AGRI BITES

Still in a good place.

29 May 2026

CONTENTS AND AUTHOR

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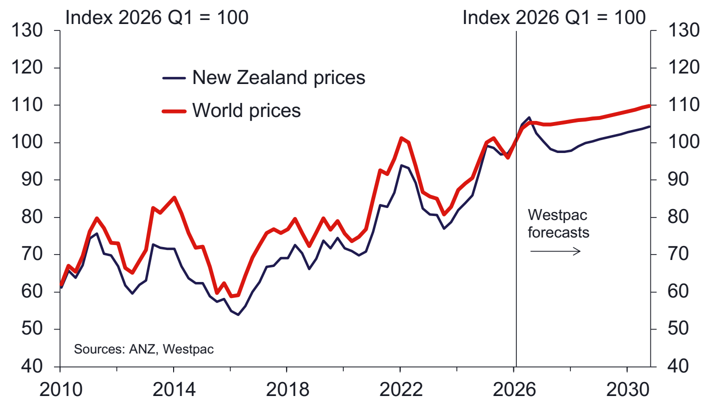
SUMMARY

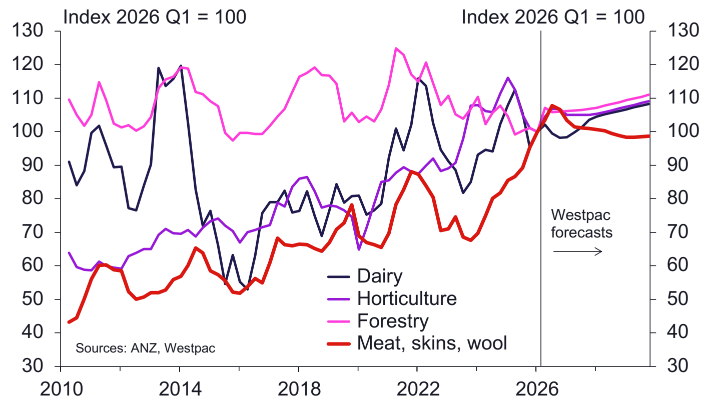
Despite uncertainties, agricultural export prices to edge higher.

- The impact of the Iran conflict is likely to be supportive of prices in the near term, with the key issue being whether or not associated higher input costs can be passed on. The evidence to date is mixed. And should hostilities persist, these prices could soften as product is diverted away from the Middle East into markets that are already well supplied.
- We have recently lifted our farmgate milk price forecast for the 2026/27 season by 30c to $9.50/kg, noting that the range of uncertainty is particularly wide at this stage. We maintain our estimate of $9.80/kg for the 2025/26 season, which is slightly above the midpoint of Fonterra's forecast range.
- We expect beef and lamb export prices to remain elevated. In addition to the Iran war, our expectations for beef prices are driven by how quickly the US beef herd rebuilds and still-strong US consumer demand for protein. For lamb, prices are being driven by constrained production out of NZ and Australia, still weaker consumption in China, and price resistance in the UK and EU.
- Meanwhile, kiwifruit and apple export prices are set to remain stable to slightly softer, with limited upside as supply improves and some demand fatigue emerges at higher prices.
- Log export prices could firm slightly in the near term, supported by tighter supply, but upside is capped by weak Chinese construction demand.

