

## Fortnightly Agri Update

18 June 2014

## The Quiet Achievers

While it is often the dairy sector which dominates the headlines in the New Zealand agriculture scene, it is by no means the only sector which has enjoyed favourable conditions of late. One of the quiet achievers recently has been the horticulture industry.

New Zealand's two highest value horticulture exports (excluding wine) are apples and kiwifruit. Over the year to April 2014, kiwifruit exports were valued at almost \$900 million while apple exports were valued at \$540m (total NZ goods exports were around \$49bn). Geographically, the apple industry is centred on the Hawke's Bay and Nelson, while the kiwifruit industry is concentrated in the Bay of Plenty. Although New Zealand is one of the larger kiwifruit producers globally (along with China, Italy and Chile) it plays a much smaller role in international apple markets. In both industries, many growers have enjoyed favourable climactic conditions for the most recent season.

Good climactic conditions will come as a bonus to those in the kiwifruit industry who have faced huge challenges in recent years. Psa, a bacterium that can result in the death of kiwifruit vines, was discovered in NZ for the first time in late 2010. The virus is now widespread throughout New Zealand, with more than three quarters of NZ orchards known to have the bacterium present, and has had a big impact on production volumes, hitting production of gold kiwifruit particularly hard. According to Zespri (the sole marketer of kiwifruit outside Australasia), its export volumes fell 16% in 2012/13 season from the year before, and were down a further 15% in the 2013/14 season.

However it looks as if the industry is fast approaching a turning point. The industry's response to Psa, led by Kiwifruit Vine Health Inc (KVH), a pan-industry organisation established in December 2010, has had a considerable amount of success. A Psa-tolerant gold variety has been developed by the industry, and growers have been making good progress introducing this new variety. Going forward, export volumes are expected to recover as fruit from these new Gold3 vines are harvested. By 2018, 50million trays of the new variety are expected to be produced annually.

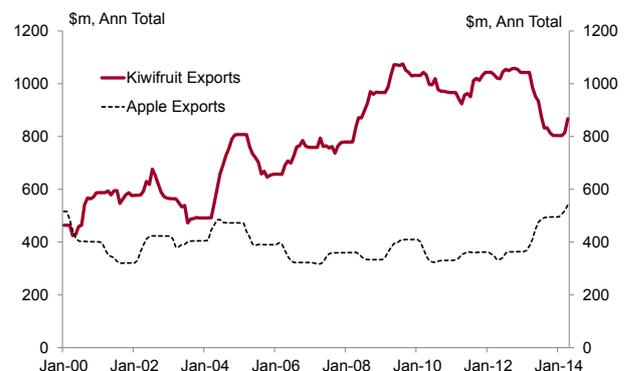
These developments, in conjunction with good prices on international markets, favourable growing conditions and solid international demand have boosted optimism in the sector.

Looking ahead, as NZ production of gold kiwifruit improves, we are likely to see some downward pressure on prices. However, the industry, like many other NZ commodity food exporters, should benefit from the growing integration with Asia. In recognition of this, Zespri has expressed an intention to continue investing in developing markets in China, South East Asia and the Middle East.

For similar reasons, prospects for the apple industry are also encouraging. As in the kiwifruit industry, innovation and the introduction of new varieties has played an important role in the

improving fortunes of the apple industry. While Braeburn and Royal Gala still dominate NZ export volumes, a wide range of new varieties, often replacing Braeburn, have been developed in recent years in response to customer demands. The importance of export markets in Asia and the Middle East is likely to continue to grow.

## Apple and Kiwifruit exports



## GlobalDairyTrade Auction Results, 18 June

	Change since last auction	Price USD/Tonne
Anhydrous Milk Fat (AMF)	-3.8%	\$3,898
Butter Milk Power (BMP)	17.0%	\$4,535
Butter	2.4%	\$3,699
Skim Milk Powder (SMP)	-0.2%	\$3,855
Whole Milk Powder (WMP)	2.4%	\$3,658
Cheddar	2.4%	\$4,381
GDT Price Index	0.9%	

## Payout Forecast Table

	2013/14		2014/15	
	Fonterra	Westpac	Fonterra	Westpac
Milk Price	\$8.40	\$8.40	\$7.00	\$7.10

Anne Boniface  
Senior Economist

# Beyond the farm gate

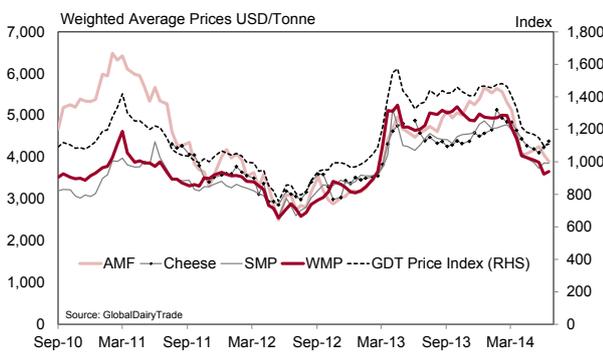


## Dairy

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

Dairy prices were up 0.9% on a trade weighted basis in last night's GlobalDairyTrade auction, breaking a string of 8 consecutive falls in auction outturns. Within this headline, WMP prices bounced a little, up 2.4% after a large fall in the previous auction.

