

AGRI BITES

A promising outlook.

31 January 2025



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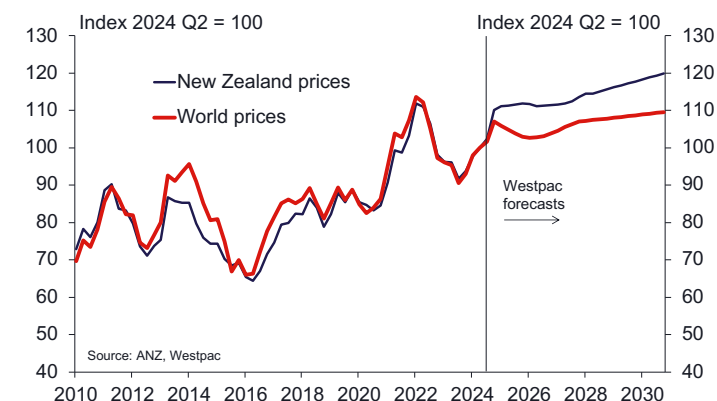


SUMMARY

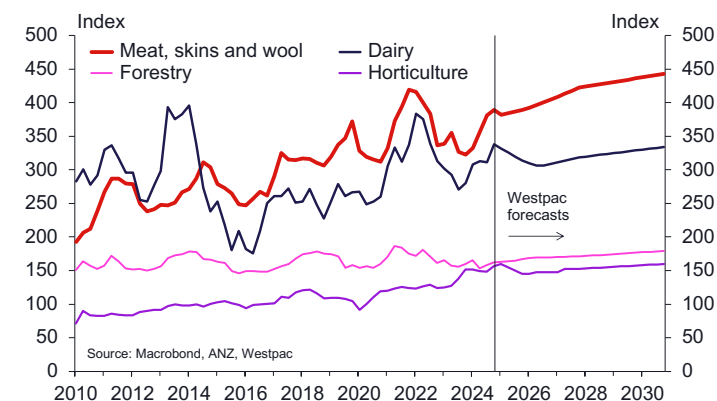
Commodity prices to edge higher, bolstered by a softer NZ dollar.

- This year we expect commodity prices in world price terms to moderate slightly off recent highs, but favourable supply and demand fundamentals should support prices in the medium to longer term. Expected currency weakness during 2025 should help to support prices in NZ dollar terms.
- The fall in world prices this year reflects an expectation of lower average dairy prices over the remainder of the current season. We have assumed that the recent inventory rebuild in China, primarily of whole milk power, winds down over this period. However, if the rebuild continues at pace, we could see dairy prices rise further, leading to an upward revision in our milk payout forecast.
- Beef prices should edge higher this year with production constrained in the US, EU and China. Sheep meat prices are set to lift on lower supply out of NZ and Australia as well as strong demand in the key EU, UK and US markets.
- Meanwhile, prices for apples and kiwifruit are set to remain elevated on the back of favourable supply and demand fundamentals.
- Subdued Chinese demand suggests flat log prices in the near-term. An increase in building activity in China will help to support prices thereafter.
- **These forecasts do not yet consider still to be clarified US tariffs.** Our forthcoming *Economic Overview* will look at this issue in more depth.

Commodity prices – World and NZ dollar denominated



Commodity prices by category



DAIRY

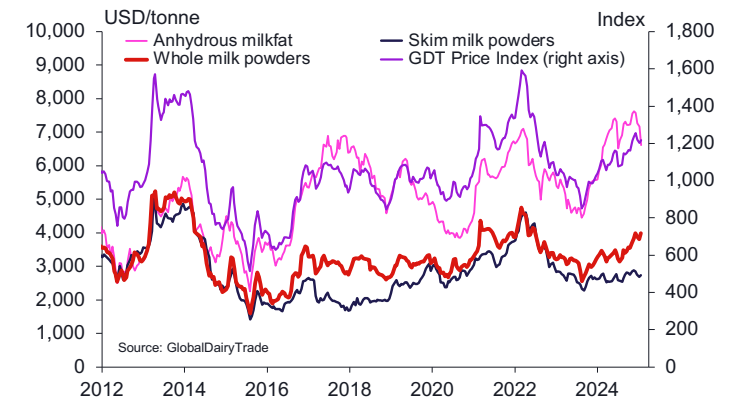
Milk price outlook remains favourable.

