

**Westpac forecasts of Fonterra milk price**

	2012/13	2013/14		2014/15
	Final	Fonterra	Westpac	Westpac
Milk Price	\$5.84	\$8.30	\$8.30	\$6.70

**Agricultural sector on the mend**

In today's Fortnightly Update we take a closer look at the surprisingly strong rebound in agricultural production after the drought. While this is clearly good news, increased supply will eventually weigh on prices.

The 2013 drought hit New Zealand farmers hard, taking a big bite out of agricultural activity in the first half of the year. Agricultural production contracted by more than 10%. Food manufacturing and processing was also hit hard – goods exports recorded the second biggest quarterly fall on record in the June quarter. Although drought has often been enough to push the NZ economy into recession in the past, that wasn't quite the case this year. But economic growth did slow sharply, to just 0.6% over the first 6 months of 2013.

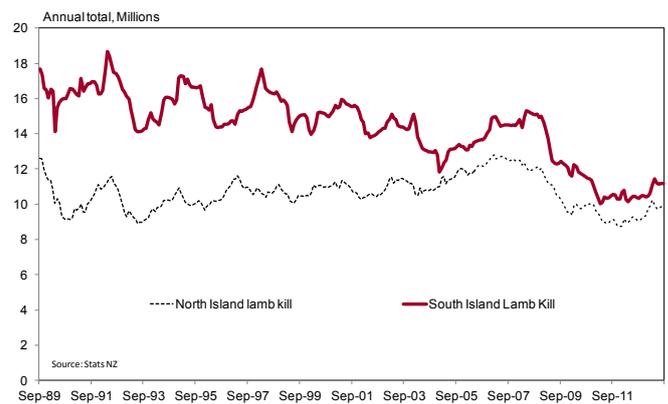
Yet while the drought has undoubtedly had a severe impact on the economy and rural regions this year, indications are that the sector has rallied strongly this spring and agricultural production has probably bounced back more quickly than we had earlier feared. Rain followed by a mild winter and favourable spring conditions in many areas have boosted optimism in the pastoral farming sector.

Dairy production has been the quickest to rebound. Fonterra reports that production was up 5% on 2012 for the 4 months ended September while other companies have reported even stronger gains. Westland Milk Products was reportedly seeing milk flows running 16% ahead of last year just last week and there were media reports of smaller Waikato dairy companies collecting 8-10% more than the same time last year. And although the current cold weather may temporarily hinder grass growth and production in some regions, soil moisture readings nationwide remain favourable.

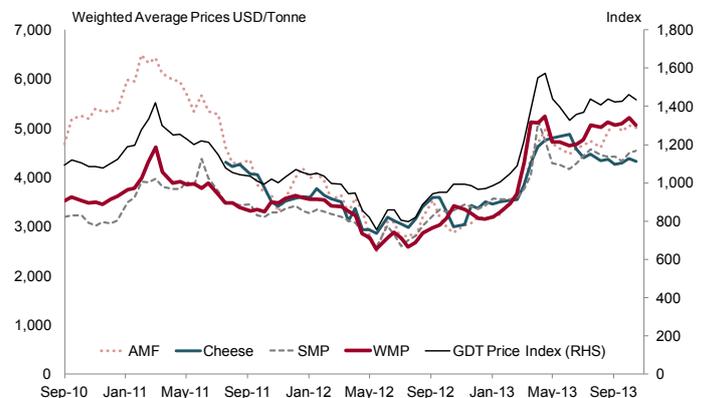
Sheep and beef farmers are also benefitting from good spring conditions though the longer production cycles mean a post-drought recovery in this sector is more of a 2014 story. That said, Beef and Lamb's June 2013 stock survey forecast a relatively modest 1% fall in sheep numbers (with a fall in the number of North Island breeding stock outweighing a slight increase in South Island numbers) in 2013. But with breeding stock entering lambing in poorer condition than in the previous couple of seasons, the lamb crop was predicted to fall a much larger 7.7%. The survey expected a 1.3% fall in nationwide beef cattle numbers in 2013 but with the numbers of breeding stock to remain relatively flat (-0.5%) and favourable spring calving conditions beef production should be similar levels to last year.

