prices by category



FARM INPUT COSTS

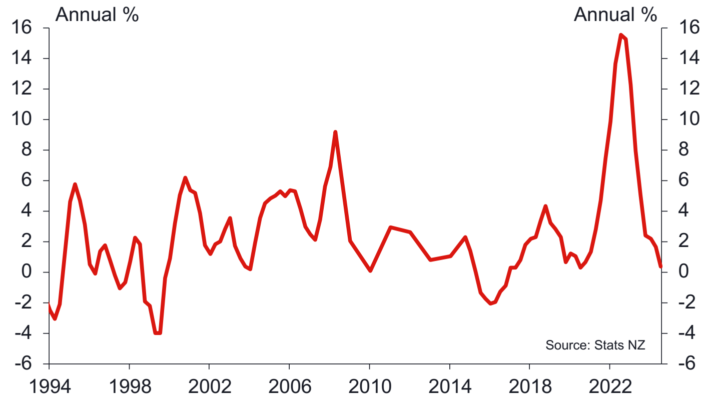
Input costs to moderate further.

- Input costs (excl. livestock purchases) for all farm types rose 1.2% for the year ending September 2024. That is down on the 1.7% recorded in the previous quarter and the 5% posted for the same period last year.
- Prices of major inputs such as fertiliser and fuel, as well as debt servicing costs, fell over the past year. The pace of wage increases has moderated, while feed costs were flat in the September quarter compared to a year ago.

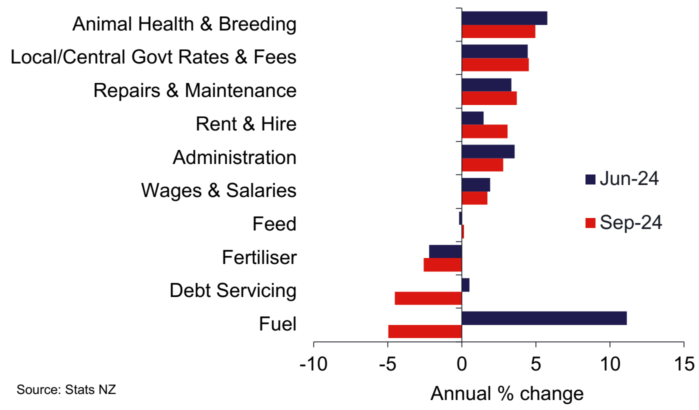
Outlook looks benign.

- Some costs, such as debt servicing, will continue to contract. Spare capacity in the labour market with should also keep a lid on wages.
- However, prices for fertiliser and animal feed may well increase off the back of global demand and supply fundamentals.
- There are many uncertainties. The escalation of hostilities in the world's trouble spots could easily disrupt supply chains, driving prices higher. The likely cessation of war in Ukraine could have the opposite effect for some inputs.
- Increased global tariffs may also have an impact. Diversion of products away from the US could send costs for several inputs lower. How much lower will partly depend on how the NZD performs.

Rural cost inflation



Rural cost inflation by category

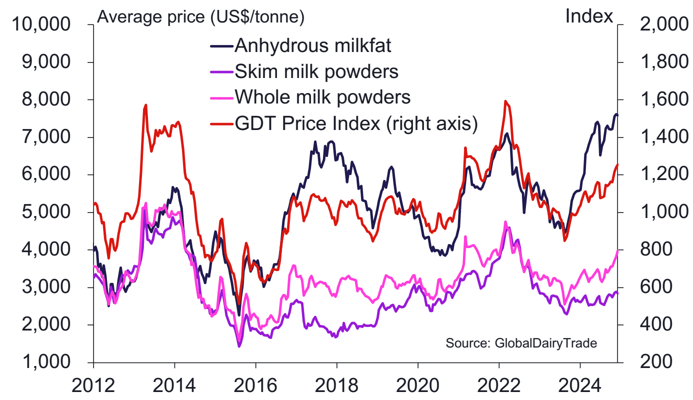


DAIRY

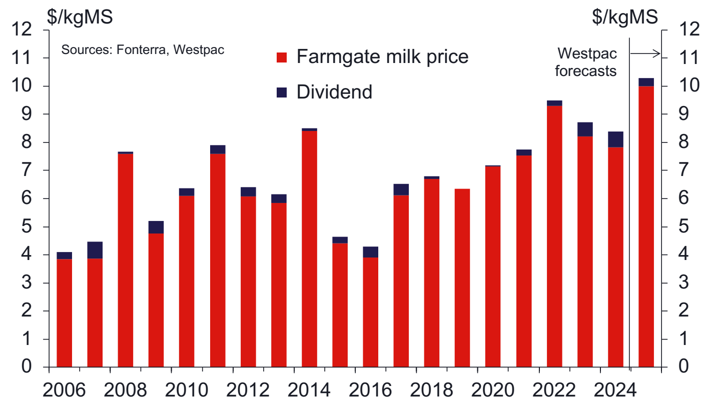
Milk price outlook is favourable.

