

AGRI BITES

Moo-ving up.

September 2024



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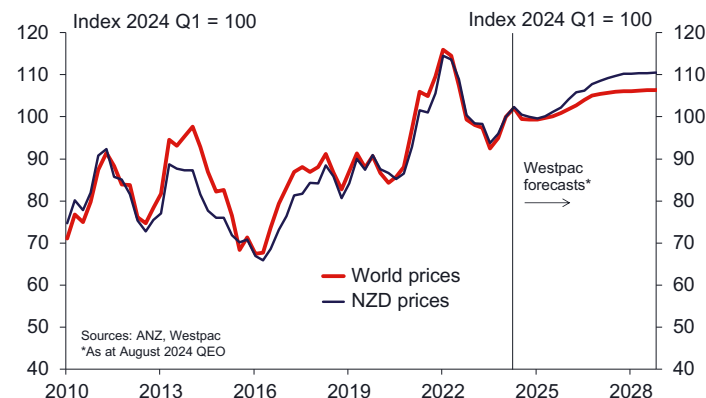


SUMMARY

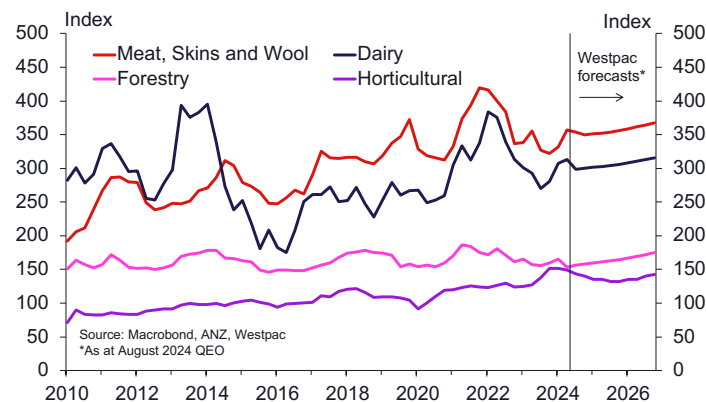
Better prices ahead, but margins to remain under pressure.

- Overall commodity prices to tilt higher off the back of higher dairy and slightly better meat prices. Still high-cost structures means that farm profitability will remain constrained.
- Improving market conditions have prompted us to revise our farmgate milk price forecast for this season from \$8.70 per kilo of milk solids to \$9.00.
- Beef prices should edge higher over the coming year as US production continues to contract. Gains here though could be limited given a pickup in beef production out of Australia and Brazil.
- Lamb prices are expected to be marginally better in the year ahead. That reflects lower kill rates in New Zealand and Australia as well as stronger demand and lower domestic production in Europe.
- Assuming conducive growing conditions, we expect orchard gate returns for apple and kiwifruit to rise off higher production yields. Prices though should ease slightly over the coming year as production gains outweigh demand.
- Subdued demand out of China implies flat log prices over the next year. A pickup in Chinese building activity will be a catalyst for rising prices thereafter.

Commodity prices – World and NZ\$ denominated



Commodity prices by category



DAIRY

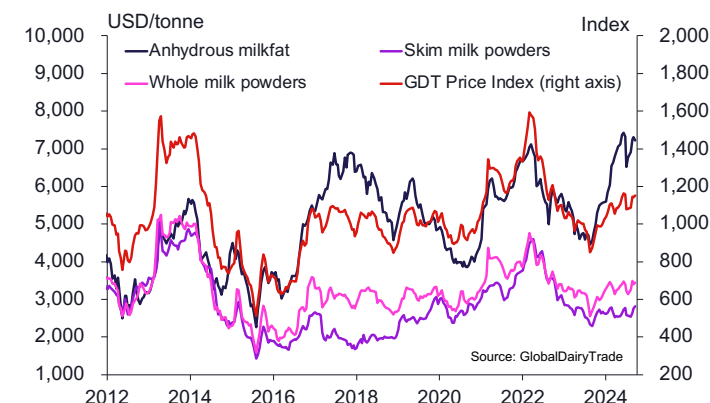
Milk price outlook is more favourable.

