

# AGRI BITES

**A weaker currency –  
the cherry on the top.**

28 February 2025





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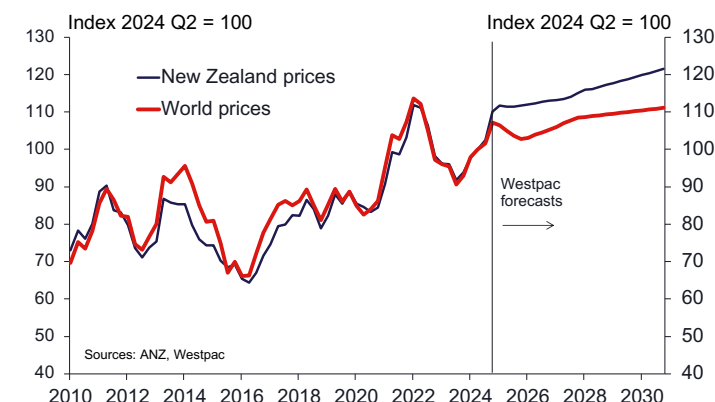


# SUMMARY

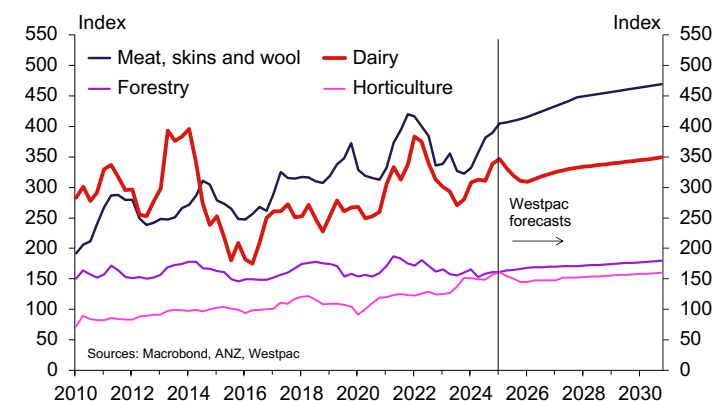
## Commodity prices to edge higher on supply and demand fundamentals.

- Our outlook for soft commodity prices is little changed from last month. We expect commodity prices to come off in world price terms over the next year, mainly due to lower average dairy prices over the remainder of the season.
- Underpinning that is an expectation that the Chinese inventory buildup, particularly of whole milk powder, will wind down sometime in the future. That expectation is captured in our milk payout forecast of \$10.30 kg/MS.
- Of course, there is a chance that rebuilding efforts by the Chinese could continue for an extended period of time. That could put upward pressure on our milk payout forecast, particularly if it extends into the 2025/26 season.
- We continue to see upside for meat prices, underpinned by favourable global demand and supply dynamics. However, while meat prices have been rising, the gains in inflation-adjusted terms have been limited, with prices only back to the 10-year average.
- Meanwhile, horticultural prices are set to remain at around current levels reflecting the balance between demand in key export markets and an increase in supply.
- Subdued Chinese demand suggests flat log prices in the near term. Possible signs of more building activity in China should support prices thereafter.

