

Farm prices and sales

Both farm prices and sales showed signs of life in May. For the three months to May, the REINZ farm price index was 0.9% higher than the same three months a year ago. Farm sales also firmed on the same basis, up 10% compared to a year ago.

We are usually reluctant to draw conclusions from this data. The data are not seasonally adjusted and the farm price data can duck and dive due to changes in the composition of farm sales.

However, per hectare farm prices, which get around a few, but not all of these data issues, also rose 20% compared to a year ago. In addition, anecdotal evidence aligns with the improving farm prices and sales activity. That leaves us feeling more confident that farm prices and sales activity are indeed on the improve.

Farming confidence is more upbeat than in previous months. Drought concerns have eased, as generally autumn has been good and growing conditions have aided recovery. Also, high world dairy prices and Fonterra's \$7 per kg opening forecast for the coming season have boosted farmer sentiment, at least in the dairy sector.

The impetus from record low interest rates also remains in place. Moreover, we maintain our view that interest rates will remain low this year, before increasing over 2014. Also, the additional flexibility of Fonterra's new capital structure may have provided farmers with cashflow relief following the drought. And for others this may have provided funds for further investment in their farm business, including the purchase of land.

Finally, this all gels with an upbeat vibe from last week's Fieldays. News reports suggest that exhibitors made record sales at this year's event.

GlobalDairyTrade Auction Results

World dairy prices posted a small rise in Wednesday night's GlobalDairyTrade auction, after falling in the three preceding auctions.

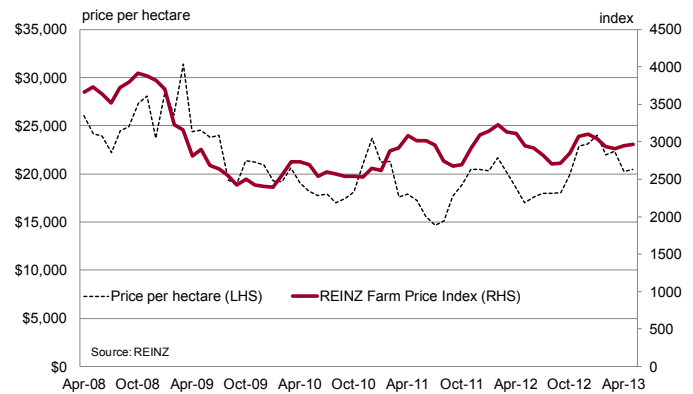
On a trade-weighted basis, dairy prices rose 1.1%. Prices rose in four out of six of the main products, with the benchmark WMP series up 2.2%. Prices are now 13% below the record level reached in April. Overall, prices remain 58% higher than the same time last year.

Over 2013, as New Zealand production recovers from drought we expect world dairy prices to descend further from their April record peak, but to remain at elevated levels by historical standards. Overall world dairy supply 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.

Nathan Penny

Economist

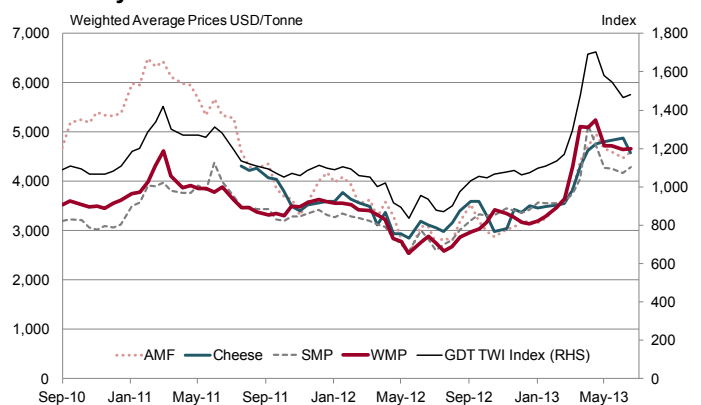
New Zealand Farm Prices



Auction Results

| | Change since last auction | Price USD/Tonne |
|--------------------------|---------------------------|-----------------|
| Anhydrous Milk Fat (AMF) | 1.7% | \$4,589 |
| Butter Milk Power (BMP) | -2.2% | \$4,315 |
| Butter | 4.7% | \$3,925 |
| Skim Milk Powder (SMP) | 3.2% | \$4,284 |
| Whole Milk Powder (WMP) | 2.2% | \$4,668 |
| TWI (All Products) | 1.1% | |

GDT Dairy Auction Prices



Westpac forecasts of Fonterra milk price

| | 2012/13 | 2013/14 | 2014/15 |
|------------|---------|---------|---------|
| Milk Price | \$5.90 | \$6.50 | \$6.20 |
| plus | | | |
| Dividends | \$0.32 | N/A | N/A |

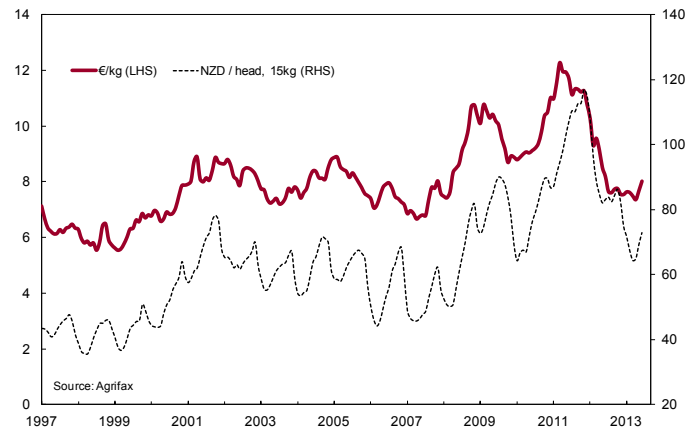
See overleaf for sector outlooks.