Commodity prices – World and NZ dollar denominated



Commodity prices by category

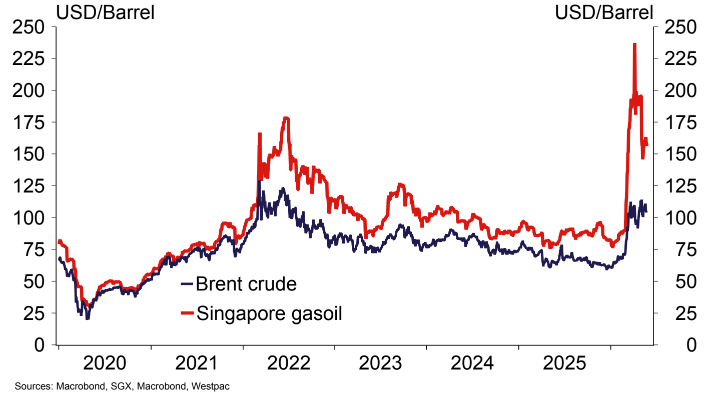


IMPACTS OF WAR IN IRAN

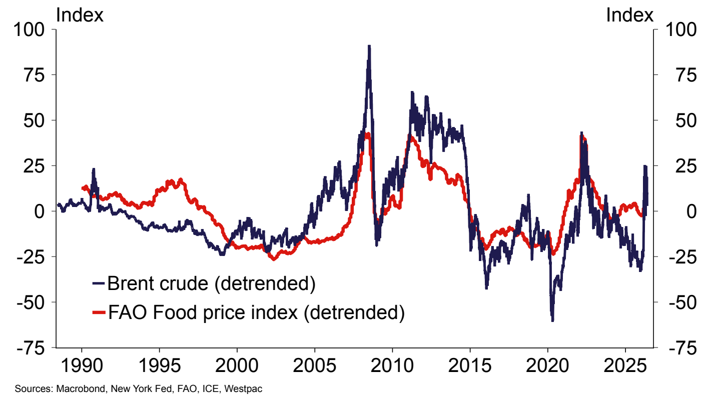
Evidence suggests that there is scope to pass on higher input costs.

- The Iran war represents a major oil shock, reducing global GDP growth in 2026 as higher energy costs drive inflation and weaken demand. IMF forecasts have highlighted that the impact will grow significantly if the war is prolonged.
- While the hostilities have cooled for now, the durability of the ceasefire remains uncertain given the conflicting daily messages from the key players.
- New Zealand's agriculture sector is not isolated from these impacts. However, we think it is better placed to navigate the current crisis than most other sectors of the economy and relative to key international competitors.
- In part that's because people have to eat and so are less sensitive to changes in price. That should give farmers some room to pass on disruption-related rising input costs to downstream consumers in the form of higher prices.
- It also true that much of New Zealand agriculture is pasture based, and so less reliant on feed and fertilisers. That means it is less exposed than its offshore counterparts to higher input costs.
- That said, there are risks. Should the current standoff continue for a length of time, producers may have to divert agricultural products out of the Middle East into other markets where competition may be higher.

Crude oil and gasoil prices



Global food vs Brent crude oil prices

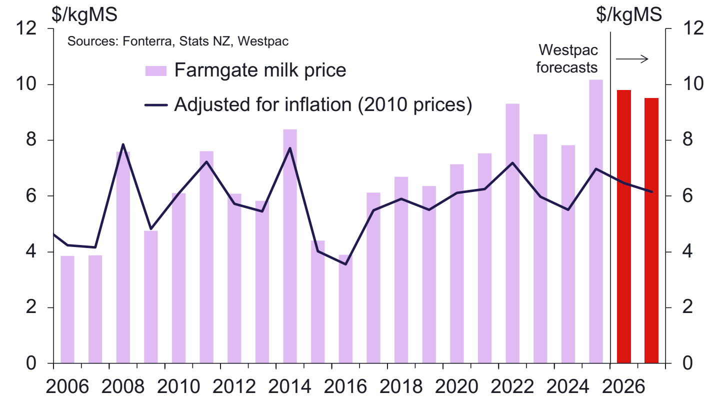


DAIRY

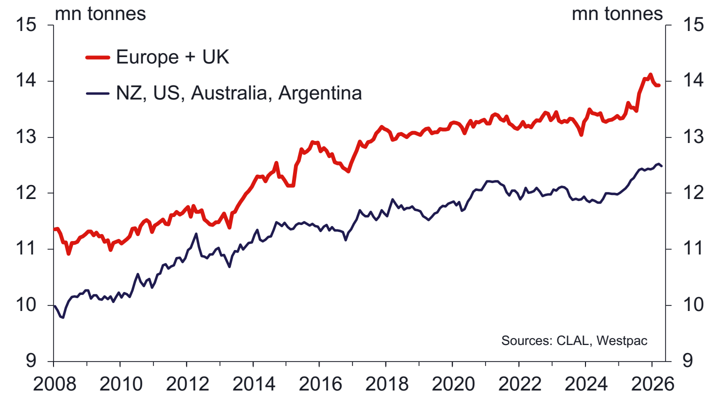
Dairy prices to remain elevated for the foreseeable future.