- Improving market conditions, evidenced by rising dairy auction prices, have prompted us to revise our farmgate milk price forecast for this season from \$8.70 per kilo of milk solids to \$9.00.
- Futures prices for the current season have topped \$9.00, and Fonterra has revised up its guidance to a midpoint of \$9.00 (range of \$8.25-\$9.75).
- A \$9.00 milk price easily exceeds the breakeven price of \$8.09 estimated by DairyNZ. Compare that to the shortfall from last season's \$7.83 milk price.

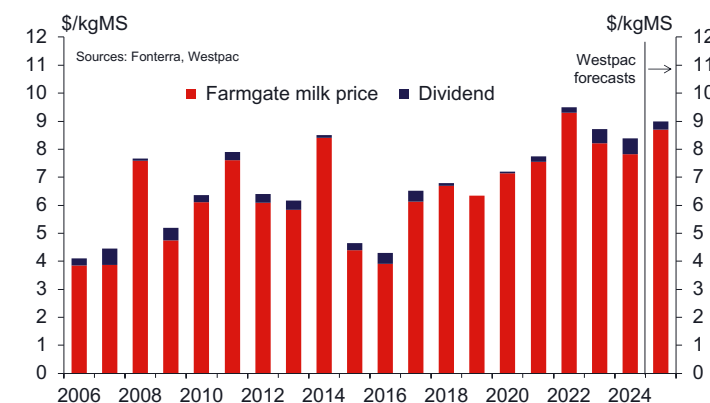
The outlook for global production is the big unknown.

- World dairy prices have been resilient. While prices for whole and skim milk powders have moved sideways around their long-term averages, milkfats sit at or near record highs. Our \$9.00 milk price forecast assumes a modest pullback in prices from current levels by the end of the season.
- Global milk supply is the key risk factor. New Zealand had a very strong start to the season, potentially adding a significant amount of supply onto the market. Initially this was balanced against weaker Northern Hemisphere supply, although Chinese production lifted again in August and the US industry is starting to recover from the avian flu outbreak. The remaining restraint on global supply is the ongoing bluetongue virus outbreak in Europe.

Global Dairy Trade auction prices



Farmgate milk prices



SHEEP MEAT

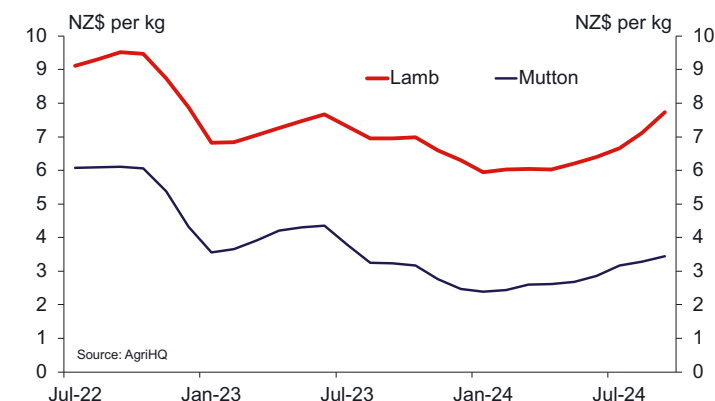
Shortages pushing up domestic slaughter prices.

- Store and slaughter prices have ratcheted higher as competition between processors for lambs has increased.

Export prices have also lifted, albeit from a low base.

- Tightness in New Zealand supply and a seasonal low in Australian lamb production has helped lift export prices off multi-year lows.
- Increased demand for chilled product and lower production in Europe has also supported prices. Demand out of the UK, however, is flat as New Zealand carcass weights have started to increase beyond desired weight ranges.
- Sheep meat prices are expected to be marginally higher in the year ahead, mostly because of lower production out of both New Zealand and Australia.
- Other supporting factors include a reducing in the UK breeding stock, lower EU production levels, stronger US demand, albeit from a low base, and better market access into the UAE, following the confirmation of a free trade agreement with that country.
- Chinese consumption of sheep meat remains low and will weigh on prices over the coming year. We expect prices to gain more momentum if recent policy measures are successful in lifting confidence and domestic spending.

Lamb slaughter prices



Average lamb export prices



BEEF

Slaughter price increases are slowing.