## Commodity prices – World and NZ dollar denominated



## Commodity prices by category

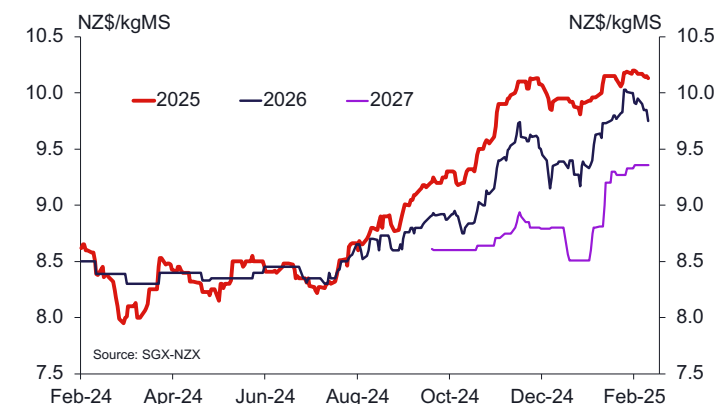


# DAIRY

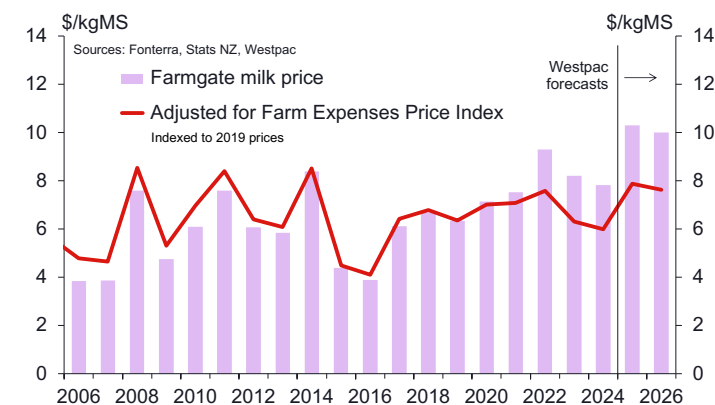
## Milk price outlook revised upwards, but risks remain.

- We recently revised our farmgate milk price forecast to \$10.30/kgMS for this season. Global dairy prices have generally held their gains and the lower New Zealand dollar is helping to boost local returns.
- While dairy prices eased at the most recent GlobalDairyTrade auction, they have held up better than expected over time. Much of this has to do with the Chinese restocking inventories after letting them run down to very low levels.
- There is some uncertainty of how long this restocking will take, and how further prices might be bid up. However, once this runs its course and Chinese demand normalises, dairy prices are likely to fall.
- Our first forecast for next season's milk price is \$10.00/kgMS, which is a little above the futures market at the moment.
- We expect world dairy prices to ease as Chinese buying normalises and global production edges higher in response to currently high prices. A lower exchange rate should also provide some support to local earnings.
- That said, it is appropriate to place a wide margin of uncertainty around this forecast. Global economic conditions, trade policies and other geopolitical risks mean that dairy prices and the exchange rate could end up a long way from our forecasts in the year ahead.

## Futures pricing for farmgate milk prices



## Farmgate milk prices



# BEEF

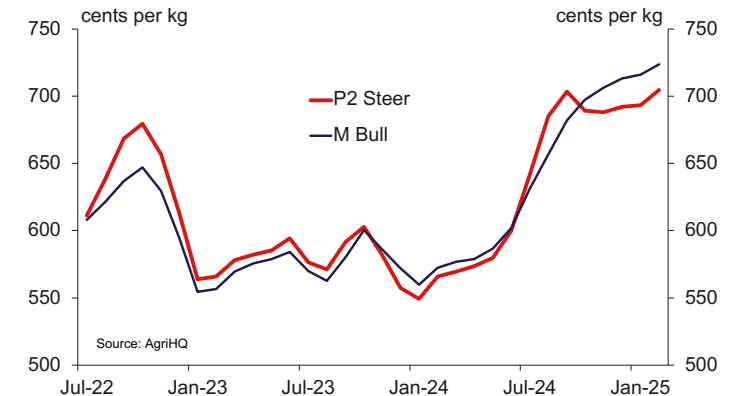
## Slaughter prices in New Zealand have accelerated.

- After a period of moderation, beef slaughter prices have again surged as processors have competed heavily to secure bull meat in order to take advantage of opportunities in the export market.
- That said, beef farmers in drier areas in the North Island have been bringing cows forward.

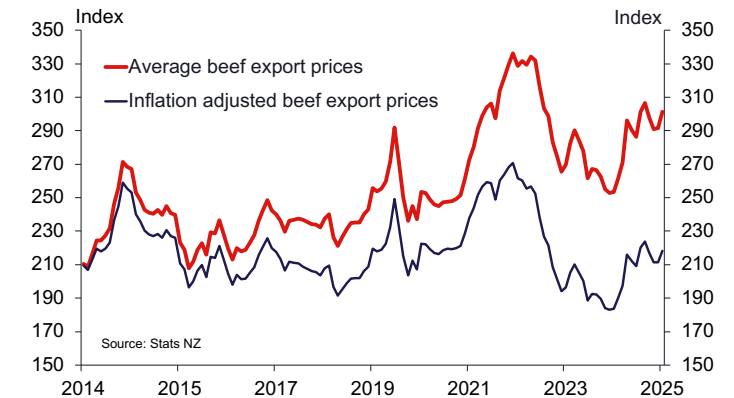
## Export prices reflect strength in demand and weakness in production.