- Market conditions remain buoyant with dairy prices having ratcheted higher at the most recent GlobalDairyTrade auction, reversing some recent declines.
- Whole milk powders have led the recovery, reflecting a greater buying presence from Chinese and European buyers and lower offer volumes. Skim milk powder prices have largely moved sideways.
- Increased Chinese purchases reflect efforts to rebuild previously run-down inventories, especially ahead of the Chinese New Year.
- Prices for fats have been mixed, with AMF prices falling sharply on the back of weaker demand. These were partially offset by higher butter prices, in part fuelled by demand out of China.

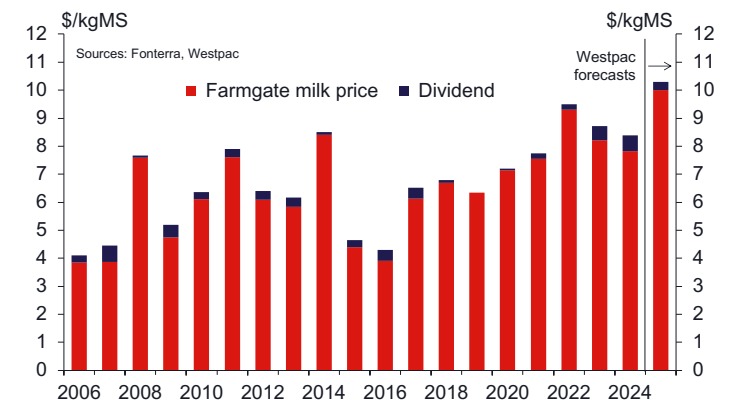
Risks to the farmgate milk price forecast are two-sided.

- Our milk price forecast of \$10.00 per kg/ms assumes lower average dairy prices over the remainder of the 2024/25 season. That in turn assumes the rebuilding of dairy inventories in China winds down.
- However, should the rebuild continue at current pace, that is likely to sustain or push dairy prices even higher, implying an upward revision to our milk payout forecast.

Global Dairy Trade auction prices



Farmgate milk prices



BEEF

Slaughter price increases are slowing.

- Beef slaughter prices, which had previously been on a tear, have now begun to moderate with more finished cattle being sent to the processors. That in turn has kept a lid on prime cattle prices.

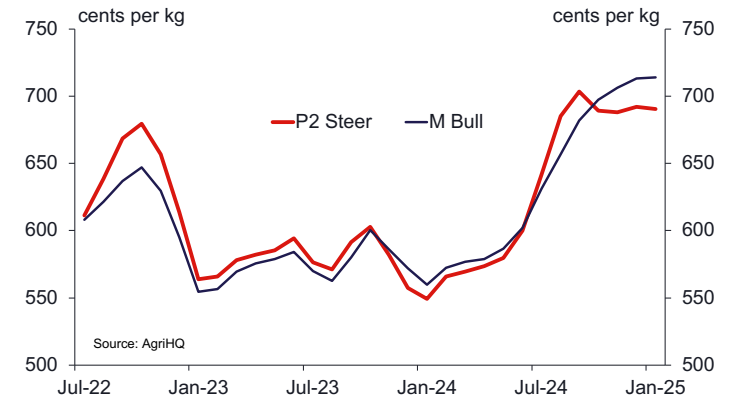
Average export prices have shown some volatility recently.

- At the same time, farmers are increasingly focusing on increasing weight and finishing. Strong processor competition for delivery into the US has helped to keep slaughter prices well above the five-year average.
- A combination of weak US production and strong demand continues to underpin export prices for 95CL. New Zealand and particularly Australia, have been increasing volume into the US market.

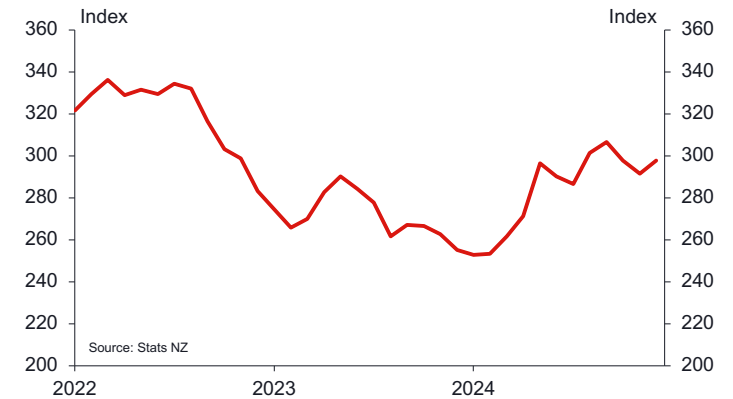
Further price gains to come.