- Beef slaughter prices, which had previously been on a tear, have now begun to moderate as more finished cattle are sent to the processors.

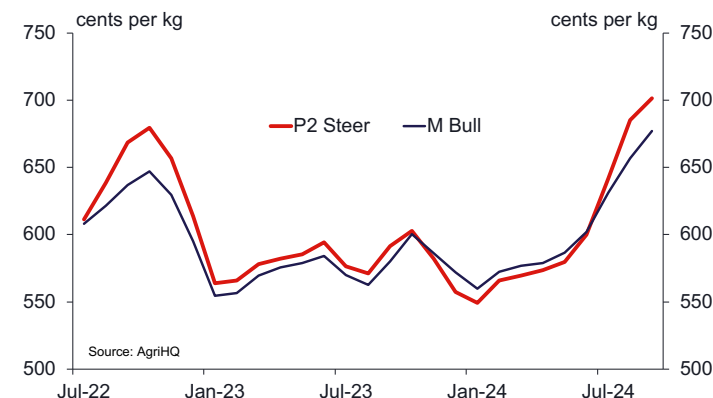
Average export prices have shown some volatility recently.

- Strong US demand continues to support beef prices. That said, New Zealand beef producers have seen increased competition from Australia and Brazil in recent months. Australia's cattle slaughter volumes have tracked well ahead of the five-year average this year.
- Some support has come from China. Chinese demand for beef continues to grow, though that tends to be on cheaper cuts of meat.

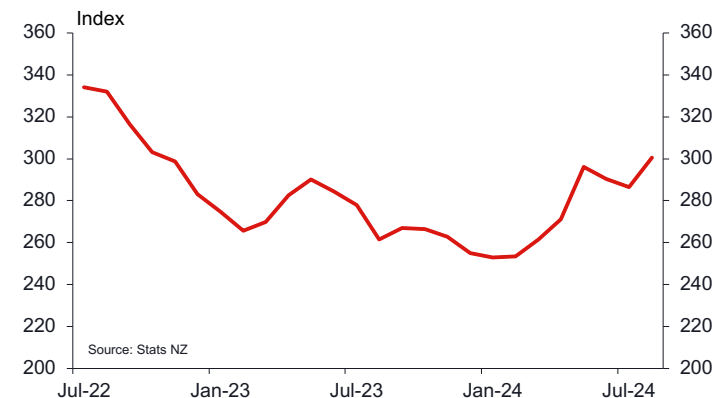
Modest price gains likely over the coming year.

- We expect prices to tilt higher over the coming year as US production continues to contract. Gains here though could be limited, given the surfeit of beef on export markets and attempts by the US to barter down prices.
- Longer term, we think that dynamics in the US will provide less support for prices. By contrast, improving economic conditions in China could eventually translate into stronger demand and higher prices.

Average slaughter prices - beef



Average beef export prices



HORTICULTURE

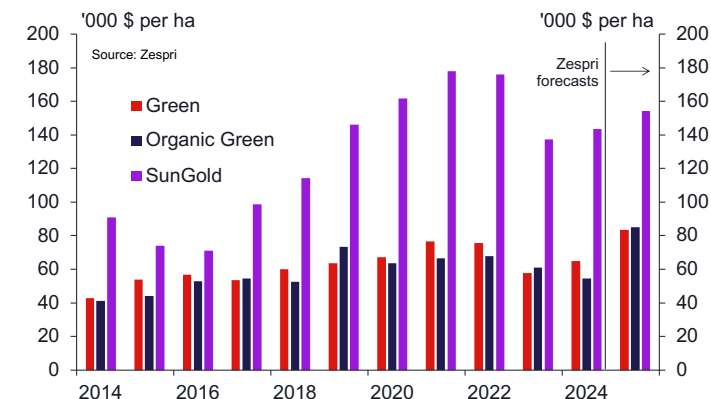
Increased production to boost kiwifruit growers.

