ANZ RESEARCH

AGRI FOCUS

APRIL 2019

GROWTH MINDSET

This is not personal advice. It does not consider your objectives or circumstances. Please refer to the Important Notice.

INSIDE

CONTRIBUTORS

Susan Kilsby
Agriculture Economist
Telephone: +64 4 382 1992
Susan.Kilsby@anz.com

Sharon Zollner
Chief Economist NZ
Telephone: +64 9 3574094
Sharon.Zollner@anz.com

Publication date: 1 April 2019

Primary producers are benefiting from high in-market prices for export goods, which are being fed back to producers through elevated returns at the farm or orchard gate level. Industry confidence varies between sectors with high debt levels in the dairy sector weighing on sentiment.

Milk prices are trending up but the dairy industry remains cautious. Dairy farmers are focusing on ensuring their farming operations meet regulatory and consumer expectations, as well as focusing on debt reduction.

Meanwhile, optimism is starting to creep back into the sheep and beef sector. Lamb returns have held at exceptionally high levels throughout the season, while those for beef have been steady. Beef returns have benefited from the emergence of China as a strong alternative market, reducing the industry's reliance on the United States.

Horticultural markets remain robust. A record harvest of apples and kiwifruit is expected. However, wine growers are not having such a great season, with indications to date that yields are well below expectations.

While commodity returns are generally strong at present, this is occurring against a backdrop of slowing global economic activity. This poses a key risk for our agriculture and horticulture sectors due to our very high exposure to export markets.

The wellbeing of China's economy in particular is a key risk given that market directly accounts for 24% of our exports. We also have further indirect exposure to this market as many of our other export partners, such as Australia, are also highly exposed to China. But for now demand from China is showing no signs of letting up.

Prices at farm/orchard level relative to 10yr average		
Dairy	Dairy prices have continued to strengthen, supported by a reduction in global milk supply. This has supported a lift in the milk price forecast for the 2018/19 season as well as next season.	Milk price Low  High
Sheep	Lamb and mutton farmgate prices remain exceptionally high, supported by strong in-market prices. Lamb processing has been slower than normal with lambs being grown to heavier weights.	19kg lamb Low  High
Beef	Farmgate returns have eased as processing throughput has lifted on the back of a reduction in pasture production. China is providing a strong alternative market to the US, which is supporting returns.	Prime steer Low  High
Forestry	Steady demand from China is soaking up the high volumes of logs being felled in NZ. Industry confidence is high but labour shortages will limit expansion.	A-grade log Low  High

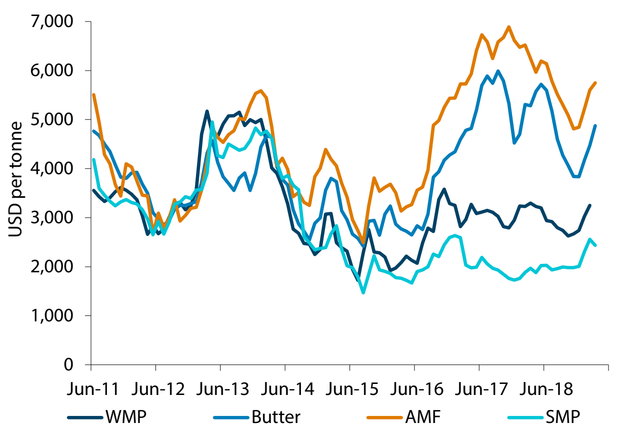
DAIRY UPTURN

Dairy commodity prices have continued to firm as markets respond to an easing in global milk supply. The market supports a milk price for the current season in the vicinity of $6.40/kg milksolids (MS).

A milk price of $7.30/kg MS is forecast for next season as higher commodity prices feed through to returns, combined with a lower NZD. However, global economic risks are heightened. If these risks materialise, then this could negatively impact demand for dairy commodities and therefore result in lower farmgate returns than currently forecast.