- We have increased our forecast milk price for the 2024/25 season from $9.00 to $10.00 per kgMS – in line with Fonterra's current guidance.
- This will be the highest farmgate milk price on record although not in inflation adjusted terms given costs are higher.
- With production shaping up to be about 2% higher in 2024/25, this upgraded milk price means that even after allowing for increasing costs, dairy farmers will have about $4bn of extra discretionary income compared to last season.
- DairyNZ estimates a break-even price of $8.15/kg for this season, which leaves substantial room for farmers to spend and invest more.
- Conditions in the global market for dairy products are shifting rapidly, with prices being bid up by Chinese buyers replenishing depleted inventories.
- Despite an oversupply of milk in China, there is seemingly not enough capacity to address low stock levels, increasing their reliance on imports.
- New Zealand has also shifted its product mix away from whole milk powder (WMP), which means that aggressive bidding by Chinese buyers to secure stock is driving prices higher.
- That said, it is not clear how long it will take for China to fully restock.

Global Dairy Trade auction prices



Farmgate milk prices



SHEEP MEAT

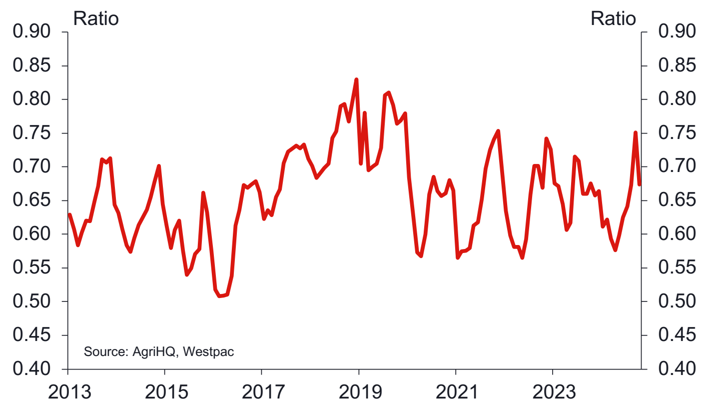
Farmgate prices remain at elevated levels.

- Slaughter prices look to be plateauing after a big run-up earlier in the year. That reflects the impact of seasonal factors, with more lambs coming for slaughter resulting in a better balance with processing capacity. In Hawke's Bay, for example, dry conditions have encouraged farmers to bring stock forward while others are looking to sell just to get a bit of cash.
- Over the coming year, we think that fewer breeding ewes, slightly lower lambing percentages, and severe weather conditions, particularly in the lower South Island, will reduce the number of lambs coming forward, and that will lift farmgate prices.
- A right-sizing of processing capacity looks inevitable given a structural decline not just in New Zealand's lamb flock but also the beef and deer herds.

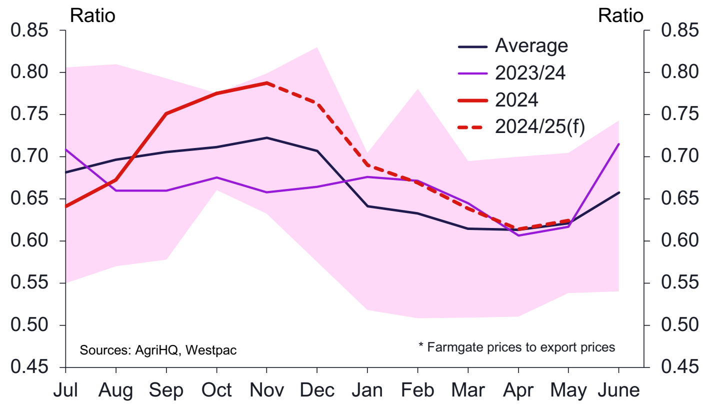
Better demand prospects to lift export prices for lamb.

- Lower production out of Australia and New Zealand and sustained demand in key export markets, notably the US, EU and UK, should mean higher export prices. The Chinese New Year celebrations should also be supportive.
- That should push the farmgate to export price ratio lower over the coming year. And with the NZD expected to remain under pressure against the USD, processors should see better margins.