- Beef export prices continue to lift higher on the back of still-strong demand out of the US and production losses in Europe because of the spread of the bluetongue virus. Impacts here have been amplified by a weaker New Zealand dollar.
- Declining supply in four of the world largest producers (the US, China, Europe and Brazil) coupled with stronger global demand should mean that beef prices lift further in 2025. Coupled with a weaker New Zealand dollar, that should mean better local returns.
- Similar to dairy, beef export prices are likely to be influenced by global economic conditions, uncertainties with respect to the future direction of trade policies and geopolitical risks more generally.

Beef slaughter prices - NZ



Average monthly beef export prices



# SHEEP MEAT

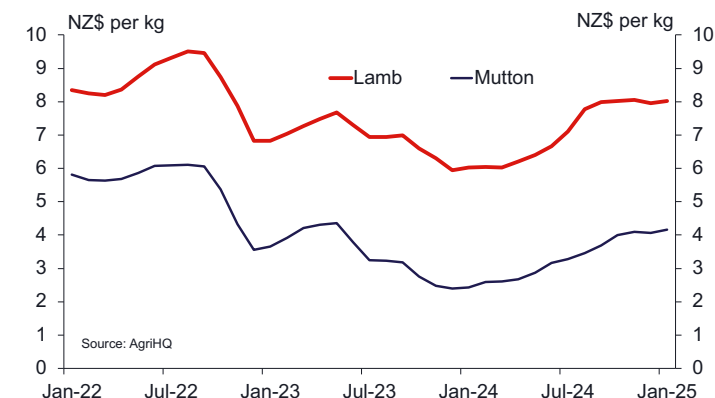
## Seasonal weakness in slaughter prices to be short-lived.

- Store and slaughter prices for lamb continue to move sideways, although still significantly above last year's price levels. Current price levels are indicative of strong competition among processors.
- Farmgate prices could dip slightly in coming months as more lamb comes forward for slaughter. That said, with competition among processors set to remain elevated given strong export demand out of the EU and UK, impacts here are likely to be limited. In volume terms, these markets account for about 35% of lamb exports, just slightly lower than the 38% consumed by China.

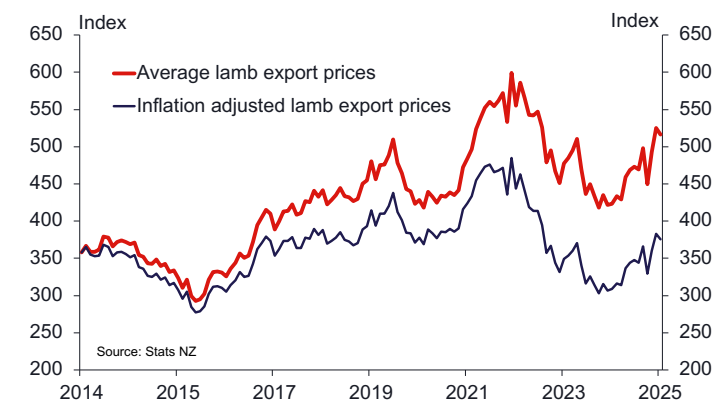
## Export prices for lamb to tick higher in 2025.

- Meanwhile export prices have ratcheted higher. That reflects solid demand in the EU, UK and the US as well as weaker production out of New Zealand and Australia. Some prices have come under pressure post Chinese New Year.
- Export prices have been further supported by a weaker New Zealand dollar. Ongoing currency weakness is expected to support export prices this year.
- There is a possibility of tariffs being imposed by the US on lamb imported from New Zealand. Even before the new US administration came into power, there were calls for tariffs on price-competitive New Zealand lamb. If implemented, tariffs could dampen prices as supply is diverted to less lucrative markets.

Sheep meat slaughter prices – NZ



Average export prices for lamb





# HORTICULTURE

## Strength in demand to support export prices for kiwifruit over 2025.

- According to Zespri, strong demand in key markets, increased production and quality improvements have bolstered both revenues and orchard gate returns.
- There is more to come. Reports are that growing conditions have been largely conducive to producing high-quality fruit, with Zespri expecting a record crop in excess of 200 million trays for the 2025 season. Significant here will be a large increase in RubyRed production destined for key export markets in Asia.
- With global demand likely to stay ahead of global production, worldwide sales are expected to break records. That should mean prices will remain elevated over the coming year, resulting in higher orchard gate returns.