Commodity prices have firmed as milk supply tightens globally and stocks of dairy commodities have been eroded. Whole milk powder prices have continued to firm. This trend is expected to be supported through to at least the middle of 2019 by New Zealand's milk supply falling away more quickly than normal in the latter part of the 2018-19 season.

DAIRY COMMODITY PRICES

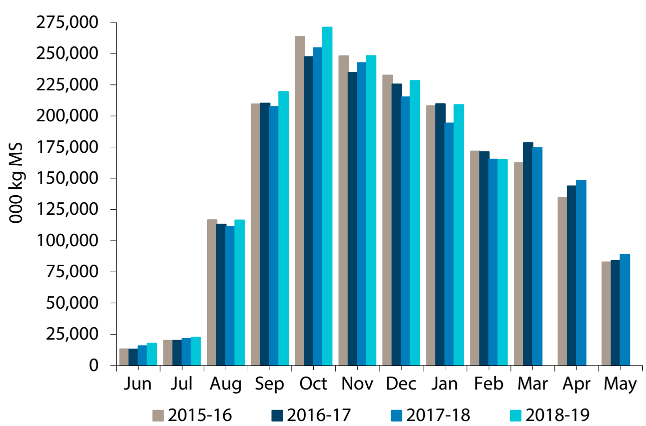


Source: GlobalDairyTrade

We now expect New Zealand's milk supply to finish this season 2.75% ahead of last season. All of the gain was achieved in the early part of the season. During the final three months, milk volumes are expected to be nearly 5% weaker than last season. February volumes were virtually on par with last season.

This milk production forecast is more bullish than Fonterra's own forecast. Fonterra expect to collect 1,510 million kg MS this season – just 0.3% more than the previous season, implying milk intake would need to be 9% weaker during the later months of the season to match Fonterra's forecast. Fonterra's forecast is not directly comparable to a forecast for the whole of New Zealand. But even after accounting for a drop in market share, Fonterra's forecast for the rest of the season appears particularly pessimistic and certainly lower than our own expectations.

NEW ZEALAND MILK PRODUCTION



Source: ANZ, DCANZ

Milk production volumes are expected to plateau near current levels for the foreseeable future. Variations in output from season to season will be weather dependent.

DAIRY

MILK VOLUMES DOWN EVERYWHERE

Milk production remains relatively weak in all major milk-producing regions. Australia has been particularly hard hit by the recent drought. The only states in Australia that regularly produce a surplus of milk are Victoria, which produces two-thirds of Australia's milk, and Tasmania. Both of these regions have been hotter and drier than normal this summer. Australia's milk volumes are down 5.8% for the season to the end of January. Those in Victoria were down 14.4% in the month of January and haven't recovered since then.

In Europe, milk production in the final quarter of 2018 was marginally lower than last season. January volumes were behind last season for the EU, with the larger milk-producing nations of Germany, France and Netherlands all behind last season by at least 2%. The UK was the only relatively large producer to expand production in January. Milk intake in some key countries like Germany is starting to catch up with year-ago levels as spring approaches, but the markets are expected to readily absorb any extra volume.

United States milk production is still growing, but at a slow rate. Growth rates have averaged just 0.8% over the past year. Domestic demand will readily absorb 1% growth in milk supply; therefore at the current growth rate we won't see any additional US product being exported.

DEMAND SIDE RISK HEIGHTENED

As major global economies slow there is an increased risk that dairy consumption will ease, reducing demand for dairy commodities. The International Monetary Fund (IMF) projects global growth will decline to 3.5% in 2019, down from an estimated 3.7% in 2018.

Economic growth is easing in major dairy consumption regions including United States, EU and China. In developing nations dairy product demand tends to be inelastic (doesn't change much) as most dairy products are considered a staple food. However in developing economies dairy tends to be in the luxury category therefore dairy demand tends to fluctuate with incomes.