- The 2024 kiwifruit crop of just over 190m trays is larger than the 133m trays exported in 2023. About 75% of this season's crop has been shipped offshore, notably to the EU, China, Japan, which account for over 70% of kiwifruit exports.
- Export demand for kiwifruit is set to remain strong. However, we still expect prices to dip as supply from New Zealand and other major exporting countries lifts. Competition from seasonal summer fruits could also dampen prices.
- Volume effects should outweigh price effects, meaning better orchard gate returns on a per hectare basis.

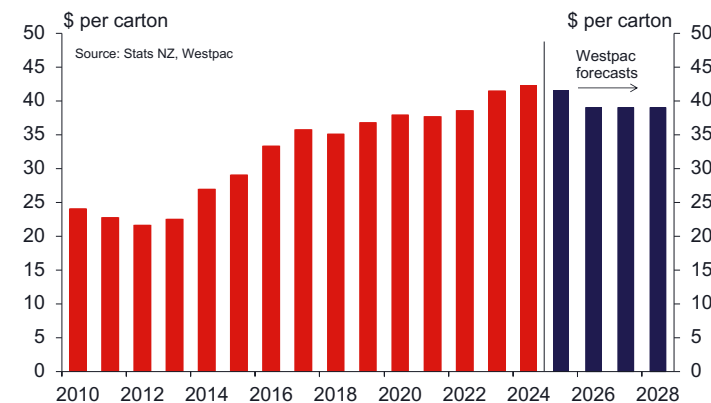
Apple growers also to benefit from gains in production.

- Conducive growing conditions have resulted in a better 2024 harvest. But with production still off from previous years, this latest harvest reflects a partial recovery from Cyclone Gabrielle.
- New Zealand's production is counter-seasonal, which means that demand for its apples in key export markets is likely to remain strong over the coming year.
- Prices though should still tilt lower, as growing capacity continues to recover further and output levels grow. We think that is likely to translate into better orchard gate returns for apple growers.

Kiwifruit – orchard gates returns per hectare



Apple prices

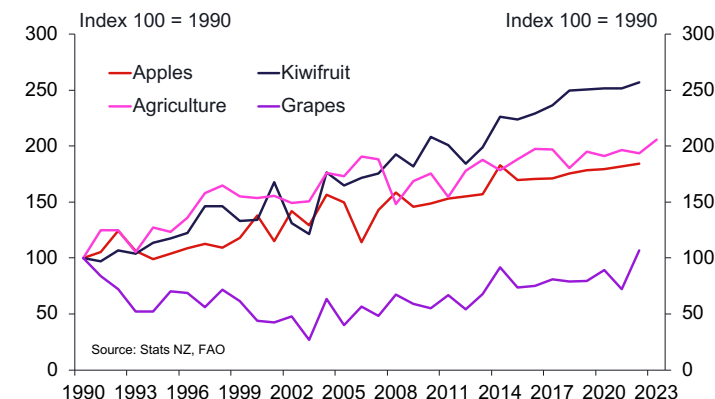


HORTICULTURE AND VITICULTURE

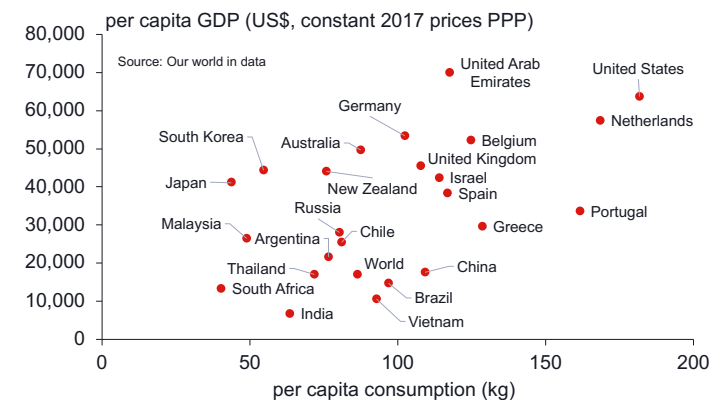
A positive medium-term outlook for kiwifruit, apples and wine grapes.