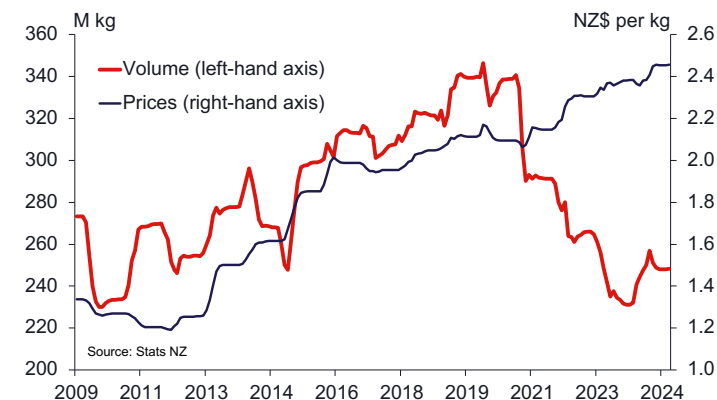
## Apple export prices to lift off and remain elevated on constrained supply.

- Annual crop estimates released earlier this month suggest that the 2025 apple crop will deliver a clean harvest of high-value, premium quality fruit. According to New Zealand Apple and Pear, growing conditions have ensured an apple harvest that has exceptional colour and excellent taste. That should help to lift exports and support prices in the future.
- That said, production in the Hawke's Bay continues to recover from damage to orchards caused by cyclone Gabrielle. There are reports that apple trees are still dying years later, prompting some growers to leave the industry.

Kiwifruit – average export prices and production



Apples – average export prices and production



# FORESTRY

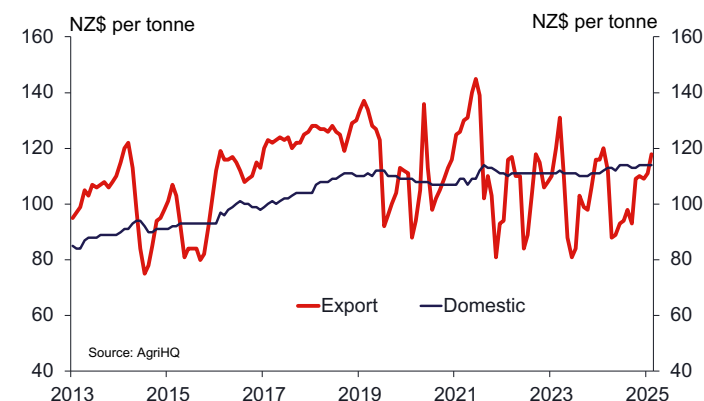
## Log prices tilted higher over February.

- Export log prices tilted slightly higher in February, mainly reflecting lower shipping costs and a weaker New Zealand dollar.
- Chinese demand remains lacklustre. That reflects a still-soft property market and the fact that many sawmills in China were closed in February because of the Chinese New Year. Typically sawmills close for about 4 weeks during this period.
- The uplift from Chinese ports in early January was around 65k m3 per day, with inventory levels sitting at just under 2.9m m3, an increase of about 200k m3 on December. Expectations are that inventories will build further to about 4m m3 by the end of February.

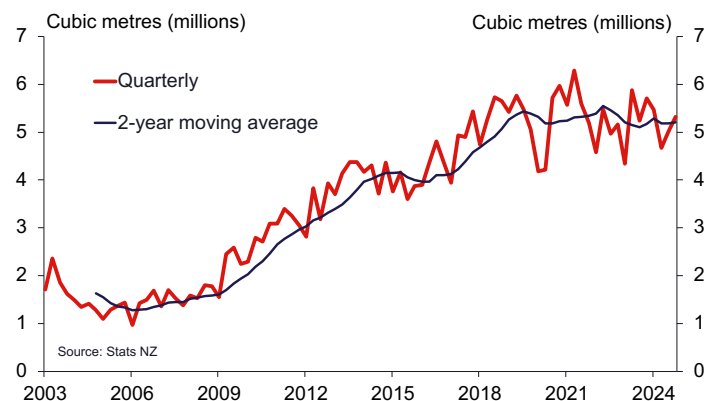
## The longer term outlook for log prices depends on construction activity.

- While we expect log prices to remain at around current levels, there is some cause for optimism, especially with the pace of house price declines in China showing signs of moderating.
- Furthermore, the Chinese government has reportedly set aside US\$1trn to boost residential construction, which should spur demand for logs and lift prices. The question is when? There is still a large overhang of unsold stock in the system, which will need to be cleared to ensure a sustained pick up in log prices.