The majority of New Zealand's dairy exports go to developing or emerging nations. Asia is our largest export region with China alone accounting for about a quarter of our dairy exports. The IMF forecast growth in Asia will fall from 6.5% in 2018 to 6.3% this year.

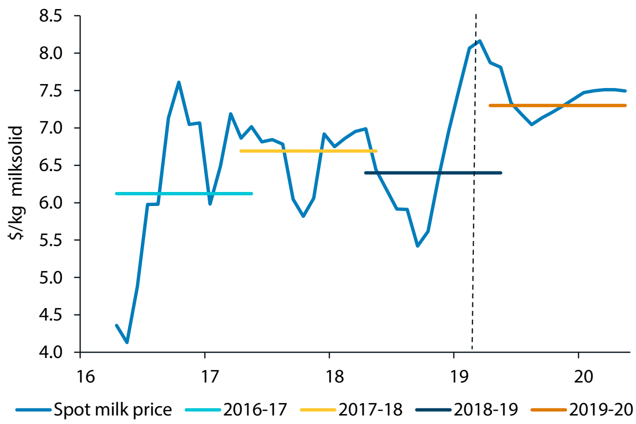
Although the slow-down in economic growth in Asia is a concern the growth rates are still very high by global standards, which bode well for continued growth in dairy demand. Risk of uncertainty are however greater than normal therefore milk price forecasts remain volatile.

MILK PRICES TO RISE

An ongoing lift in dairy commodity prices has bolstered our milk price forecast for the current season. We now forecast a $6.40/kg MS price for the 2018/19 season. This is aligned with Fonterra's current forecast range of $6.30 - $6.60/kg MS.

Our forecast for next season remains at $7.30/kg MS. Next season's price is supported by the expectation that we will eventually see a weakening of the New Zealand dollar. Dairy commodity prices are assumed to continue to trend up before easing back towards the later part of 2019, at which time we expect to see more support from a lower currency.

FARMGATE MILK PRICE



Source: ANZ, NZX, GDT

FOCUS ON DEBT REDUCTION

Despite the improvement in the milk price outlook, dairy farmers remain in consolidation mode. The focus is on debt repayment and investment in key on-farm infrastructure needed to meet tightening regulations.

LAMB & WOOL

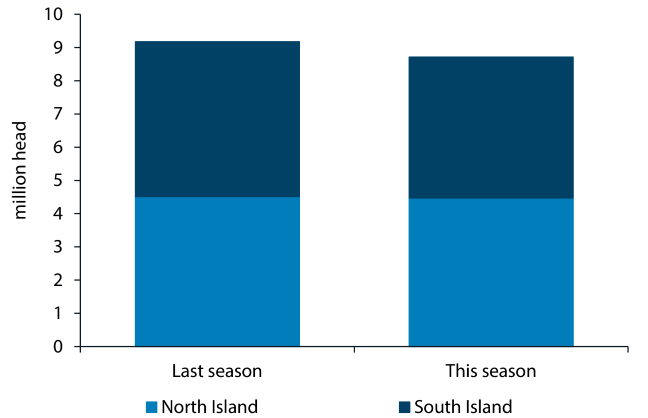
LAMB RETURNS STILL STRONG

Lamb processing is still well behind normal, with weekly throughput still below par. This has been supportive for schedule prices, with prices easing at a slower rate than normal.

Lamb prices are steadily trending down, but the rate of decline is moderate due to the lambs being finished at a slower rate than normal, with lambs being grown to heavier weights. On the back of this, schedule prices are holding near $7 per kg carcass weight in the North Island but are closer to $6.60 in the South Island.

The number of lambs processed from the beginning of October until the end of February was 460,000 fewer than at the same time last season. Throughput during that time was particularly low in the South Island, where it was 9% behind. In the North Island number are running about 1% behind, with processing catching up recently.