- World dairy prices have picked up again this year after late-2025 weakness, though momentum is uneven. Skim milk powder prices have seen the greatest gains as global demand has turned from fats and towards proteins.
- The global milk supply remains ample. Collections among the main exporting countries are still up about 3% on a year ago, driven by higher prices and decent margins.
- The Iran war is putting moderate upward pressure on dairy prices by increasing energy, feed, fertiliser, and freight costs, while disruptions to shipping are raising logistics costs. However, strong global milk production and existing inventories are limiting price spikes, resulting in volatile but generally firm dairy prices rather than a sustained surge.
- Looking forward, we think that in the near term prices are likely to remain elevated, due to still-firm global demand and geopolitical cost pressures. The outlook for 2027 is for prices to soften slightly as global production grows and begins to outpace global demand.
- We currently forecasting a farmgate milk price of $9.50/kg for the 2026/27 season, noting a particularly wide range of uncertainty at this early stage. That's also reflected in Fonterra's opening forecast of $9.75/kg within a range of $8.00 to $11.00. We maintain our forecast of $9.80/kg for the 2025/26 season, which is still slightly above the midpoint of Fonterra's revised forecast range.

Farmgate milk prices



Milk production by top 5 exporting regions

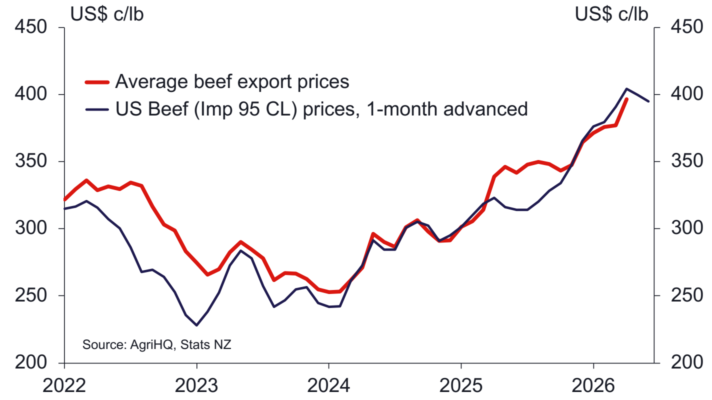


BEEF

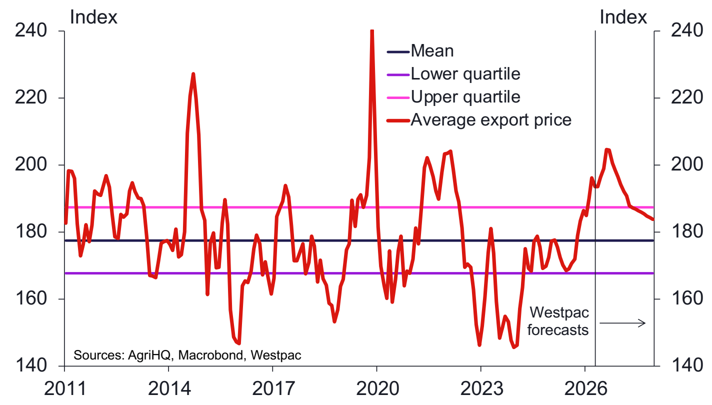
Demand supply fundamentals and geopolitical events to keep prices high.