- A decline in global beef supply is expected to lift prices further. The US will continue to loom large in this regard, with its domestic beef herd still at record lows.
- Price gains are likely to be further underpinned by expected production declines in Brazil, China, Europe and New Zealand. These will offset a likely increase in volumes out of Australia.

Beef slaughter prices - NZ



Average monthly beef export prices



SHEEP MEAT

Seasonal weakness in slaughter prices to be short-lived.

- Store and slaughter prices have effectively moved sideways for the past three months, dipping slightly as we entered the new year. That said, prices are still up on last year, reflecting strong competition between processors for livestock.
- Farmgate prices could come under pressure over the next couple of months. Traditionally this is when the lamb kill is at its highest, which means more livestock available for processors. Prices thereafter are likely to tick higher on seasonal factors during the autumn.

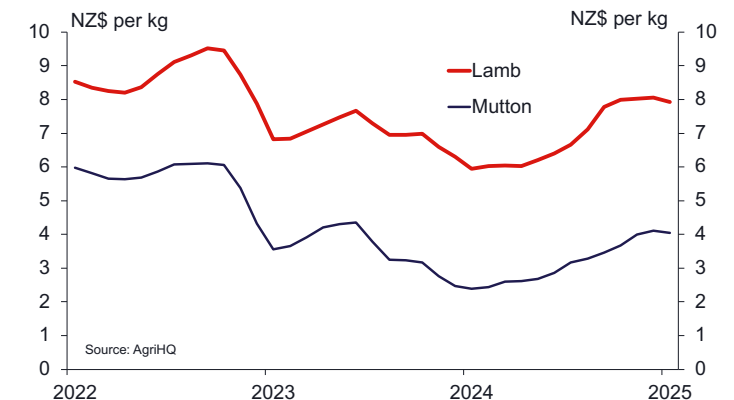
Export prices for lamb to tick higher in 2025.

- Meanwhile, export prices continue to trend higher, but with some volatility.
- Looking forward, we think export prices will continue to lift off the back of strong demand out of higher value markets, such as the EU, UK and US, weaker production out of New Zealand and Australia, and NZD weakness.

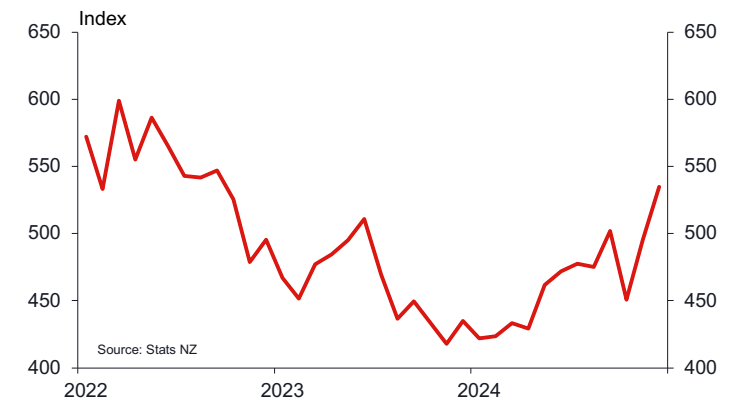
Chinese demand remains the key driver of the outlook.

- Chinese demand is crucial for the outlook for lamb prices. Should demand lift, we could see a surge in demand for lamb exports from both Australia and New Zealand, benefiting exporters and bolstering farmgate prices.