LAMB SLAUGHTER, SEASON TO DATE



Source: MIA, AgriHQ

Throughput has picked up a little in the North Island recently but it is still a challenge for buyers to find sufficient lambs to keep processing plants operating at capacity. This season farmers have been able to get lambs and ewes away when they want to.

LAMB WEIGHTS UP

Lambs are being processed at heavier weights than normal. The average carcass weight for lambs this season (to the end of February) is 18.8kg, versus 17.9kg the previous season. This additional weight was typically added to lambs earlier in the season when pasture production was strong, and there was an incentive to grow lambs to heavier weights.

Processing weights are expected to have decreased a little through March into April. Feed for finishing lambs has tightened, resulting in some farmers drafting lighter lambs for processing.

DRY WEATHER KEEPS BUYERS AT BAY

Soil remains drier than ideal across much of the country, including across all of the South Island (excluding the West Coast), and the majority of the North Island. March temperatures have been 0.8% to 2% hotter than normal, virtually everywhere. Most of the country has received some rain but the quantity of rain that has fallen is less than normal in most regions.

As a result, the store market for lambs is subdued at present. This is particularly the case in the South Island.

In the North Island, pasture growth is improving more rapidly and buyer demand is starting to lift. The warm weather does bode well for pasture growth once soil moisture levels lift.

So far, the additional interest from buyers has not translated into higher prices for store lambs. But if the autumn flush of pasture starts to take off, then store market prices are expected to react accordingly.

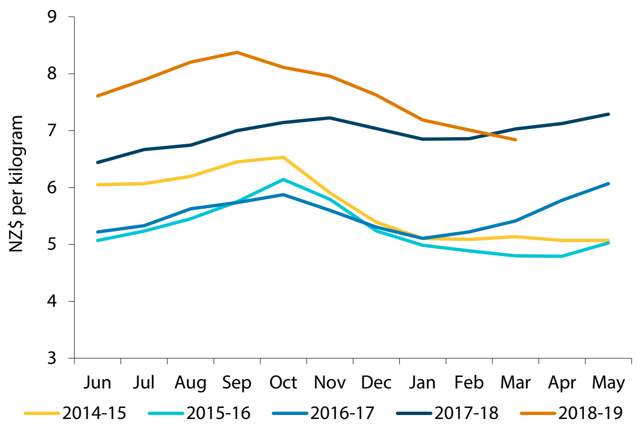
LAMB & WOOL

The number of store lambs available remains low, but if prices lift, we may see a few more come to market.

FURTHER EASING OF SCHEDULES EXPECTED

By this time last season schedule prices were on the rise again. But this season some further weakness in schedules can be expected, with still plenty of lambs to process. However, the magnitude of any reduction in schedules is expected to be relatively small.

LAMB FARMGATE RETURNS (19KG PRIME)



Source: AgriHQ

The ever-present risk of international markets not performing as expected is currently heighted due to the ongoing Brexit saga. If a disorderly Brexit occurs, this could disrupt flows of not only our lamb products but also UK-sourced lamb that typically flows freely into the EU.

BREXIT DIRECTION CHANGES DAILY

Forecasting the impact of Brexit is challenging given the goalposts are moving on a daily basis. As NZ already exports lamb directly into both the EU and the UK, we are relatively well positioned in the event of a hard Brexit. However, there would certainly be disruptions and possible delays on entry, since the workload of border staff will lift considerably if all goods movements between the UK and EU need to be monitored.