- NZ beef export prices remain elevated, underpinned by tight global supply and high international pricing levels.
- The US continues to be the key driver, importing heavily due to its historically low cattle herd, which is keeping global beef markets tight and supporting NZ export returns. However, US indicator prices have declined slightly over the last couple of months.
- Supply remains constrained globally and slow to recover. Beef supply is structurally tight due to low herd numbers and long biological rebuild cycles, meaning any increase in production will take time and continue to support prices in the near term.
- Rising oil prices, transport costs, and input costs linked to the Iran war are flowing through the supply chain. It's also disrupting trade flows and adding volatility: shipping delays, rerouting, war-risk surcharges, and occasional order cancellations are making markets more unpredictable and harder to operate in.
- Looking forward, prices are likely to stay elevated in the near term, but upside is capped and downside risks are building—especially if disruptions persist because of the Iran war and more product is diverted into key markets like the US, China, and Europe, where competition is increasing.

Average monthly beef export prices - nominal



Average monthly beef export prices - real



US TARIFF INVESTIGATION

Probable US investigation is the start of a legal pathway to raise tariffs.

- The US is soon expected to launch a Section 201 safeguard investigation into NZ (and Australian) lamb imports. This is a legal pathway that could lead to tariffs or quotas if imports are deemed to harm domestic producers.
- The push is coming from US sheep industry groups and politicians, citing rising imports and foreign supply making up a large share of US consumption.
- The investigation is partly a workaround to reintroduce tariffs after earlier US tariff measures were deemed illegal by a US Supreme Court ruling, making this more political than trade-rule based.
- Lamb exports into the US are currently subject to a circa 10% tariff and are directly at risk.
- NZ beef mostly enters the US under quota with a very low tariff (about 1%) and so is less exposed. However, given instability in the US policy environment, beef may not be immune if US trade policy shifts again.
- If the investigation finds “injury,” the US could impose higher tariffs (potentially ~15–21%) or quotas, reducing NZ competitiveness in a key market.
- This creates downside risk to export returns for lamb (worth $600–$685m), although underlying US demand remains strong so the impact would likely be margin compression rather than demand destruction.

Investigation timeline

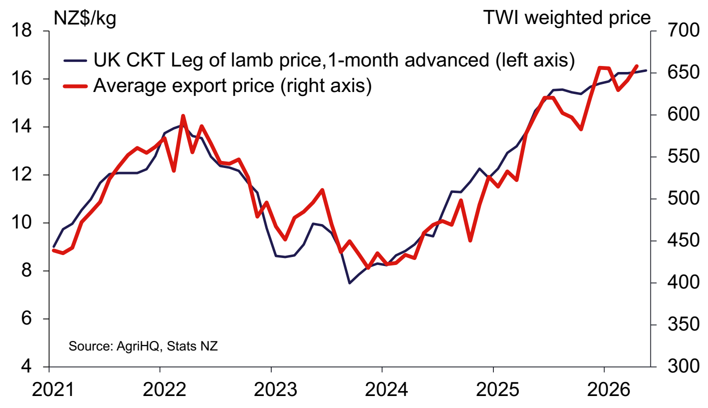
Phase	Timing
Industry lobbying begins	Mid-2025
Formal request lodged (ASI)	Oct 2025
Pre-investigation activity	Nov 2025 – early 2026
Policy trigger (tariff ruling overturned)	Feb 2026
Investigation likely to launch	Mid-2026 (expected)
Investigation process	About 4–6 months post-launch
Presidential decision	Shortly after
Potential measures	Up to 8 years

SHEEP MEAT

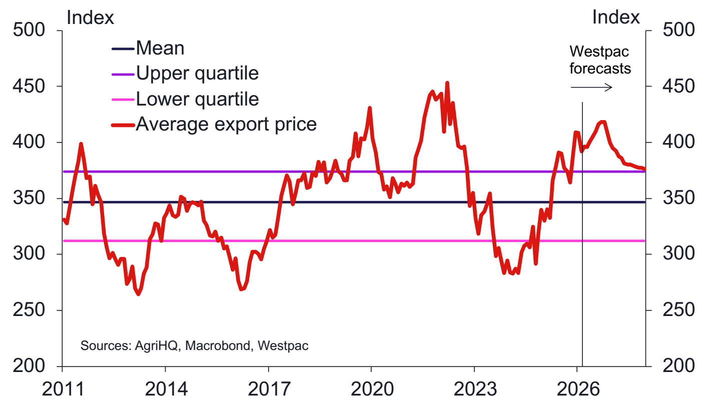
Lamb export prices to remain elevated despite some resistance.