Sheep meat slaughter prices - NZ



Average export prices for lamb



HORTICULTURE

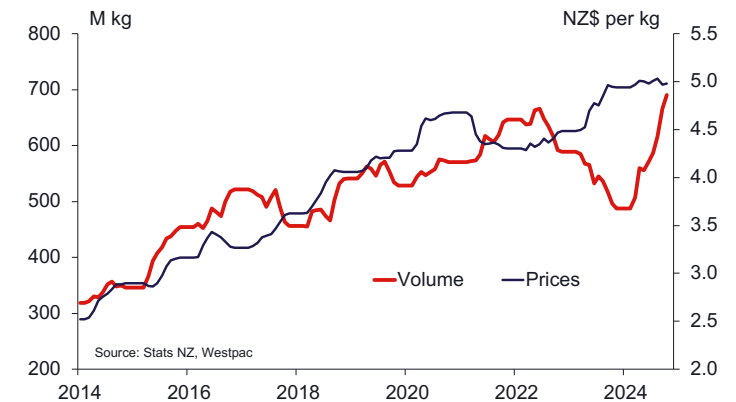
Export prices for kiwifruit to remain elevated.

- Kiwifruit production volumes are expected to continue rising. In part that is due to large orchard developments that were completed five years ago now entering production. Conducive spring weather conditions augur well for the upcoming season in New Zealand, starting in March.
- Prices are likely to remain at elevated levels in 2025, with global demand staying ahead of global production. Key here is China – in 2024 kiwifruit exports to that market rose by 40%. The market for imported fruit in China is massive, with consumer demand for price competitive nutritious fruits continuing to increase.
- The free trade deal with the UAE is also likely to be significant, both because it improves access into the UAE and because it provides a launching pad into the broader Middle East.

Apple export prices to remain elevated on constrained supply.

- A wet and cold spring in growing areas suggests that the upcoming apple harvest in New Zealand may be smaller than last year. Production volumes continue to be hampered by damage to orchards caused by cyclone Gabrielle.
- Demand for New Zealand sourced apples remains strong and that continues to push export prices higher. Exports continue to benefit from the impact of FTAs and lower stock levels in key EU, UK and Asian markets.

Kiwifruit – average export prices and production



Apples – average export prices and production



FORESTRY

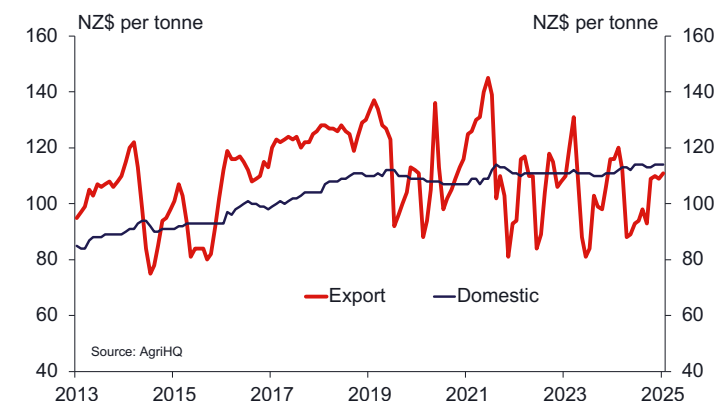
Log prices have trended sideways over the past year.

- Despite some volatility, export log prices have essentially moved sideways over the past year, albeit slightly above the five-year average.
- Demand out of China remains lacklustre. Port inventories remain between 2.4 and 2.8 million m³, while daily offtake sits between 55k to 60k m³.
- Policy interventions in support of China's ailing housing market are yet to result in a meaningful pick up in log demand.

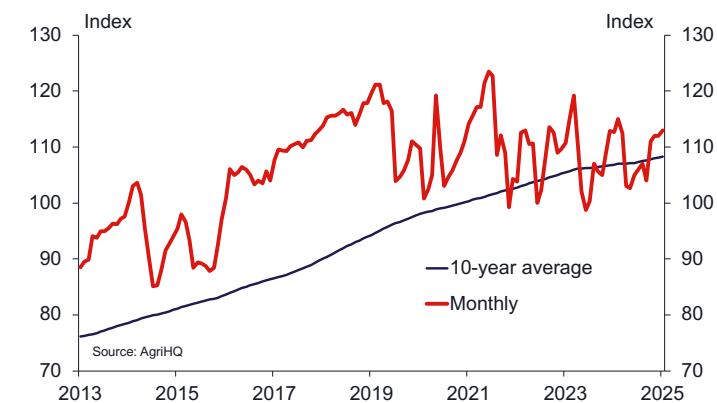
Longer-term outlook for export prices is more favourable.