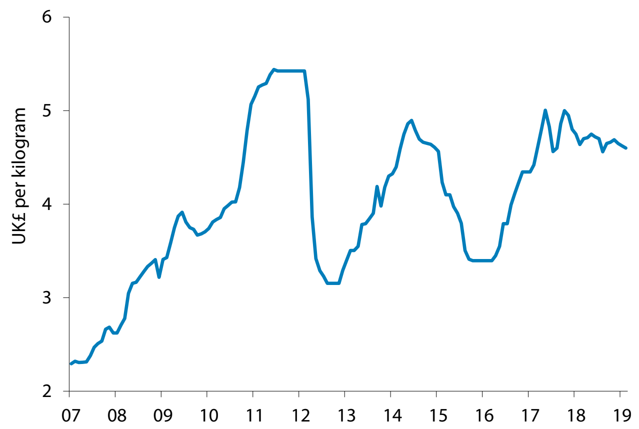
At present the UK exports about 40% of its lamb to EU member countries. If this flow is constrained, it is expected to result in a surplus of lamb in the UK market when their spring lambs hit the market later in the year. New Zealand lamb typically fills the gap when UK lamb is out of season.

In the longer term, tariffs applied to UK lamb entering the EU could reduce farmgate returns for UK sheep farmers. It has been suggested that farmgate prices could drop about 17.5% and there have also been calls for extra government support for UK farmers.

CHINA REMAINS STRONG

Diversification away from the UK towards China has reduced our reliance on the UK and the rest of Europe. Should a disorderly Brexit occur, we can rely on China to absorb extra product, but this may not be at the price point which is current being obtained from the traditional markets. At present the lamb and mutton we export to the UK is worth 50% more per kilogram than that sold to China.

LAMB LEG – UK



Source: AgriHQ

In the past 12 months the value of lamb and mutton exported by New Zealand to China was only marginally less than the total value of lamb exports to the whole of Europe (including the UK). The UK currently accounts for 12% of our lamb and mutton exports by value. This is a far cry from the early 1990s when the UK alone accounted for more than 35% of total lamb exports and exports of lamb to China were non-existent. That said, a hard Brexit would no doubt cause disruption.

EWES COMMANDING HIGH PRICES

The quantity of mutton processed this season is 23% down on last season with an even more significant decline in the South Island, where volumes are down 30%.

This trend is unlikely to continue as the season continues, as we are now past the main processing period for ewes.

LAMB & WOOL

There have also been no significant delays in getting ewes processed, due to lambs coming forth more slowly.

The lack of ewes being processed points to a greater level of retentions and a general lift in industry confidence. The high cost of replacement ewes is also having some impact as anecdotal evidence suggests some ewes are being retained for a further season, which might not have been the case if they could have been replaced more cheaply.

The mutton schedule in the North Island has sat at $5/kg, on a carcass weight basis, since the beginning of February, while in the South Island prices have eased back at little to $4.80/kg.

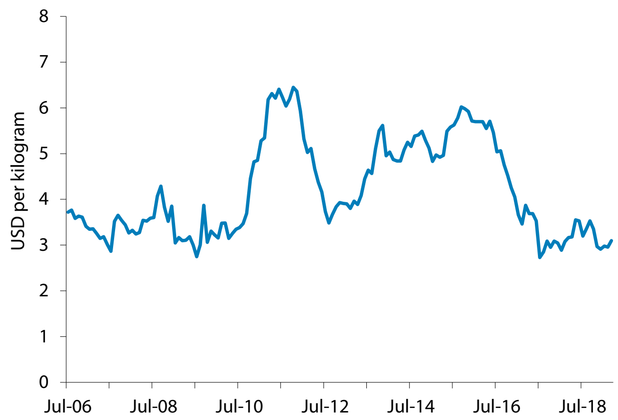
WOOL – STUCK IN A HOLE

Prices for strong wool continue to bumble along at low levels. As yet there is nothing on the horizon to drag coarse wool prices up. Coarse wool prices are currently about 30% below their long-run average.

At this time of the season it is mainly lamb wool that is being offered through the regular Napier and Christchurch auctions. Lamb wool is trading better than coarse wool, and its price has trended up over the past couple of months.

Poorer-quality wool remains difficult to sell, as is typically the case when demand is weak. The proportion of inferior-quality wool being harvested has increased as genetics and management practices focus on maximising meat production. In a lot of cases wool returns are not even covering shearing costs, so it is unlikely that we will see a refocus on wool any time soon.