- NZ lamb export prices are still sitting at high levels and have strengthened again in recent months after earlier volatility, reflecting tight market conditions rather than any sustained downturn.
- Demand from the US, UK, and EU continues to underpin lamb export prices, with these markets paying premium prices for product.
- That said, there is evidence of cyclical downtrading within sheep meat, with Chinese demand shifting from premium lamb towards lower-value alternatives (including mutton), as well as substitution into cheaper proteins such as pork.
- Meanwhile, declining sheep flocks, lower slaughter volumes, and slow rebuilding across NZ, Australia, and Europe are keeping global supply constrained and supporting high prices.
- The Iran war is adding cost support to prices, but is also generating volatility. Higher fuel, freight, and insurance costs are pushing export prices slightly higher, while shipping disruptions and delays are increasing uncertainty and making prices more uneven.
- A prolonged conflict between the US and Iran could reduce access to Middle East markets, forcing more lamb into the US, China, and Europe, increasing competition, amplifying demand fatigue, and gradually putting downward pressure on export prices.

Average monthly lamb export prices - nominal



Average monthly lamb export prices - real

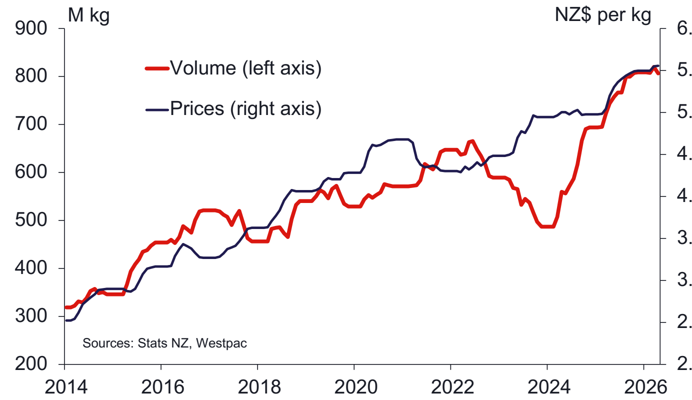


HORTICULTURE

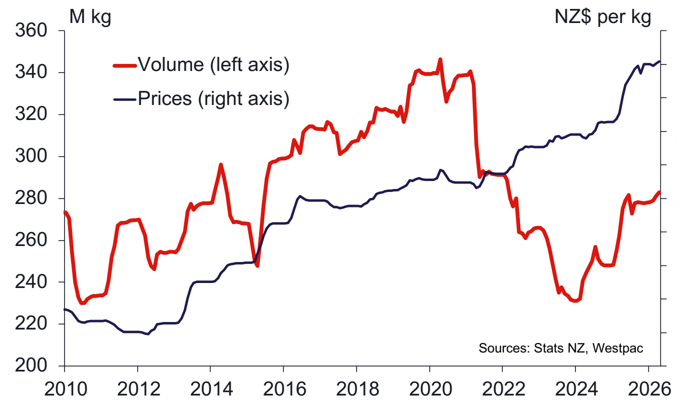
Prices to remain elevated, but largely moving sideways.

- NZ kiwifruit export prices remain firm but are starting to plateau as expanding global supply reduces tightness that supported earlier price gains.
- Market conditions reflect a balance between still-solid (but increasingly uneven) demand – particularly in Asia – rising production volumes, and elevated freight and input costs, which are putting pressure on margins.
- The outlook for the coming year is for prices to remain stable to slightly softer, with limited upside as supply improves and some demand fatigue emerges at higher prices. The Iran war is adding mild upward pressure on costs (fuel and shipping) and volatility, rather than materially lifting prices.
- Export prices for apples remain relatively firm, supported by strong demand in China and Asia, while other markets show greater price sensitivity and resistance at higher price points. Meanwhile, increased production and higher export volumes are helping to ease previously tight supply, putting mild downward pressure on prices.
- The Iran war is slightly negative for NZ apple export prices, with resulting higher freight costs and disruptions to shipping, squeezing margins and diverting apples to other markets.
- Looking forward, export prices are set to be stable to slightly softer, with margins pressured by higher input costs.

