

Fortnightly Agri Update

7 December 2016

Taking stock

In our final Fortnightly Agri Update for 2016, we thought it appropriate to step back and take stock of the key themes over the last 12 months and, look ahead to 2017.

The biggest surprise this year has been the remarkable rebound in dairy prices. At the start of the year, dairy farmers were staring down the barrel of a third consecutive season of losses. But the more than 50% rebound in dairy prices since mid-year has significantly improved the outlook for the sector. We are now forecasting a \$6.20 milk price this season which should be well above break-even levels for most farmers.

There's no doubt that fundamentals have moved in favour of dairy producers. Global supply is tightening, and there are more positive signs on the demand front, particularly out of China. But looking ahead it's not all plain sailing. One of the reasons supply has tightened to a greater extent than expected, has been poor spring conditions in key dairying regions in New Zealand. For some farmers in places such as the Waikato, Bay of Plenty and Northland, the gloss will have been taken off improved prices, by the sharp fall in production sustained during October and early November.

Despite this, sentiment in the sector as whole has justifiably improved. We remain wary of the ability of higher prices to induce a supply response both locally and further afield. And the durability of the recent improvement in prices will in part hinge on the sustainability of the recent pick-up in Chinese demand.

Meat prices have been fairly stable in 2016. And from here the outlook remains cloudy. In lamb markets, supply remains relatively tight. This year's New Zealand lamb crop is estimated to be down 1.3% according to Beef and Lamb New Zealand. While this is a continuation of a long run trend decline in the industry, good conditions during lambing did help boost lambing rates. Furthermore, increased ewe retention this season, should underpin a small increase in lamb numbers next year. But the biggest cloud on the horizon for lamb exporters are the implications of Brexit. The substantially weaker pound both makes New Zealand exports more expensive and UK lamb exports to Europe cheaper and raises questions over market access.

The outlook for beef prices is also mixed. On one hand, Australian beef exports have fallen sharply this year, and are expected to continue to decline next year as improved pasture conditions support herd rebuilding. However, domestic supply in the all-

important US market is growing quickly following a period of herd rebuilding there. In addition, Brazil's re-entry to the US market could pose challenges in the future, while competition amongst exporters for the growing Chinese market is also heating up.

Horticulture has been one of the strongest performers in the agriculture sector this year. Apples and kiwifruit exporters in particular are feeling confident as they take advantage of technological developments to improve productivity and produce new varieties aimed at meeting the tastes and preferences of Asian markets in particular. Assuming the industry can maintain this comparative advantage, we expect it to continue to perform strongly into 2017.

Anne Boniface

Senior Economist

GlobalDairyTrade Auction Results, 7 December 2016

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	2.9%	\$5,500
Butter	1.7%	\$4,262
Butter Milk Power (BMP)	-2.6%	\$2,408
Cheddar	2.2%	\$3,752
Lactose	10.6%	\$873
Rennet Casein	2.3%	\$6,201
Skim Milk Powder (SMP)	1.4%	\$2,570
Whole Milk Powder (WMP)	4.9%	\$3,593
GDT Price Index	3.5%	

Payout Forecast Table

	2016/17		2017/18
	Fonterra	Westpac	Westpac
Milk Price	\$6.00	\$6.20	\$6.50

The **Fortnightly Agri Update** will take a break over Christmas and the New Year period and return to your inbox on the 8th of January 2017.

