

## 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.

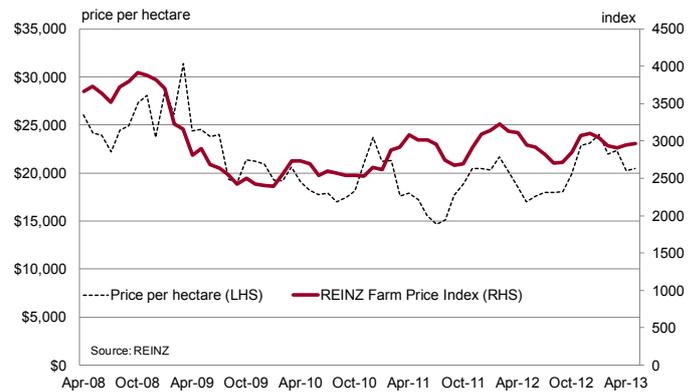
On a trade-weighted basis, dairy prices rose 1.1%. Prices rose in four out of six of the main products, with the benchmark WMP series up 2.2%. Prices are now 13% below the record level reached in April. Overall, prices remain 58% higher than the same time last year.

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

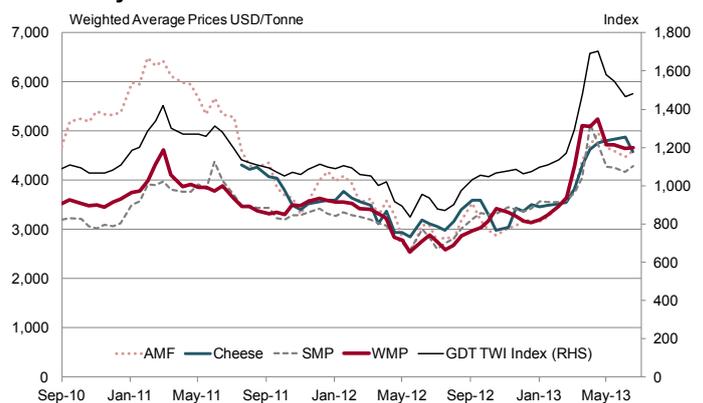
## New Zealand Farm Prices



## 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

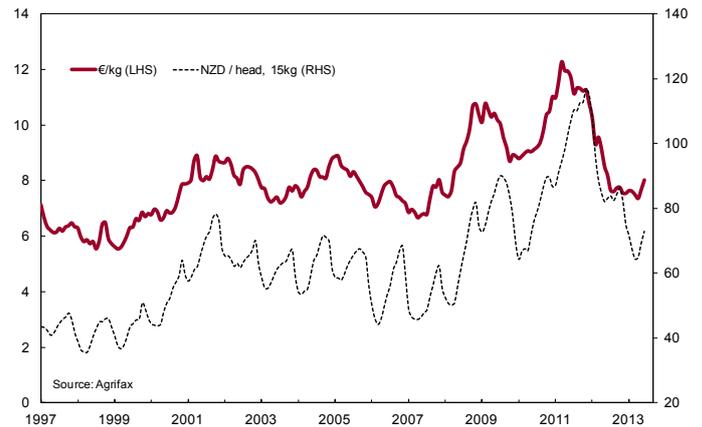
See overleaf for sector outlooks.

# Beyond the farm gate

## Lamb

	Last 6 months	Next 6 months
Trend	↓	↑

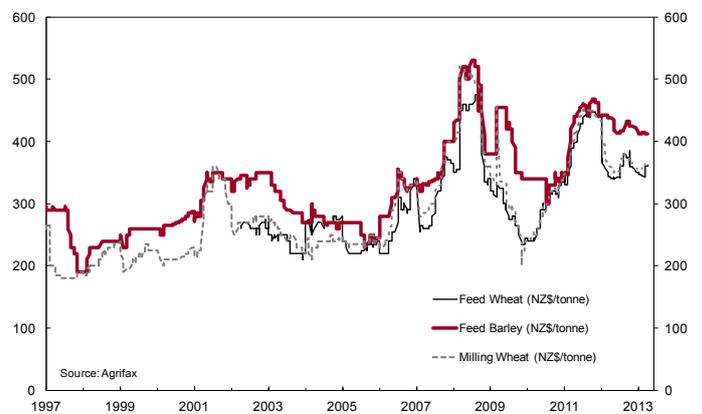
World lamb prices continue to turn the corner. After falling in five out of the previous six months, world lamb prices posted solid gains of over 4% in May, and indications to date are that these improvements continued in June. While European and UK demand remains fickle, it's now apparent to markets 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	→	→

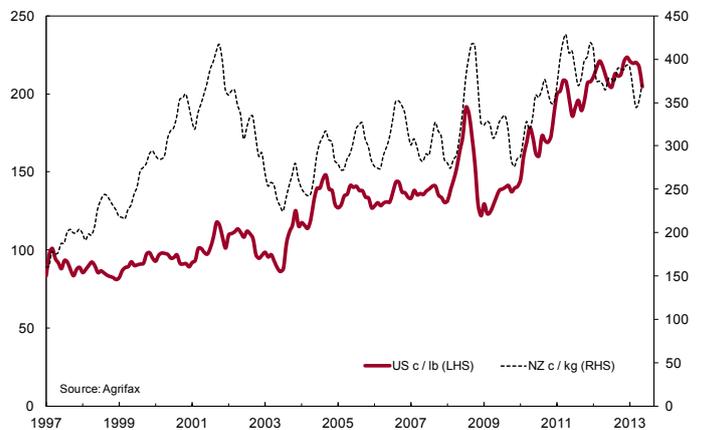
Grains prices have largely tracked sideways over recent months. The additional feed requirements during the drought were tempered by the modest milk price forecasts that prevailed at the time. Heading into the new season the reverse applies: an uplift in the milk price forecast will be tempered by recovering 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.

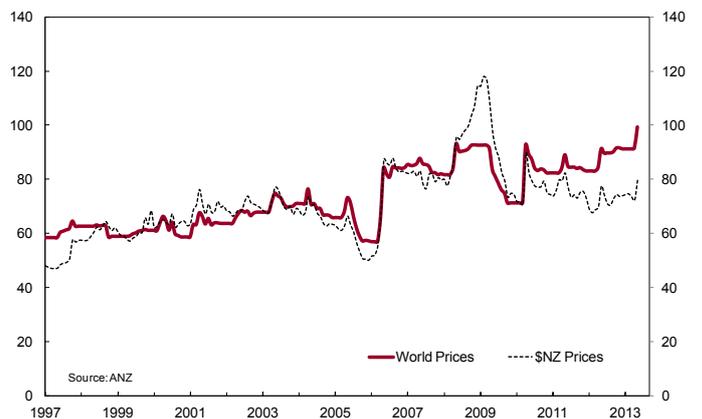


## Horticulture (Kiwifruit and Apples)

	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.



## Westpac Economics Team Contact Details

<b>Dominick Stephens</b> , Chief Economist	Ph: (64-9) 336 5671	dominick_stephens@westpac.co.nz
<b>Michael Gordon</b> , Senior Economist	Ph: (64-9) 336 5670	michael_gordon@westpac.co.nz
<b>Felix Delbrück</b> , Senior Economist	Ph: (64-9) 336 5668	felix_delbruck@westpac.co.nz
<b>Nathan Penny</b> , Economist	Ph: (64-9) 336 5669	nathan_penny@westpac.co.nz

**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 licence 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. 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.