

GlobalDairyTrade Auction Results

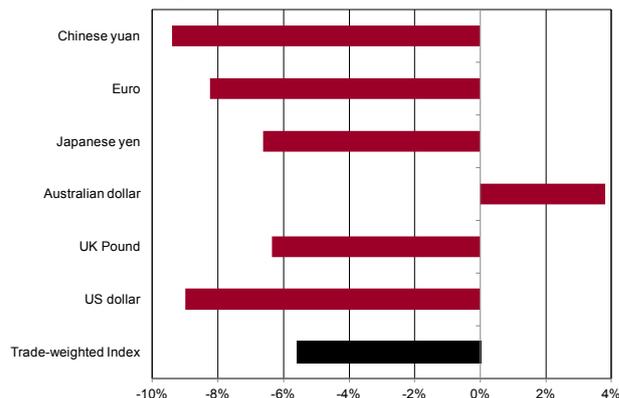
World dairy prices rose 4.9% in Tuesday night's GlobalDairyTrade auction, the third straight increase after small gains in mid-June and early July. Prices rose for five of the seven main products, with the benchmark whole milk powder series jumping 7.7%. Prices are now 8% below the record level reached in April (having been down 14% from their peak by early June) and are 67% higher than the same time last year.

As New Zealand production recovers from drought over the next year, we expect world dairy prices to decline but remain at elevated levels by historical standards. Overall world supply of dairy products remains relatively tight. Coupled with strong Asian demand, particularly from China, these factors should see dairy prices higher on average over 2013 compared to 2012.

World prices aside, the weaker skew to the New Zealand dollar in the last couple of months presents an upside risk to our milk price forecast of \$6.50 per kg of milk solids. In recent years, falls in the NZD have typically been associated with growing concerns about global financial stability, which has tended to hurt risk-sensitive assets such as the NZD and commodities in equal measure. This time, however, it's being driven by a good news story: the US economy is now seen as strong enough for the Federal Reserve to start winding down its unconventional monetary policy measures. The market response has been more selective in this case, with assets such as the NZD - which offered a positive rate of return in contrast to the ultra-low interest rates in the US - hit hardest, while commodity prices have held up relatively well. We're less confident than the market about the strength of the US economy's rebound, but we agree that this would be a 'best of both worlds' scenario for NZ exporters.

Nathan Penny
Economist

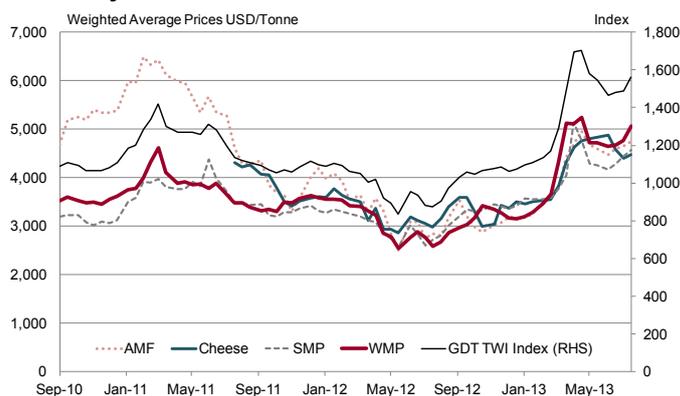
NZ dollar movements against major currencies from 1 May to 16 July



Auction Results

	Change since last auction	Price USD/Tonne
Anhydrous Milk Fat (AMF)	3.6%	\$4,742
Butter Milk Power (BMP)	4.8%	\$4,825
Butter	-0.3%	\$3,693
Skim Milk Powder (SMP)	3.3%	\$4,566
Whole Milk Powder (WMP)	7.7%	\$5,058
TWI (All Products)	4.9%	

GDT Dairy Auction Prices



Westpac forecasts of Fonterra milk price

	2012/13	2013/14	2014/15
Milk Price	\$5.90	\$6.50	\$6.20
<i>plus</i>			
Dividends	\$0.32	N/A	N/A

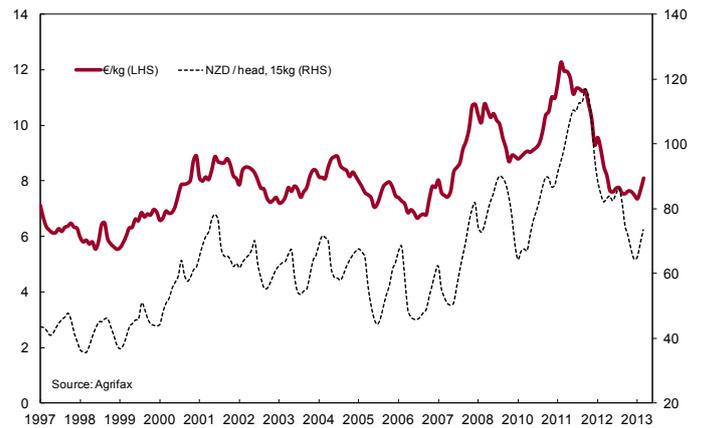
See overleaf for sector outlooks.