Lamb: farmgate to export price ratio



Lamb: forecast farmgate to export price ratio*



BEEF

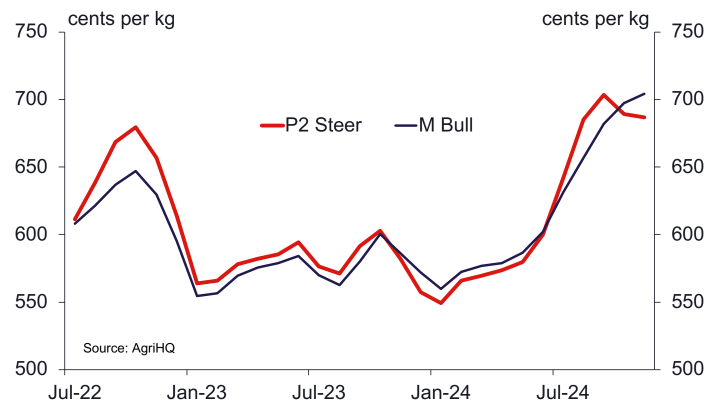
Slaughter prices have started to turn on greater availability.

- After ramping up earlier this year, beef slaughter prices have largely moved sideways in recent weeks.
- Cattle markets in the North Island have largely been in balance, with more supply coming forward. Most processing plants are running close to or at full capacity.
- Not so in the South Island, where weather conditions have largely limited the volumes coming forward for slaughter.

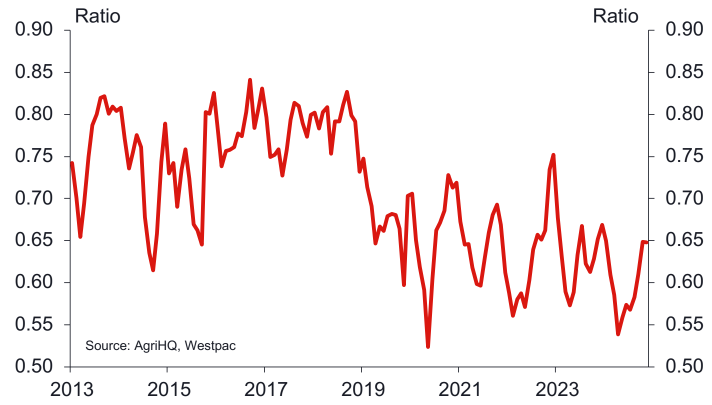
Export prices continue to edge higher.

- Export volumes have picked up recently as more cattle have come forward, and that has resulted in a modest softening in prices.
- However, the underlying momentum remains positive. The US market for lean cuts from New Zealand is expected to remain strong over the coming year.
- New Zealand has also made steady progress in several ex-China Asian markets and further gains are likely.
- Supply-side issues should also help to boost export prices, Beef cattle herds in Australia, North America and South American countries are about to enter rebuilding phases simultaneously for the first time in living memory.

Average slaughter prices – beef



Beef: farmgate to export price ratio



HORTICULTURE

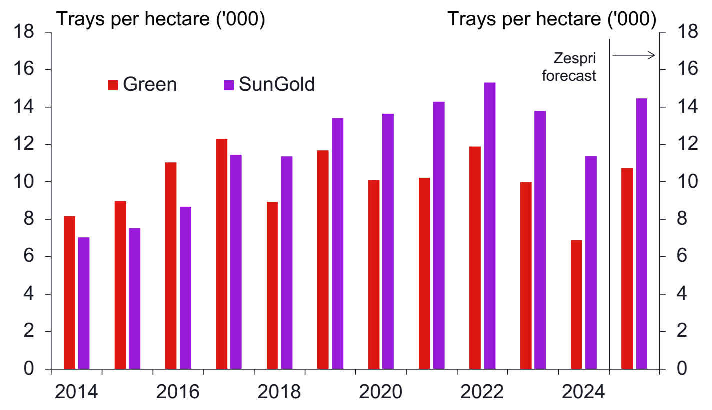
The kiwifruit sector continues to go from strength to strength.

- Export volumes of kiwifruit continue to climb, with export earnings jumping by 40% to $3.5bn for the year ending October 2024. While export volumes of green kiwifruit have been sizeable, the biggest gains have come from gold kiwifruit which command a price premium.
- Average unit export prices remain elevated. That said, they have largely been going sideways for quite a while. Less so for green kiwifruit, where average export prices do seem to have nudged higher.
- We still think prices will fall over the coming year off the back of higher production volumes. Increased production in offshore markets during the NZ off-season could also help to dampen prices.