But the welcome sight of greener pastures out the windows is not the only thing adding a bounce in the step of those in the rural sector. Despite ongoing strength in the NZ dollar, farm gate prices have also been improving with dairy prices capturing much of the limelight. There was a modest 1.9% fall in last night's Global Dairy Trade (GDT) auction, but prices remain an impressive 44% above the same time year ago. Further declines in GDT prices are likely heading into 2014 as increasing supply in New Zealand and overseas finds its way onto international

markets. Tight domestic lamb supplies and improving growth in key markets are supporting a recovery in lamb prices while beef prices have also enjoyed some improvement.

**Lamb kill**

**Global Dairy Trade Auction Results, 16 October 2013**

	Change since last auction	Price USD/Tonne
Anhydrous Milk Fat (AMF)	-1.2%	\$5,007
Butter Milk Power (BMP)	-5.2%	\$4,680
Butter	-3.5%	\$3,780
Skim Milk Powder (SMP)	0.7%	\$4,541
Whole Milk Powder (WMP)	-2.9%	\$5,058
GDT Price Index	-1.9%	

**GDT Dairy Auction Prices**


**Anne Boniface**  
Senior Economist

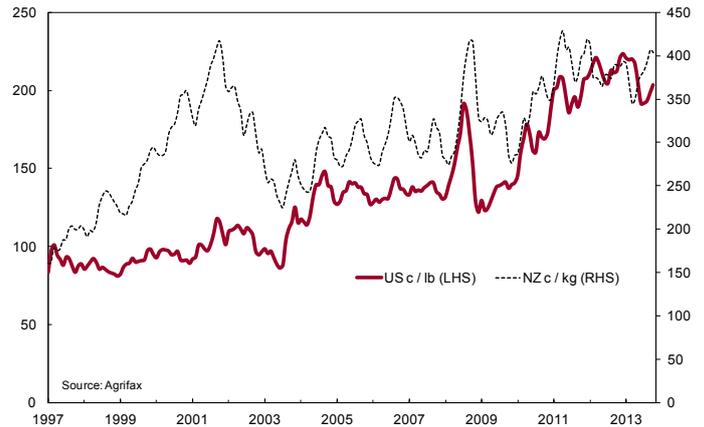
See overleaf for sector outlooks.

# Beyond the farm gate

## Beef

	Current price level compared to 10 year average	Next 6 months
Trend	High	→

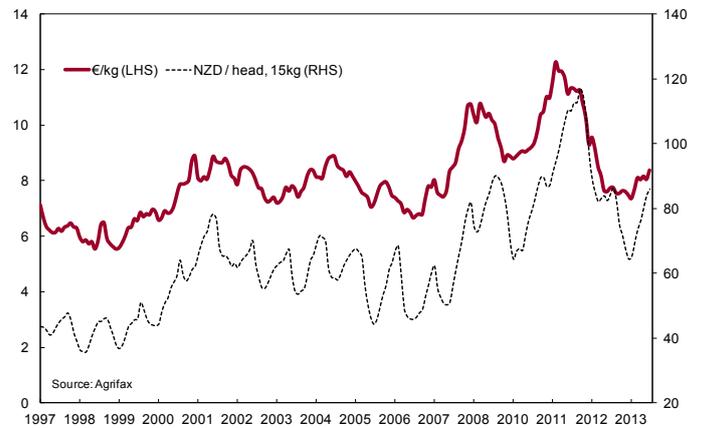
World beef prices have remained well supported over the last few months as solid demand in key markets coincided with tight supplies. In the US, improved pasture conditions relative to the same time last year has slowed the liquidation of herds, while the high milk prices on offer has also reduced the volume of dairy stock being sent to slaughter. Taking a longer-term perspective, changing global beef supply dynamics should support NZ beef exports over the medium-term. The USDA expects cattle inventories in North America to continue to decline over the next couple of years, which should encourage buyers to switch to South American and Australasian suppliers where inventories are forecast to increase.