Beyond the farm gate

Lamb

	Last 6 months	Next 6 months
Trend	↑	↑

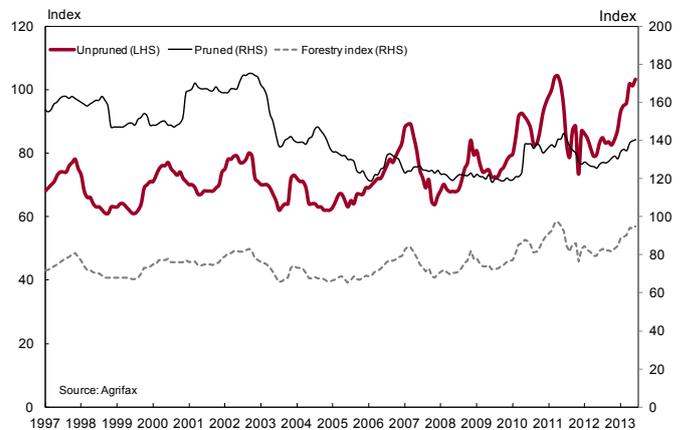
World lamb prices have risen off recent lows as it has become apparent to markets that the supply of New Zealand lamb will be severely constrained for the remainder of the year. A similar dynamic is playing out across the Tasman, with lamb export volumes expected to be down around 12% in the coming season. Helping prices has been robust Chinese demand, with China becoming New Zealand's leading lamb market by volume. However, the Chinese economy has hit a soft patch over the last month or two, which may peg back demand. For now though we expect prices continue to track upwards as lower lamb production dominates, while we watch for more signs of slowing exports to China.



Forestry

	Last 6 months	Next 6 months
Trend	↑	↓

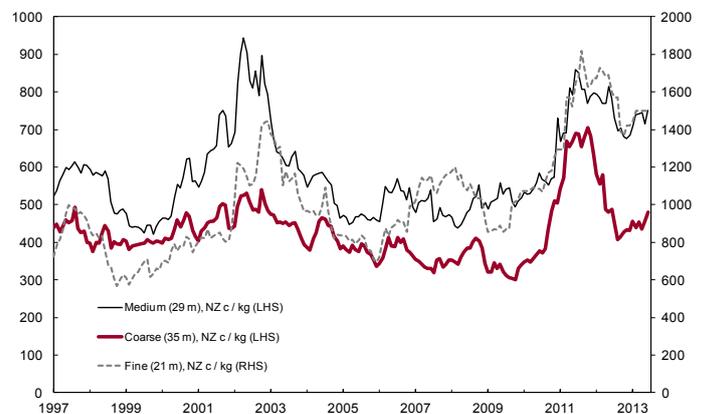
The forestry price index more than reversed its May decline, rising over 1% in June. Unpruned log prices are the third highest on record, while pruned log prices are well above their ten-year average. This is all the more impressive given that export volumes in the first five months of 2013 were 20% higher compared to the same period a year ago. Chinese demand has driven most of the pickup in prices this year. However, with the Chinese economy entering in a soft patch we expect forestry prices to come off the boil. Any falls will, however, be tempered by the recovery in the US housing market.



Wool

	Last 6 months	Next 6 months
Trend	↑	→

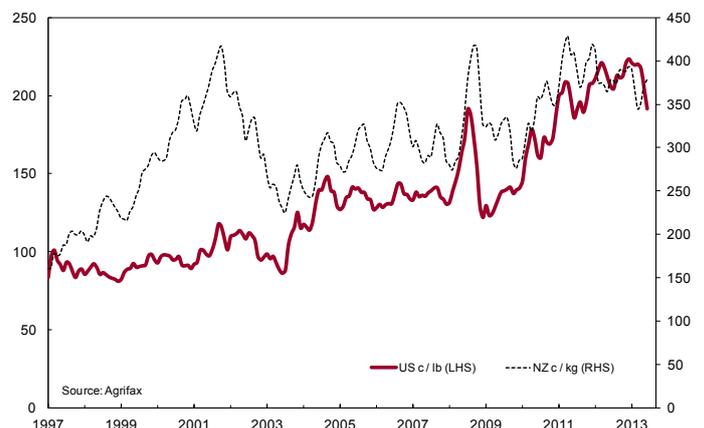
Wool prices have consolidated their gains from earlier in the year, trading largely sideways over the last few months. In June, fine wool prices treaded water while medium prices bounced back 5% from their 4% fall in May. Coarse wool is showing the most promise, perhaps off an improving housing market in the US, rising 6% in June to be up 11% so far in 2013. As the US housing market recovers further, the rise in coarse wool prices may continue. The outlook for fine and medium wool prices is more modest. Scope for further growth in demand for end products, particularly in Europe, appears limited. As a result, we expect world wool prices to generally hold around their current levels over the next six months.



Beef

	Last 6 months	Next 6 months
Trend	↓	↓

World beef prices are under pressure. Fortuitously, however, lower world prices have coincided with a strengthening US dollar, thus pushing up prices in NZD terms. Until very recently, world prices had held up well, even as the local drought led to the largest slaughter and export of New Zealand beef on record. More recently though, an influx of Australian beef following dry weather there has combined with sluggish US demand to force US prices down by 6% in each of May and June. Overall, we expect these factors to push world beef prices down further over the next six months. However, world prices are likely to remain high by historical standards.



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

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