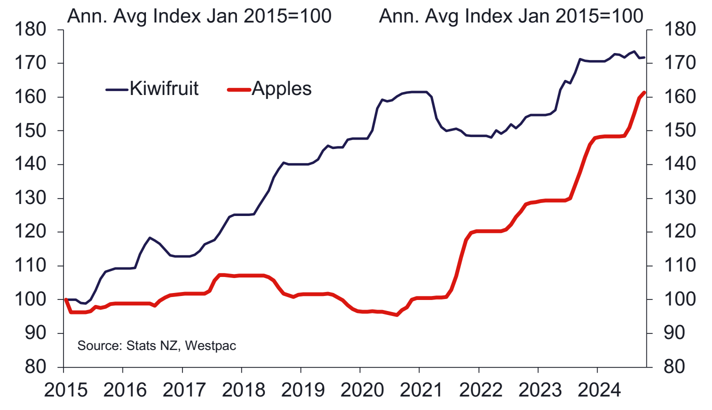
Apple growers continue to see firmer prices.

- Export volumes remain robust reflecting strong export markets. The development of innovative new products and grower productivity gains, assisted by new technologies, underpins much of this success.
- Despite a recovery in production and thus export volumes, growers have also seen better unit prices, mainly because of sustained demand in key markets, although these have started to moderate. And with inputs costs continuing to moderate, that is being reflected in improving grower margins.

Kiwifruit – production yields



Apple and kiwifruit prices

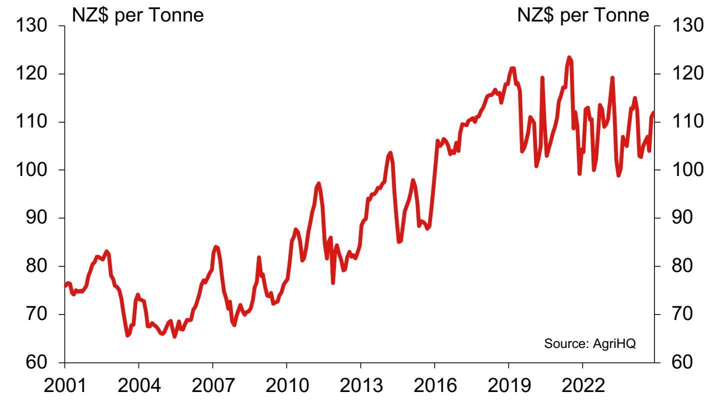


FORESTRY

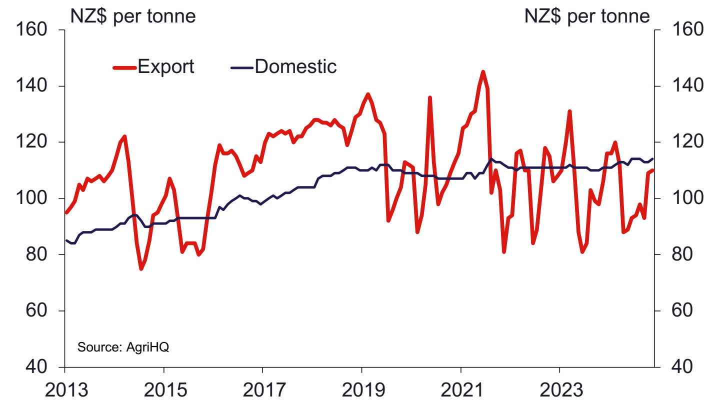
Tentative signs of improving demand.

- There was a noticeable jump in log exports in September 2024, which was maintained in October. But even with this jump, three-month volumes were still down 2% on last year and well below the 5-year average.
- Some of this increase was because of increased exports to India and South Korea, which were the highest for any month in almost 4 years. That said, there is some concern that the Indian market might be over-supplied with an increasing volume sitting unsold in bonded storage yards.
- A fall in port inventories in China is also likely to have contributed. Inventory levels have now dropped below 2.7 million m^3, and that has prompted some restocking, resulting in higher export prices. For New Zealand forestry owners, returns have been further supported by a stronger USD.
- Looking forward, activity indicators in China confirm ongoing weakness in the housing market. That suggests that log demand may not increase as much as it normally does when the country enters the busiest time of the year for construction.
- Stimulus measures introduced recently by the Chinese government to lift new housing starts and renovate 1 million existing homes should provide some additional support early in 2025 – or at least manage downside risks.