Kiwifruit – average export prices and volumes



Apples – average export prices and volumes

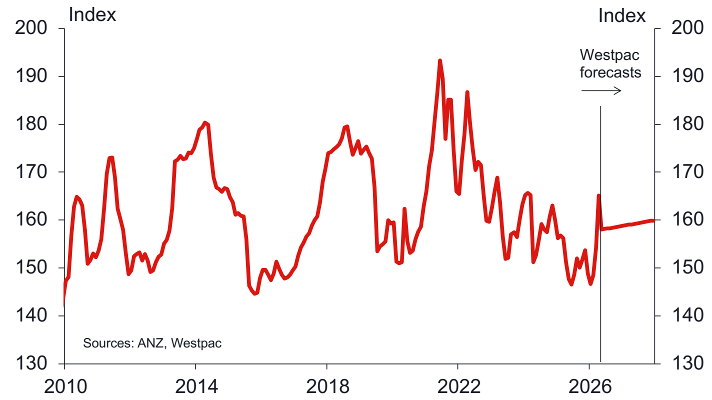


FORESTRY

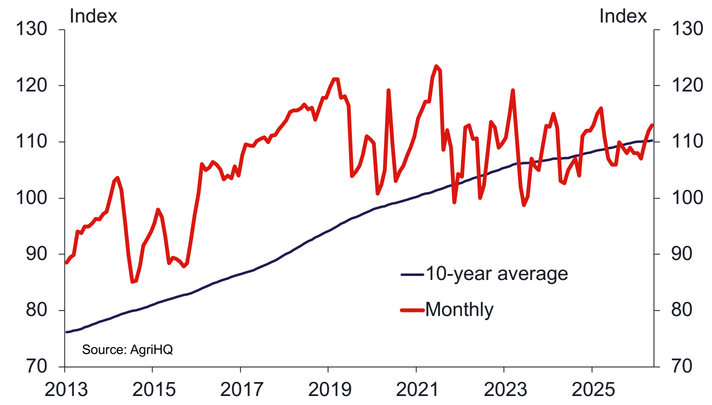
Log export prices display inertia, with marginal gains expected in 2026.

- NZ log export prices have recovered modestly in 2026 after a weak period. They remain below previous peaks, reflecting cautious buying and moderating supply, with forest owners cutting harvest volumes due to weak prices and sharply higher costs.
- The Iran war is putting downward pressure on net export prices via sharp increases in fuel, shipping (freight up by about 30–40%) and logistics costs, which in turn is compressing margins.
- Port inventories sit at around normal levels of about 3m cm, with daily offtake at between 55k to 60k cm, indicating steady but not strong demand.
- Demand remains subdued overall due to China's ongoing property downturn, which continues to weigh on construction-related log use, although industrial and packaging demand continues to provide some support.
- India is an emerging secondary market, but demand there is inconsistent and seasonal (e.g. monsoon slowdowns) and not yet large enough to offset weakness in China.
- Log export prices should remain rangebound to slightly firmer in the near term, supported by tighter supply, but upside is capped by weak Chinese construction demand, fragile global growth and elevated cost pressures, exacerbated by events in the Middle East.