Beyond the farm gate

Lamb

| | Last 6 months | Next 6 months |
|-------|---------------|---------------|
| Trend | ↓ | ↑ |

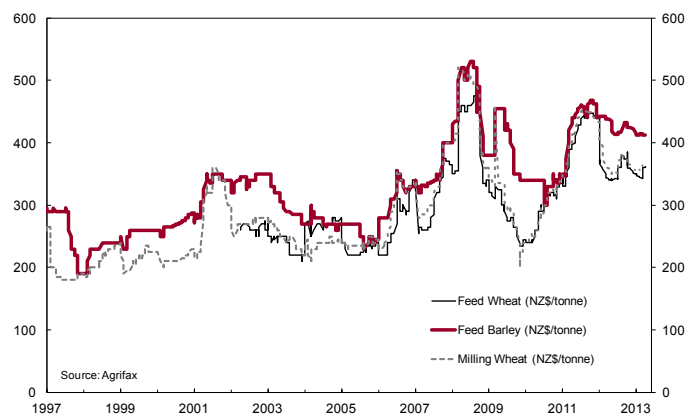
World lamb prices continue to turn the corner. After falling in five out of the previous six months, world lamb prices posted solid gains of over 4% in May, and indications to date are that these improvements continued in June. While European and UK demand remains fickle, it's now apparent to markets 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 8% in the coming season. At the same time, Chinese demand remains robust. We expect these factors to combine and underpin further improvements in world lamb prices over the next six months.



Grains

| | Last 6 months | Next 6 months |
|-------|---------------|---------------|
| Trend | → | → |

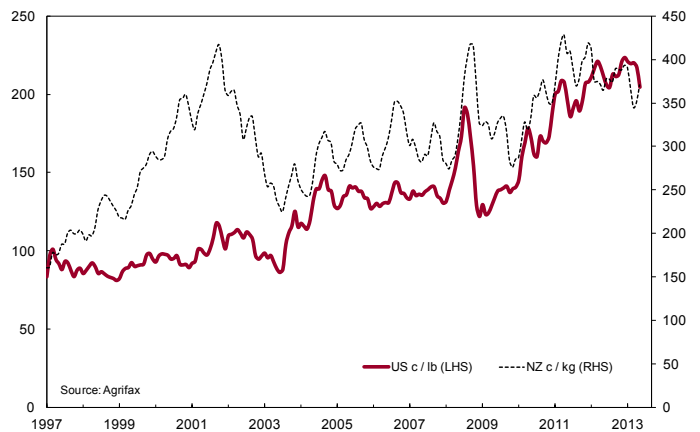
Grains prices have largely tracked sideways over recent months. The additional feed requirements during the drought were tempered by the modest milk price forecasts that prevailed at the time. Heading into the new season the reverse applies: an uplift in the milk price forecast will be tempered by recovering production and less need for feed. That said, as cashflows improve and the effects of drought continue to fade farmers may return to grain markets in greater numbers. For now, prices are likely to continue to track sideways, albeit above their historical averages.



Beef

| | Last 6 months | Next 6 months |
|-------|---------------|---------------|
| Trend | ↓ | ↓ |

World beef prices are starting to crack. However fortuitously, 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 and sluggish US demand have combined to force US prices down by around 6% in May. Overall, we expect these factors to push world beef prices down further over the next six months. However, they are likely to remain relatively high by historical standards.

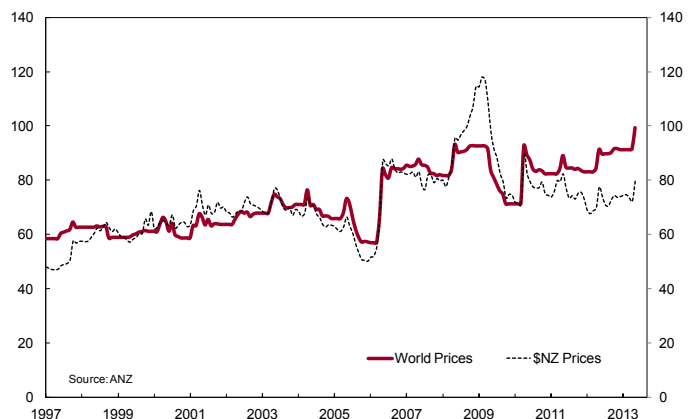


Horticulture (Kiwifruit and Apples)

| | Last 6 months | Next 6 months |
|-------|---------------|---------------|
| Trend | ↑ | ↑ |

In the 2013 season, higher golden kiwifruit prices managed to offset the lower production and export volumes caused by the bacterial disease, Psa – total export revenue was actually a touch higher. Kiwifruit prices are expected to rise further. However, in the 2014 season production is expected to take an even bigger hit from Psa, meaning that total export revenue will be down around 20%.

Apple exports are expected to rise as both volumes and prices increase through calendar 2013. Moreover, the increasing importance of better-growing Asian markets and the introduction of new varieties are expected to continue to underpin prices.



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