STRONG WOOL (>35 MICRON)



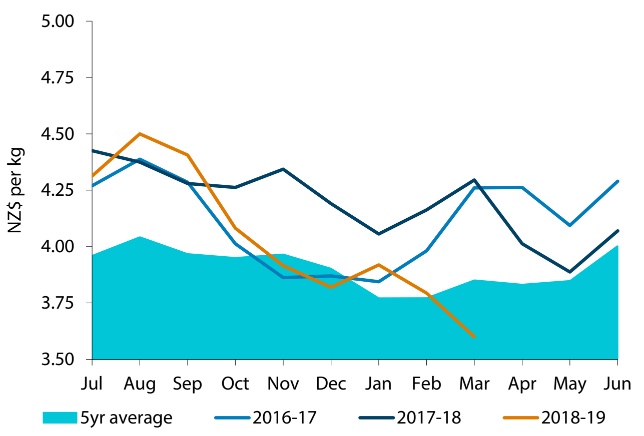
Sources: ANZ, NZWSI, PGG Wrightson

BEEF – STABLE RETURNS

Farmgate prices for cattle have softened in the past couple of months as the amount of stock available for processing has lifted. International markets remain well supported despite the increase in offer volumes. The strength of demand in international markets will underpin farmgate prices and therefore limit downside to prices that are offered by processors. The reduction in feed available on farms has reduced the value of stock heading through the yards.

Beef schedule prices have softened over the past couple of months as more stock has become available for slaughter. Prices at the farmgate level are now below the five-year average for bull and cull cow, but pricing for prime stock remains above the five-year average despite recent softening.

COW FARMGATE RETURNS (160-195KG GRADE)



Source: AgriHQ, ANZ

Store stock prices have also softened. Weaner fairs have dominated sale yard action recently. Weaner prices are well below the levels achieved in the past few seasons but are still at levels that provide a decent return for breeders. Prices are down about 50c/kg LW or about $100 per head, but this varies from sale to sale.

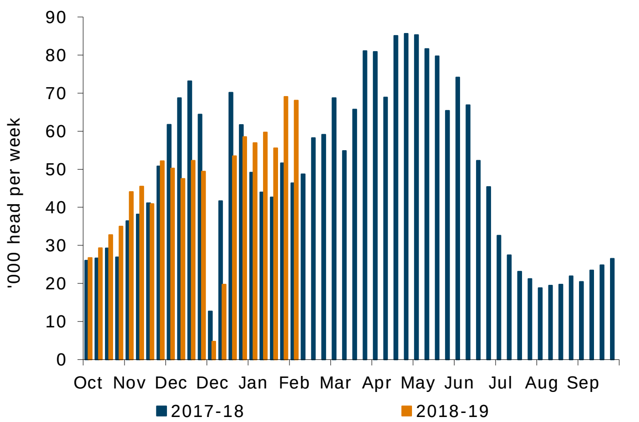
PROCESSORS NEAR CAPACITY

Beef processing facilities have been operating near capacity for the past month, with some backlogs of stock initially building now having been cleared. Prime stock has been held longer than normal due to the surplus of pasture available earlier in the season. This situation changed during February, with pasture covers tightening on many farms, resulting in a lift in the number of cattle sent to processors.

This means that the processing season for prime stock has run into the start of the cull cow season. Beef cows started coming forward as the weaner sales commenced in February. We have also seen a lift in the number of dairy cows being culled. Dry conditions mean dairy farmers have offloaded some stock that they don't plan to milk next season, in order to alleviate pressure on farm.

Processing plants are expected to operate at capacity through the next couple of months. There have been some backlogs for processing stock but thus far these have been moderate. Some additional stock is being offloaded through the yards, but demand is low and reflected in prices on offer.