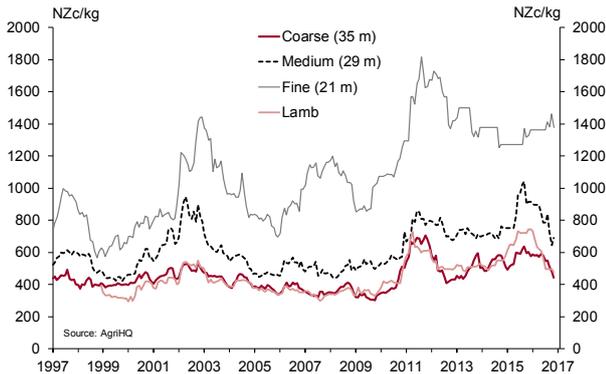
Beyond the farm gate



Wool

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

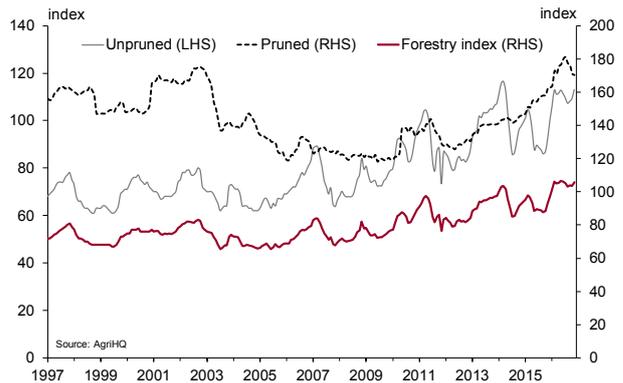
The bulk of the NZ wool clip will start to be sold over the coming months. However, anecdotes from recent auctions point to a lack of interest from Chinese buyers, particularly for coarse wool, and that this is depressing prices. This is a concern given China accounts for around 60% of New Zealand's wool exports. The prices of synthetic and cotton substitutes are also likely to be weighing on wool prices.



Forestry

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

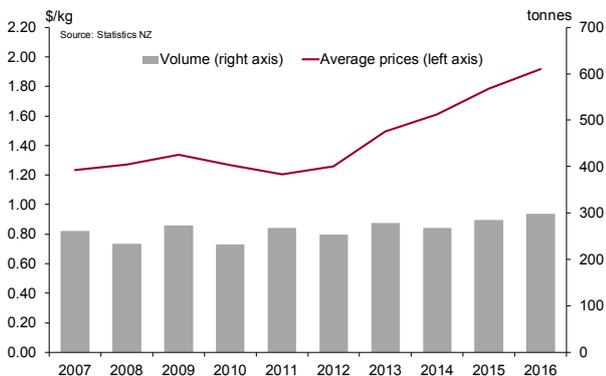
Forestry prices remain elevated. Log prices have benefited from improved demand from China (NZ's largest log export market) complemented by improved demand from India and Korea. Looking ahead, we don't expect prices to persist at current levels indefinitely. High log prices are likely to encourage an increase in international supply, while slower Chinese growth could see demand soften.



Apples

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

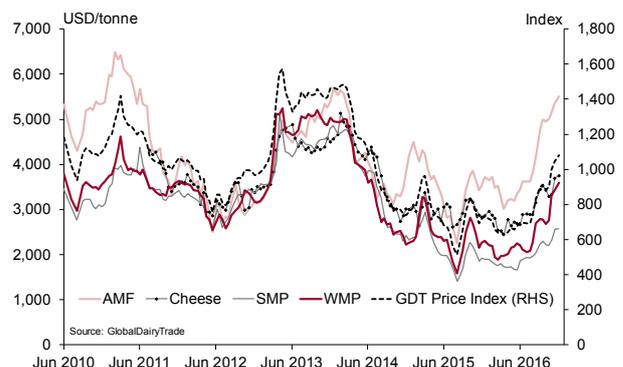
Pipfruit NZ recently announced it expects this season's apple crop to be its biggest ever as an 'on year' crop coincides with growth in tree numbers. It expects New Zealand to export 21.5 million cartons of fruit this season. The sector has been benefitting from greater use of technology and improved productivity. Demand from Asia (including China) has underpinned prices, however conditions in Europe have been (and are likely to continue to be) more challenging.



Dairy

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

Dairy prices continued to track higher in last night's GlobalDairyTrade auction. In aggregate prices gained 3.5%. Prices rose for most products on offer including a 4.9% lift in whole milk powder prices, a 1.4% lift in skim milk powder prices, and a 2.9% gain in AMF prices. Dairy prices have now risen an impressive 56% since July, led by a 74% surge in whole milk powder prices. Although sharp declines in milk production in key dairying regions in New Zealand have been an important factor supporting prices in recent months, demand also seems to have firmed. While interest from Chinese buyers dropped back in last night's auction (broadly in line with seasonal trends), buyers from other parts of the world stepped up to fill the gaps, apparently willing to pay elevated prices. Although we continue to expect some moderation in prices in the new year as global supply responds to the lift in prices over recent months. Nonetheless strength in prices to date has led us to upgrade our milk price forecast for both this season and next, to \$6.20 and \$6.50 respectively.



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

Contact the Westpac economics team

Michael Gordon, Acting Chief Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Senior Economist +64 9 336 5669

Sarah Drought, Economist +64 9 336 5696

Any questions email: economics@westpac.co.nz

Disclaimer

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary, and market colour. The material 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 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 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. 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.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac

and WNZL can be obtained at the internet address www.westpac.co.nz. 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.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. 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 activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. 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.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. 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 communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")

Disclaimer continued

or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication 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 communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a “need to know” policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

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.