



# Fortnightly Agri Update

16 June 2016

## Two steps forward, one step back

Global dairy prices continued to stumble around at low levels in last night's GlobalDairyTrade auction. While this is broadly in line with our expectations, the NZ dollar is proving persistently stronger than we had anticipated, introducing some downside risk to NZD commodity prices across the board. One factor that could halt the Kiwi's rise over the coming weeks is uncertainty about the Brexit vote. The UK goes to the polls on the 23 June.

Global dairy prices were unchanged in last night's GDT auction. However, New Zealand dairy farmers congregating at Mystery Creek this week would have been disappointed to see a second consecutive fall in the key whole milk powder (WMP) price which was down 4.5% to \$US 2 118/tonne. Improved prices for other products on offer provided something of a silver lining, including a 1.5% lift in skim milk powder prices, a 4.4% lift in AMF prices and a 5.3% increase in butter prices.

Recent GlobalDairyTrade auctions support our view that there's unlikely to be a sharp turnaround in dairy prices any time soon. Instead, we expect prices to bump around these levels for much of this year, before gradually starting to improve in 2017 as global growth in milk supply slows in response to the sustained period of weak prices. We continue to forecast a \$4.60 farm gate milk price this season.

While international dairy prices have been broadly evolving in line with expectations, recent strength in the NZ dollar is weighing on farm gate returns of exporters of all persuasions. A key reason for the stronger Kiwi dollar has been the shifting outlook for interest rates in the US. Recent weak labour market data there has led to markets pushing back the timing of future interest rate hikes in the US. This in turn has put downward pressure on the US dollar and upward pressure on the NZ dollar. Add in the RBNZ's decision to leave the OCR hold in their June Monetary Policy Statement, and you can understand why the NZ dollar is now sitting back above the 70c mark against the US dollar. There is the potential for significant volatility in the NZ dollar in coming weeks, depending on the outcome of the forthcoming Brexit (Britain choosing to exit the European Union) vote.

Markets are looking ahead nervously to the vote on the 23 of June, with recent polls suggesting Britain's decision on membership of the European Union is coming down to the wire. A vote for Brexit would likely see a wave of risk aversion in markets, putting downward pressure on the NZ dollar, as investors head toward safe haven currencies like the US dollar. Conversely, a Remain vote (Britain choosing to remain in the European Union) could see the markets exhale with a sigh of relief. The US dollar would likely fall, while peripheral currencies like the NZ dollar would be expected to rise.

With so many uncertainties about how a Brexit would play out over an extended timeframe (the UK has 2 years to negotiate

its exit treaty with the EU) it's difficult to have a clear view on the impact of Brexit on New Zealand exporters (of both goods and services). However, it's hard to envision a clear upside for New Zealand exports to the UK. Uncertainty is likely to weigh heavily on prospects for the UK economy, potentially dampening NZ tourism exports. And while New Zealand would have the opportunity to negotiate new goods trade agreements with the UK and EU, with a swing toward protectionism in recent times, it's difficult to see New Zealand being afforded more favourable trade conditions in either jurisdiction. Indeed the risk is that any outcome won't be as favourable.

**Anne Boniface**  
Senior Economist

### Dairy prices



### GlobalDairyTrade Auction Results, 16 June 2016

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	4.4%	\$3,619
Butter Milk Power (BMP)	-6.6%	\$1,695
Butter	5.3%	\$2,910
Skim Milk Powder (SMP)	1.5%	\$1,901
Whole Milk Powder (WMP)	-4.5%	\$2,118
Cheddar	6.9%	\$2,882
GDT Price Index	0.0%	