NZ CATTLE PROCESSING



Source: MIA, AgriHQ

BEEF

LIFT IN AUSSIE PROCESSING

International markets have held up despite extra volume coming out of Australia. The devastating drought, followed by widespread flooding in Queensland in February, resulted in a surge in the number of stock processed. Significant on-farm losses are estimated, in the vicinity of 500,000 head or approximately 2% of Australia's total beef cattle. Once on-farm conditions improve, a slowing in cattle processing in this market can be expected as farmers once again move into a herd-rebuilding phase. Prior to the flooding, Meat & Livestock Australia estimated cattle processing in 2019 would be 3% down on the previous year.

At present, processors in Australia are running at capacity with significant backlogs. This has resulted in extra beef being exported from Australia. Australia has directed most of the additional beef into China – a market that is happy to absorb as much volume as it can get.

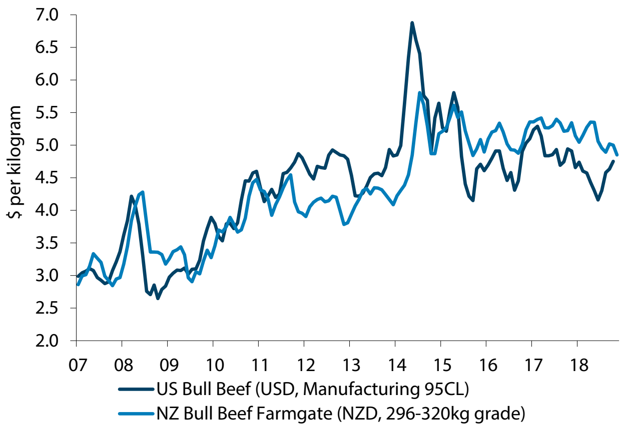
MARKET DIVERSITY KEEPS PRICES STRONG

The rise of China means New Zealand and Australian exporters have directed less meat into the United States. Traditionally any whiff of a lift in supply from Australasia would push down the price US importers were willing to pay for bull and cow meat. However, in recent months, both New Zealand and Australia have sent less beef to the US, which has kept prices stable.

The price of imported bull (95cl) and cow (90cl) meat has actually lifted a tad in recent weeks and now sits about in line with the five-year average, when measured in USD terms. Meanwhile, the price of US domestic (90cl) remains below its long-term average. When measured in NZD terms, prices for imported bull and cow meat are even better, sitting 6% to 8% above the long-term average.

As we progress through the season, the improved returns for beef will be reflected in farmgate prices. But while slaughter numbers are elevated, there is little incentive for processors to pass this through. Procurement pressure earlier in the season meant weaker international prices were passed on to farmers at that time, so it is not surprising that processors will now be clawing back margins where they can.

BULL BEEF PRICES



Source: USDA, AgriHQ

CHINA TRADE DRIVEN INTO OFFICIAL CHANNELS

The rise of China as a major importer of beef products has been phenomenal, but perhaps less surprising if you consider the volume of meat that previously entered China through 'grey' channels. While this informal importation channel can't be accurately measured, the tightening up of illegal imports has no doubt pushed some of this trade into formal channels. China's demand for beef shows no signs of abating and is now providing a real alternative to the US market for exporters.

Japan is also back on the radar for New Zealand exporters due to the reduction in tariffs associated with the CPTPP agreement. Japan implemented its year one tariff reductions on 1 January, and on 1 April tariff rates will move to year two levels. Japan is a major market for Australia, having enjoyed preferential access for its beef since signing a Free Trade Agreement (FTA) in 2015. At that point, New Zealand's presence in that market waned, and it is expected to take time to rebuild access now that we are back on a level playing field with Australia.