- Our recent report on horticulture and viticulture suggests a sector with a big future.
- It's already a big deal. Kiwifruit and apples are our fourth largest export category, after logs. Add wine into the mix, and the sector catapults into third place.
- The sector punches way above its weight. Not only it is one of the most efficient producers of fruit internationally, but it also outperforms other sectors of the New Zealand economy. That is particularly true for kiwifruit, which leaves even the high performing agricultural sector in its wake.
- Much of that has to do with ideal growing conditions in New Zealand. Being a counter-seasonal producer also helps. The sector also spends large on R&D which not only delivers the aforementioned process efficiencies but also products tailored to customer preferences.
- It's also got to do with increasing demand for high quality fruit, especially that which delivers unrivalled health benefits. Population growth and rising incomes in key export markets, should ensure that this remains the case.
- In the years ahead, supply is likely to be a key factor that determines prices. Careful management here will be needed to deliver superior orchard gate returns.

Productivity growth comparison – agriculture



Fruit consumption per capita vs per capita GDP



FORESTRY

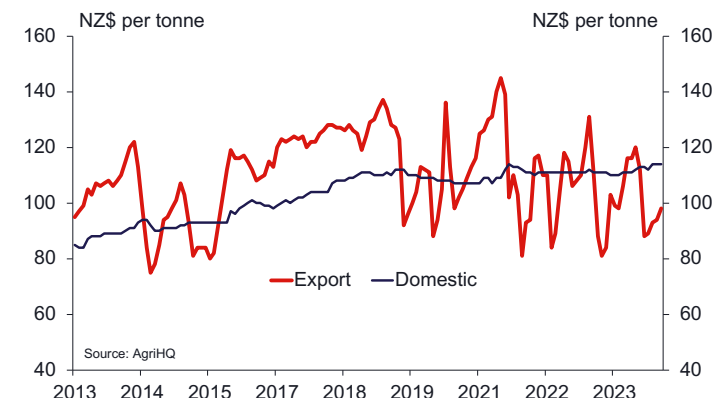
Export market for logs to remain soft.

- Export log prices remain moribund, mainly because of still weak demand out of China. This is evident in port inventory levels, which remain elevated.
- The much-publicised closure of several wood processing plants, resulting in the diversion of low-quality pulp into the export market, will not have helped matters.
- The Chinese property market continues to struggle. Despite efforts by the government to prop up the market, lower interest rates and easier access to new home loans, house prices in China have continued to track lower.
- Export graded logs harvested during Q2 only accounted for 58% of volumes, compared to 67% in the previous quarter.
- On a more positive note, New Zealand has recorded a significant increase in log exports to India, but off a low base. India is a huge market that could potentially replace China as the key source of demand for New Zealand logs.
- Weak building consents in New Zealand continue to weigh on domestic log prices. Quoted prices have ranged from steady to mildly weaker.

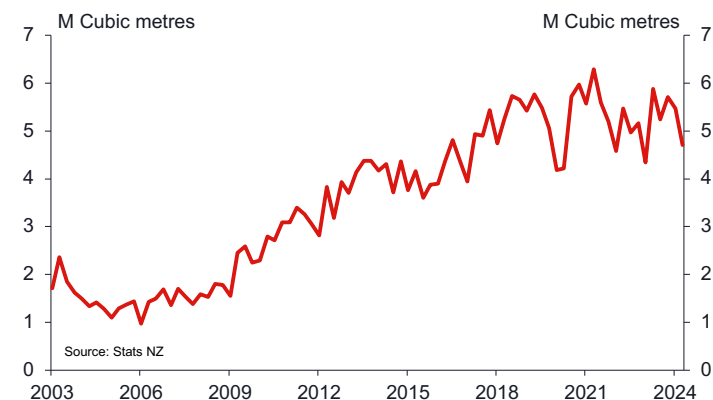
Prices to remain flat over the coming year.

- There is little to suggest that log prices will improve near term. We expect prices to move sideways, lifting perhaps toward the end of 2025 into 2026.