Log export prices



Export and domestic log prices

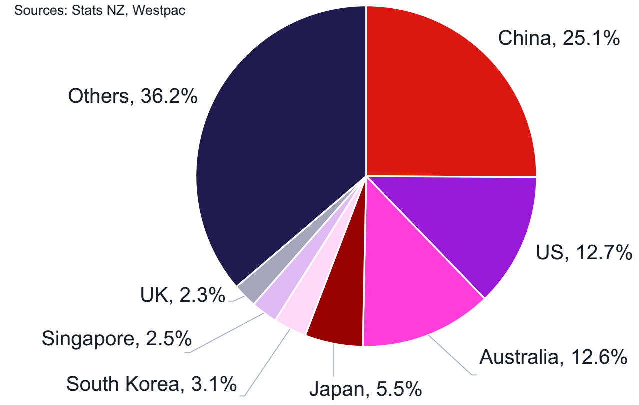


TRUMP 2.0 – POTENTIAL IMPACTS

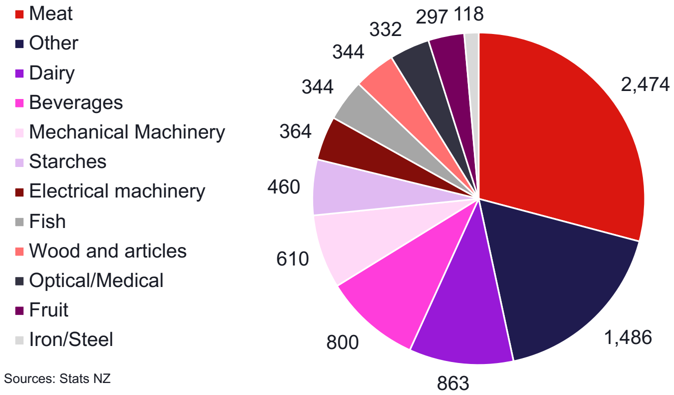
A more protectionist US could spell bad news for agriculture.

- US fiscal policy is set to become more expansionary, fuelled mostly by tax cuts, while trade policy is likely to become more protectionist.
- Of particular concern to NZ farmers/growers/processors is the possibility of higher tariffs on exports into the US. The US is New Zealand's second largest export market. Meat, wine and fruit are key exports into that market.
- Countries that run a trade surplus with the US will perhaps be most exposed to the prospect of tariffs. That partly explains why China, Canada and Mexico currently find themselves in the crosshairs of the new US administration.
- New Zealand has a trade surplus with the US but hasn't secured a free trade agreement. Hence new tariffs are a distinct possibility – although their form and timing are uncertain.
- The direct impact of tariffs is to reduce the competitiveness of New Zealand goods versus US producers. There may be indirect relative competitiveness effects depending on the relative level of tariffs imposed on New Zealand.
- The biggest impacts are likely to be indirect. If China is unable to circumvent these tariffs (like it did during Trump's first presidency) it may have to resort to price discounting in other markets. That will mean less income for Chinese workers, which will dampen demand for key NZ exports and thus prices.

NZ merchandise export shares (%)



NZ exports to the US $m (year to September)



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	**380**	**376**	**377**	**372**	**368**	**363**	**362**	**362**	**364**	**367**	**370**
Dairy price index	344	340	345	336	327	317	311	307	306	309	311
Whole milk powder USD/t	3,984	3,900	3,799	3,700	3,599	3,500	3,450	3,400	3,426	3,451	3,477
Skim milk powder USD/t	2,848	2,900	2,850	2,800	2,750	2,700	2,650	2,600	2,620	2,639	2,659
Lamb price index	451	453	457	460	465	470	478	486	493	500	502
Beef price index	297	293	294	295	296	297	299	301	303	305	308
Forestry price index	163	162	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**	**357**	**370**	**364**	**-12.4**	**8.4**	**3.6**	**-1.7**
Dairy price index	286	318	331	308	-18.8	11.0	4.1	-7.0
Whole milk powder USD/t	3081	3440	3691	3437	-20.8	11.6	7.3	-6.9
Skim milk powder USD/t	2640	2692	2796	2633	-30.9	2.0	3.8	-5.8
Lamb price index	461	453	462	487	-15.5	-1.7	2.0	5.4
Beef price index	271	283	295	301	-15.3	4.4	4.1	2.2
Forestry price index	160	160	166	170	-6.9	0.0	4.0	2.3

Forecasts as at 6 Dec 2024.

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