- Export log prices could fall in the short-term as Chinese sawmills look to reduce inventories over the Chinese New Year period (end of January). That said, this fall is likely to be temporary with prices set to rise as buyers look to replenish inventories following New Year celebrations.
- Longer term, policy interventions targeting the property market should spur on demand and that will lift prices. The Chinese government has said that it will introduce new measures to support the property market if needed.
- That said, a possible US-China trade war could dampen log prices. NZ sourced pine is used extensively in plywood production in China, which is by far the world's largest producer. The country exports 50% of its production into the US.

Export vs domestic log prices



Monthly vs average combined log prices



EXCHANGE RATES

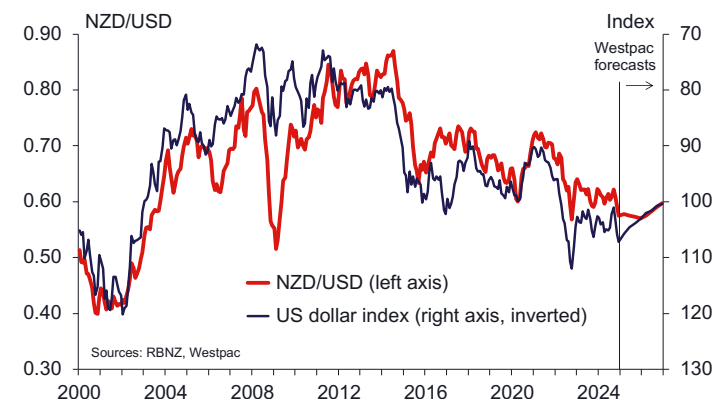
The US dollar is key to the NZD's overall direction.

- Historically, the direction of the NZD/USD exchange rate is mostly dictated by broad trends in the US dollar.
- In recent months the US dollar index has firmed from what are already historically elevated levels. An outperforming US economy has underpinned US dollar strength and is expected to continue to do so over the course of 2025, supported by the new US administration's pro-growth agenda. Even so, the US dollar is expected to weaken modestly from current levels this year.
- We expect the NZ dollar to modestly underperform this year, especially with NZ interest rates falling below those in the US. An improving domestic economic performance should provide some support to the NZ dollar in 2026.

NZD to underperform, especially on a trade-weighted basis.

- With the OCR set to drop below the RBA cash rate in the near term, we expected a decline in NZD/AUD, supported by Australia's stronger economic performance and more favourable current account and fiscal positions.
- The NZ dollar is also expected to weaken against the Japanese yen and Chinese renminbi, but largely hold its ground against the euro and the British pound. Together with a slight weakening against the US dollar, this should mean a weaker NZ dollar on a trade weighted index (TWI) basis in 2025.

NZD/USD exchange rate



Trade Weighted Index



FORECASTS

New Zealand commodity prices (end of period)

	latest	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
NZ commodities index	380	374	369	364	361	362	365	368	370	372	376
Dairy price index	344	336	326	319	313	311	313	316	318	320	323
Whole milk powder USD/t	3,988	3,870	3,700	3,599	3,500	3,525	3,550	3,577	3,604	3,631	3,658
Skim milk powder USD/t	2,729	2,677	2,600	2,600	2,600	2,625	2,650	2,670	2,690	2,710	2,731
Lamb price index	535	489	493	498	504	512	520	528	536	544	553
Beef price index	297	298	299	300	302	304	305	307	310	312	314
Forestry price index	163	163	164	165	167	169	169	170	170	170	170

New Zealand commodity prices (annual averages)

	Levels				% change			
	2023	2024	2025f	2026f	2023	2024	2025f	2026f
NZ commodities index	330	357	367	366	-12.4	8.4	2.8	-0.3
Dairy price index	286	318	323	315	-18.8	10.9	1.8	-2.7
Whole milk powder USD/t	3081	3439	3715	3553	-20.8	11.6	8.0	-4.4
Skim milk powder USD/t	2640	2686	2633	2649	-30.9	1.8	-2.0	0.6
Lamb price index	461	465	494	521	-15.5	0.9	6.4	5.4
Beef price index	271	284	299	306	-15.3	4.5	5.5	2.1
Forestry price index	160	160	165	169	-6.9	0.1	3.0	2.9

Forecasts as at 31 Jan 2025.

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