Export vs domestic log prices



Log export volumes



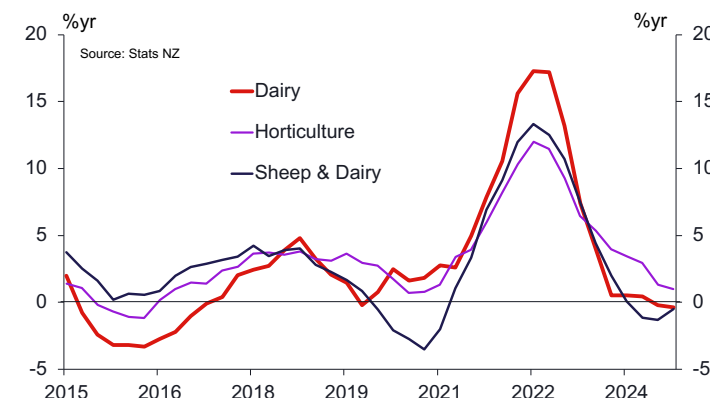


# FARM EXPENSES

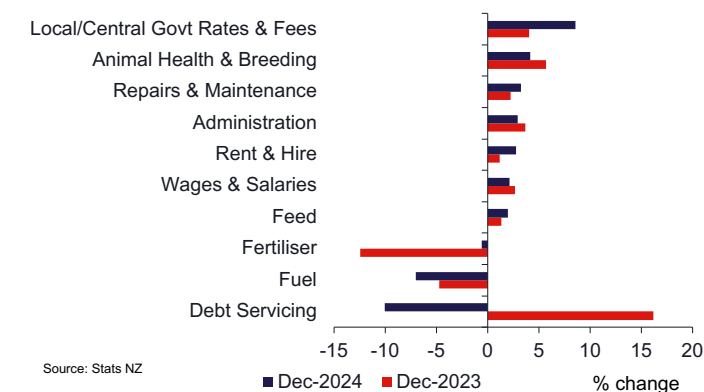
## Input cost inflation turning to deflation.

- On-farm inflation has turned negative. Input costs fell by 1%/y/y in the December quarter, mainly because of falling interest rates and a drop in the cost of fuel and fertilisers. By contrast, feed and labour costs both rose by 2% over the period, while local government rates increased by 8.6%.
- These trends are evident across most types of farms, including dairy, sheep and beef farms. The only outsider would seem to be horticulture, which continues to see headline input costs rise, albeit at a slowing rate.
- The drop in the cost of fuel in December 2024 reflects weaker global crude oil prices during the quarter, which were able to offset a slight weakening of the New Zealand dollar (with the direction of the NZD/USD exchange rate mostly dictated by broad trends in the US dollar).
- The same applies to global fertiliser prices. We suspect lower fertiliser costs also reflect the fact that farmers, facing much higher cost structures, have been cutting back on fertiliser use. That said, with input cost inflation now well contained and soft commodity prices on the rise, it is likely that demand for fertilisers will pick up, which could push prices higher in coming quarters.
- Meanwhile feed costs are on the rise, reflecting supportive global supply and demand dynamics. Dry weather conditions in some regions may also have been a contributing factor.

## Input cost expenses by farm type



## Input costs by expense type



# FORECASTS

## New Zealand commodity prices (end of period)

	Latest	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
NZ commodities index	387	389	381	374	370	371	375	379	382	385	389
Dairy price index	346	347	333	320	311	310	314	318	323	326	328
Whole milk powder USD/t	4,153	4,062	3,800	3,673	3,550	3,600	3,650	3,700	3,750	3,778	3,807
Skim milk powder USD/t	2,754	2,715	2,600	2,524	2,450	2,499	2,550	2,600	2,650	2,670	2,690
Lamb price index	516	489	493	498	504	512	520	528	536	544	553
Beef price index	301	298	299	301	302	304	306	308	310	312	315
Forestry price index	156	161	164	165	167	169	169	170	170	170	170

## New Zealand commodity prices (annual averages)

	Levels				% change			
	2023	2024	2025f	2026f	2023	2024	2025f	2026f
NZ commodities index	330	357	378	377	-12.4	8.4	5.9	-0.5
Dairy price index	286	318	328	316	-18.8	10.9	3.2	-3.5
Whole milk powder USD/t	3081	3439	3820	3654	-20.8	11.6	11.1	-4.4
Skim milk powder USD/t	2640	2686	2606	2554	-30.9	1.8	-3.0	-2.0
Lamb price index	461	462	494	521	-15.5	0.3	7.0	5.4
Beef price index	271	283	300	306	-15.3	4.4	5.7	2.1
Forestry price index	160	159	164	169	-6.9	-0.1	2.8	3.2

Forecasts as at 27 Feb 2025.

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