Export and domestic log prices



Log export volumes

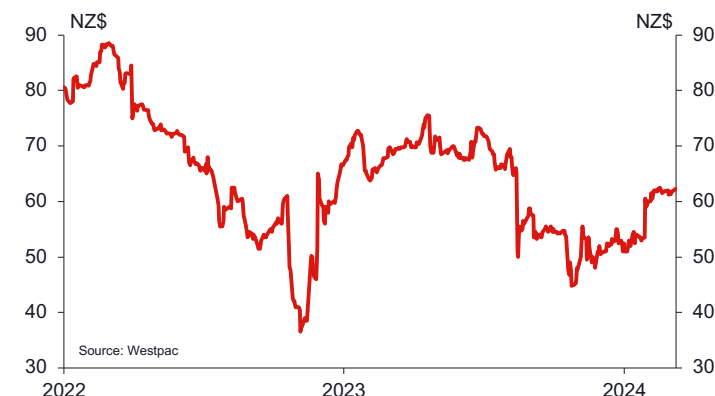


CARBON

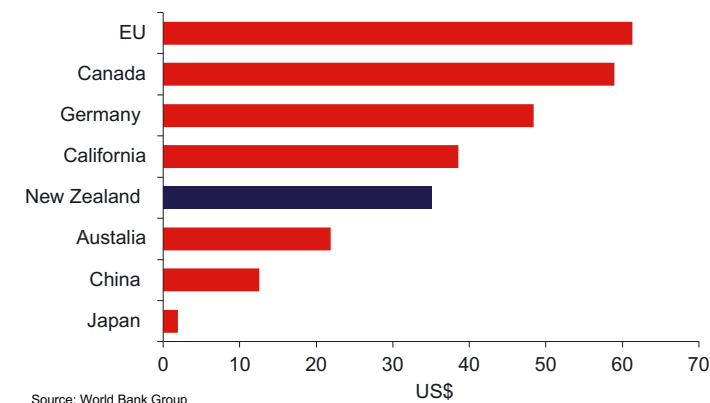
Sluggish NZU prices remains a challenge.

- The government's quarterly New Zealand Unit (NZU) auction in early September failed to attract any registered participants or bids. This was the second consecutive auction where no bids were received.
- Secondary market pricing has consistently traded below this floor price since the first auction back in March.
- In August, the Government announced that it will reduce the volume of NZUs to be auctioned over 2025 to 2029 from 45m to 21m units, to help address the oversupply of NZUs held by market participants.
- This does not limit the volume of NZUs issued to entities that remove GHG from the environment, such as forestry owners.
- The Government's announcement saw the NZU price ratchet higher from around \$53/NZU to about \$61/NZU, but it has moved sideways since. At these levels it makes sense for buyers to purchase in the secondary market, given that they can accumulate volume below the auction floor price of \$64/NZU.
- In terms of holdings, the total stock of NZUs have now dropped to 144 million – the first time below 150m since 2021. Reducing stock levels should eventually help to lift the price of NZUs.

Westpac NZU mid-price



ETS price by country



FORECASTS

New Zealand commodity prices (end of period)*

	Latest	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
NZ commodities index	358	355	353	348	348	349	351	355	358	362	366
Dairy price index	312	311	309	302	300	301	303	305	307	310	312
Whole milk powder USD/t	3,396	3,389	3,350	3,375	3,400	3,426	3,451	3,477	3,503	3,530	3,548
Skim milk powder USD/t	2,753	2,730	2,600	2,650	2,700	2,720	2,741	2,761	2,782	2,803	2,817
Lamb price index	473	460	463	466	470	475	480	488	496	504	511
Beef price index	291	284	284	284	284	284	285	286	286	287	288
Forestry price index	158	157	159	160	162	164	166	168	170	173	176

New Zealand commodity prices (annual averages)*

	Levels				% change			
	2023	2024f	2025f	2026f	2023	2024f	2025f	2026f
NZ commodities index	330	351	349	360	-12.4	6.5	-0.5	3.2
Dairy price index	286	310	301	309	-18.8	8.4	-2.8	2.4
Whole milk powder USD/t	3081	3340	3402	3506	-20.8	8.4	1.9	3.0
Skim milk powder USD/t	2640	2643	2688	2784	-30.9	0.1	1.7	3.6
Lamb price index	461	452	472	497	-15.5	-1.8	4.3	5.4
Beef price index	271	278	284	286	-15.3	2.4	2.2	0.8
Forestry price index	160	159	162	171	-6.9	-0.6	2.2	5.4

* Forecasts as at 9 September 2024. These will be updated in October.

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