World forestry prices



Combined log price – monthly vs 10-year average

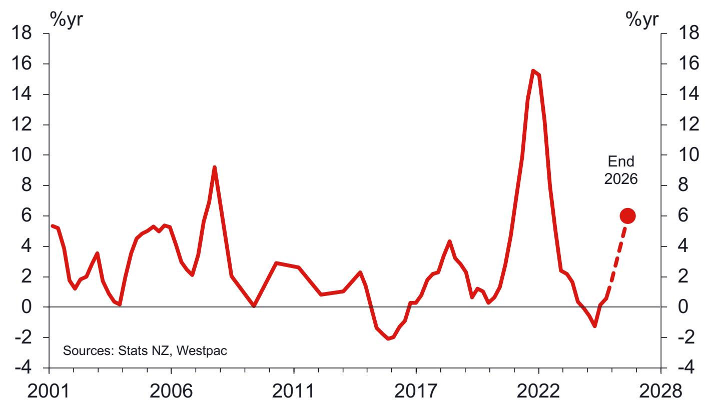


FARM INPUT EXPENSES

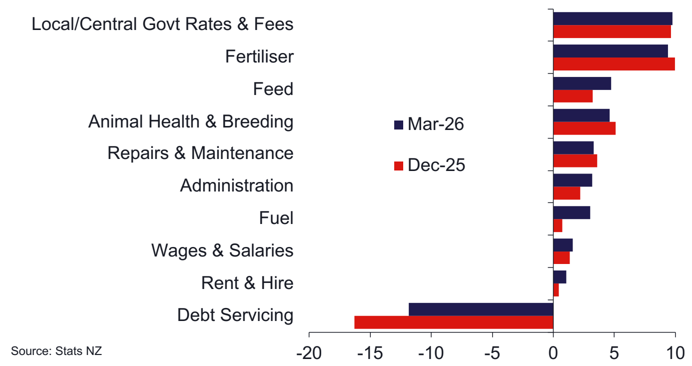
Rising farm input costs on the march and there is more to come.

- Farm input cost inflation picked up in the first quarter of 2026, with prices rising by almost 1.8% compared to the same period in 2025. While increases were evident across all farming categories, there were significant differences. For sheep, beef and dairy, for example, higher input costs were driven by the cost of livestock, in itself a function of elevated export prices.
- The initial impacts of the Iran war, which started in the last week of March, are also evident. Fuel prices (including diesel) ratcheted higher, reflecting immediate concerns over the availability of energy supplies. That has spilled into other input costs, including fertiliser, which rose by almost double digits across several farming categories, although impacts here are currently exaggerated by significant increases in previous quarters.
- Since then, ongoing uncertainty in global energy markets has kept crude oil prices at elevated levels. That has helped to keep refined product prices like diesel and fertilisers higher for longer.
- Furthermore, even if the war concludes soon, prices are likely to come off only gradually as supply chains align to a new post war reality, including the time taken to fully repair damaged infrastructure in the Middle East.
- As such, we maintain our view that farm input cost inflation will rise sharply this year to around 7%yr. Higher interest rates will contribute to this increase.

Farm input expenses



Input costs by expense type



FORECASTS

New Zealand commodity prices (end of period)

	Latest	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
NZ commodities index	**407**	**407**	**406**	**402**	**399**	**399**	**403**	**406**	**408**	**409**
Dairy price index	338	338	329	324	325	329	335	342	345	347
Whole milk powder USD/t	3,772	3,600	3,550	3,500	3,550	3,600	3,670	3,750	3,790	3,830
Skim milk powder USD/t	3,552	3,300	3,200	3,100	3,120	3,150	3,200	3,250	3,280	3,320
Lamb price index	658	655	677	650	632	622	621	620	617	612
Beef price index	400	407	427	413	404	398	398	397	396	395
Forestry price index	165	160	158	159	159	159	160	160	160	161

New Zealand commodity prices (annual averages)

	Levels				% change			
	2025	2026f	2027f	2028f	2025	2026f	2027f	2028f
NZ commodities index	**390**	**402**	**402**	**410**	**9.2**	**3.1**	**-0.2**	**2.0**
Dairy price index	348	330	333	348	9.7	-5.2	0.7	4.6
Whole milk powder USD/t	3902	3602	3617	3829	13.5	-7.7	0.4	5.9
Skim milk powder USD/t	2702	3192	3165	3319	0.7	18.1	-0.8	4.8
Lamb price index	587	658	626	609	27.0	12.1	-4.9	-2.7
Beef price index	337	408	400	394	19.1	20.8	-1.9	-1.4
Forestry price index	152	157	159	162	-4.9	3.4	1.7	1.4

Forecasts as at 29 May 2026.

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