### Payout Forecast Table

	2015/16	2016/17	
	Fonterra	Fonterra	Westpac
Milk Price	\$3.90	\$4.25	\$4.60

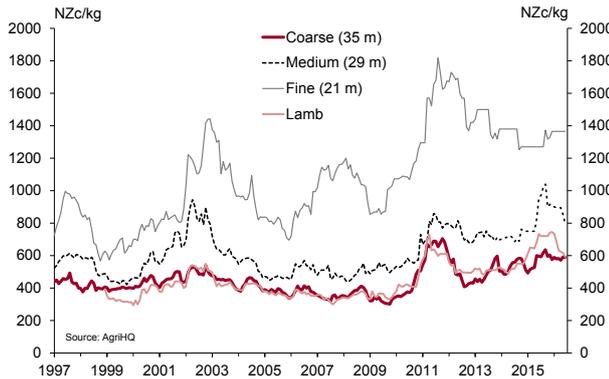
# Beyond the farm gate



## Wool

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

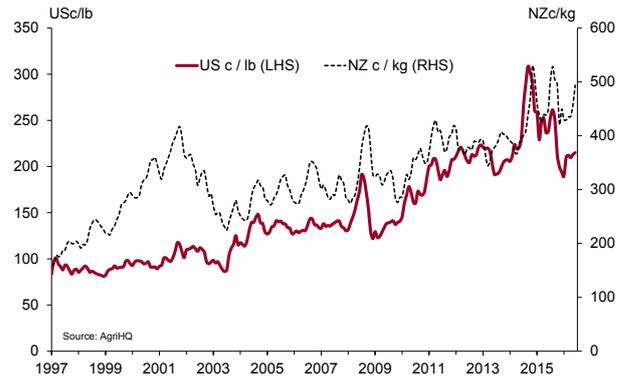
Wool prices are likely to remain under pressure in the coming months, due to a combination of low oil prices making synthetic alternatives to wool more attractive and a soft demand outlook from China. That said, local supplies start their seasonal decline during the next few months, which could provide limited short term support to prices.



## Beef

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

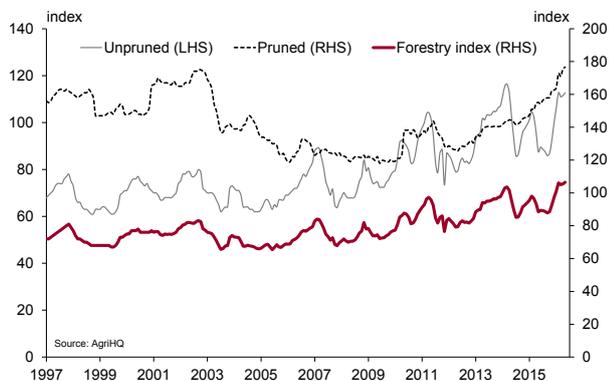
Over the medium term, international beef prices are likely to be underpinned by relatively tight global supply as beef exports from Australia, and to a lesser extent New Zealand, contract. However, this will be balanced against increasing domestic supplies in the US, with changes to market access for Brazil's chilled beef exporters an important wild card that could influence prices.



## Forestry

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

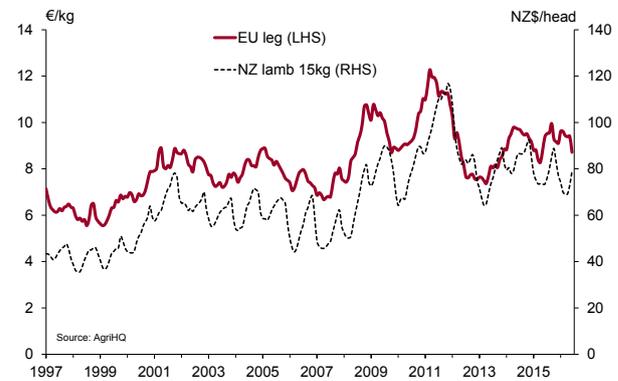
International log prices continued to improve in May, defying our expectations of weakness. Domestically, the buoyant construction sector continues to support local prices. While building consents in Auckland have slowed recently, this likely reflects uncertainty around the Unitary Plan which should be finalised in coming months. Internationally, reported supplies remain relatively tight, but slower growth in key export markets and an eventual increase in supply are still expected to weigh on export prices over the rest of the year.



## Lamb

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

Lamb supplies are expected to tighten over the next couple of months, which could support local prices in the near term. However, lamb exports from Australia (who along with NZ are a major player in international markets) have been surprisingly strong in recent months due to increased lamb turnoff due to dry conditions into Autumn in key lamb producing regions. Meat and Livestock Australia expects this to reverse over the coming months. And over the medium term, we expect global lamb supplies to remain relatively tight. There has been a modest improvement in the demand outlook for lamb. The recent improvement in oil prices should help bolster incomes in the Middle East, and although the outlook for the Chinese economy remains soft, there are anecdotal reports of lower inventories supporting demand.



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

## Contact the Westpac economics team

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

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

**Satish Ranchhod**, Senior Economist +64 9 336 5668

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

**David Norman**, Industry Economist +64 9 336 5656

**Any questions email:** [economics@westpac.co.nz](mailto:economics@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.

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

## Disclaimer continued

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. 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.