## Lamb

	Current price level compared to 10 year average	Next 6 months
Trend	Average	↑

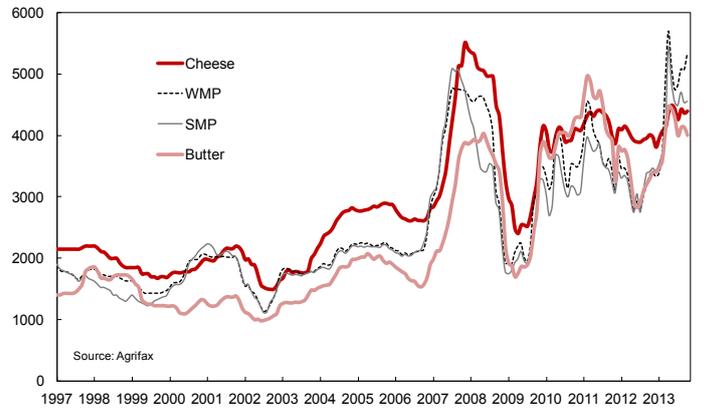
Lamb prices in both world and NZD terms have continued to edge higher. Constrained Australasian supply (Australian lamb production is forecast to fall by about 7% in 2013/14, while NZ lamb numbers are expected to post a similar decline) should help underpin prices. The growth outlook in key European markets is also improving – albeit off a low base. We revised up our economic growth forecasts for Europe and the UK this month – and though we would struggle to describe this outlook as strong, it is, nonetheless, and improvement on the pace of growth seen over the last couple of years.



## Dairy

	Current price level compared to 10 year average	Next 6 months
Trend	Above Average	↓

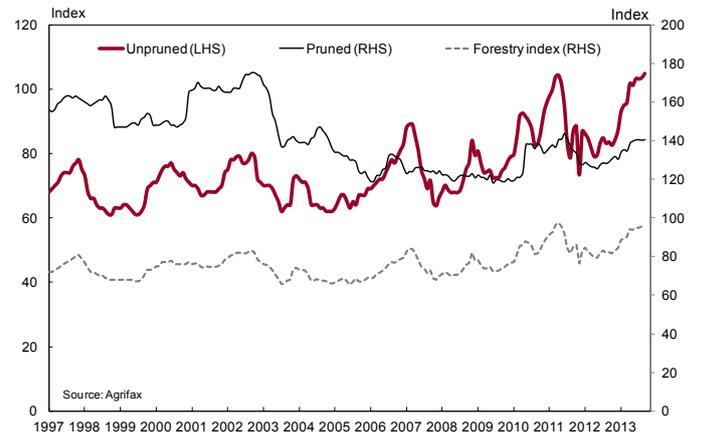
There was a modest decline in the price of most products on offer in last night's GlobalDairyTrade auction (skim milk powder prices bucked the trend edging 0.7% higher). Despite the high prices, for now demand appears firm and our forecast of an \$8.30 milk price for the current season remains in place. But the high prices currently on offer will boost milk production around the globe over the coming year. Producers in the US are benefitting from improved margins as feed costs ease, while Australian farmers have also enjoyed an improved start to the 2013/14 season. We expect increased supply to weigh noticeably on prices in 2014.



## Forestry

	Current price level compared to 10 year average	Next 6 months
Trend	High	↓

Forestry prices defied gravity once again in September, with the forestry price index up another 1%. Until recently, the driving force was the recovery in the US housing market. But now, prices in China have begun to firm as well. This is in line with the modest improvement we've registered elsewhere in the Chinese economy. On top of this, New Zealand domestic demand is rapidly strengthening as the residential construction industry winds up. These factors are expected to keep forestry prices high by historical standards, although we are doubtful that prices can sustain the levels they reached in September.



NB: Trend arrows indicate direction of change in world prices.

## Westpac economics team contact details

**Dominick Stephens**, Chief Economist  
+64 9 336 5671

**Michael Gordon**, Senior Economist  
+64 9 336 5670

**Felix Delbrück**, Senior Economist  
+64 9 336 5668

**Anne Boniface**, Senior Economist  
+64 9 336 5669

Any questions email:  
economics@westpac.co.nz

For email address changes contact:  
WNZResearch@westpac.co.nz

## Disclaimer

**Things you should know:** Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at [www.cleanenergyregulator.gov.au](http://www.cleanenergyregulator.gov.au) as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

### **Additional information if you are located outside of Australia**

**New Zealand:** The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz). Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at [www.westpac.co.nz](http://www.westpac.co.nz).

**China, Hong Kong, Singapore and India:** Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

**Disclaimer continued overleaf.**

## Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**U.K.:** Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

**U.S.:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (“the Exchange Act”) and member of the Financial Industry Regulatory Authority (“FINRA”). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

**For the purposes of Regulation AC only:** Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.