Following the auction a fortnight ago, we noted downside risk to our 2014/15 payout forecast of \$7.10. Last night's auction result doesn't remove this entirely, but it does mitigate it a little. It also supports our view that we should see prices stabilise around these levels before improving later in the year.

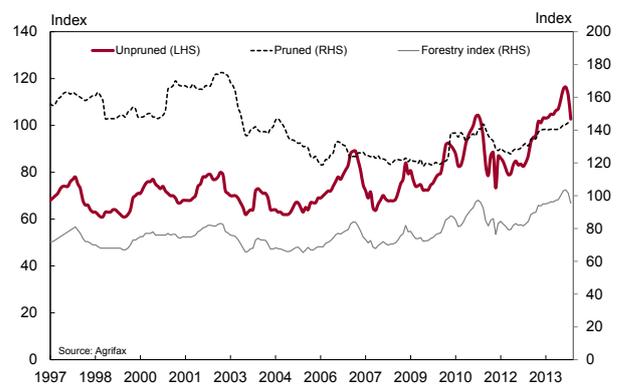


## Forestry

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

Log prices have dropped sharply under the weight of large log inventories accumulating in China. Chinese log imports had reached record volumes, and with weaker demand from end users as the pace of residential construction in China slows, unpruned log prices have fallen 12% from their recent peaks. We suspect they could fall further in the near term as import volumes (both from NZ and other suppliers) adjust.

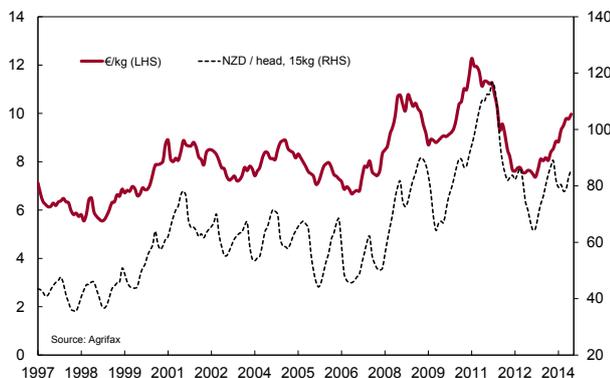
Domestic demand for structural logs continues to hold up well on the back of ongoing growth in building activity. In April, residential building consents (excluding apartments) were up 24% on a year ago. Strong growth in residential construction is set to continue to climb, led by Auckland and Canterbury.



## Lamb

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

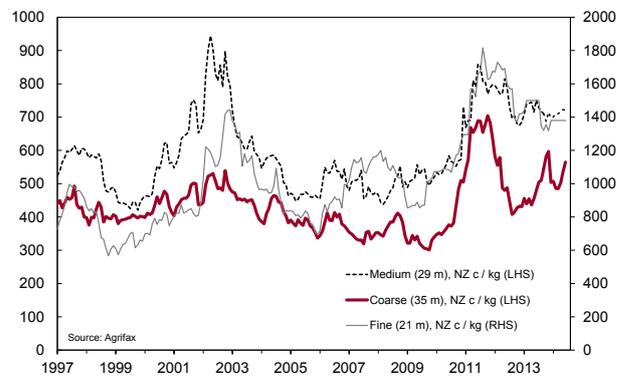
International lamb prices have continued their strong run, on the back of solid demand from traditional markets such as the UK and Europe, as well as China. Recent terms of trade data for the March quarter showed the volume of lamb exports up 5.8%. We think the trend of improving global lamb prices should still have a little further to run in the coming months, supported by relatively tight global supplies.



## Wool

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

Coarse wool prices have improved in recent months. Locally, supplies are reported to be tight as the season draws to a close. The improvement in coarse wool prices has seen the premium between fine wool prices and coarse wool prices decline, but it is not yet back to the late 2013 lows. The theme of tight supplies globally continues. In their most recent forecasts, ABARES expects Australian wool production to reach a record low in 2014/15 season on the back of a significant reduction in the national flock.



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

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