DEER

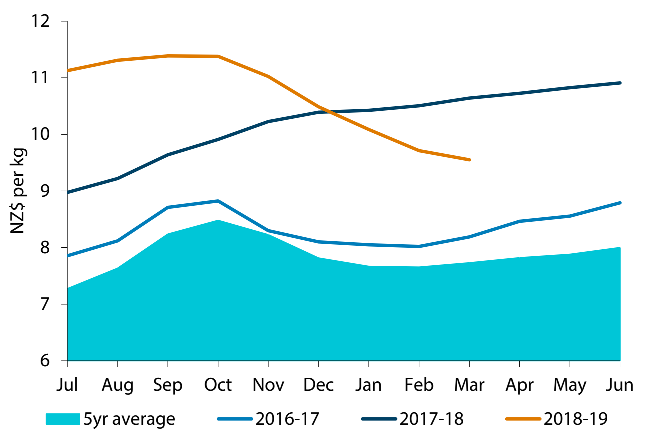
DEER RETURNS ROBUST

Farmgate prices for stags have trended down since October, but still remain well above the five-year average. The venison industry remains in good shape, as does the velvet industry. Confidence amongst farmers is high, with herd expansion expected to continue at a steady level.

High in-market prices have eroded some demand, and a build-up of stocks in key European markets is making selling activity a little more challenging for high-end cuts into the traditional markets. However, returns are generally still strong.

Farmgate prices typically fall away after peaking in October. Early-season prices are normally higher as processors source supply specifically for the Christmas markets in Europe. At that time of the year, product is supplied chilled, which is more valuable than frozen. By contrast, out of the European winter season more venison is frozen by processors, reducing returns.

VENISON FARMGATE PRICES (STAG AP60KG)



Source: ANZ, AgriHQ

Deer processing is at its seasonal low point at present, with the main stag cull now behind us. Cull hinds will be coming through now. Therefore, the farmgate prices that were on offer at the peak processing period from October to February will have a greater influence on returns to farmers than current prices.

Returns for poorer manufacturing-grade meat have eased a little. The industry has been able to lift overall returns in recent years by extracting maximum value from all parts of the carcass. Demand for lower-grade cuts, trim and offal has softened a tad. These products tend to be sold into Asian markets and are also in demand from pet food companies.

Overall, markets still look very positive for venison. The value of venison exported from October to January was priced slightly higher than at the same time the previous year. However, the volume exported during that time was 20% lower than at the same time the previous year.

Export volumes were relatively evenly split between the United States and the main European markets – Germany, Finland, Belgium and the Netherlands.

In terms of price, the European markets generally return more value than the United States. Demand by Chinese importers for venison is steadily lifting. Venison is not a meat that is traditionally consumed in China, but exporters have had some success getting quality cuts onto the menus at some high-end restaurants.

China was the fifth-largest export market for New Zealand venison products during the period from October to January, sitting behind the United States, Germany, Finland and Belgium.

DEER

VELVET SOUGHT AFTER AS HEALTH FOOD

Direct sales of velvet to Korean health food companies are delivering improved returns for New Zealand exporters. New Zealand-sourced velvet is sought after by high-end health food companies who value ongoing supply relationships and the attributes that New Zealand velvet delivers. DeerNZ estimate Korean health food companies now account for 25% of all velvet exports.

The value that can be extracted by dealing with Korea directly is considerably more than selling product via China. Export data indicates the value of velvet exported directly to South Korea lifted to nearly 30% y/y in recent months. China remains our largest market for velvet, although much of the velvet that is exported to China also ends up in South Korea after processing. Exports that go directly to Korea are worth nearly twice as much, on a per kilogram basis, than product going to China.

The biggest advantage of exporting directly to health food companies in South Korea is that it is possible to control the supply chain to ensure the authenticity of the product.

GRAIN

Grain and feed prices have softened a little in recent months. With the new-season harvest now in the silo for most crops, there is ample supply available. Demand from the dairy industry for supplementary feed is subdued.

The main cereal harvest is virtually complete in Canterbury, with mixed reports on yields. All that is left to be harvested are the crops that were planted later than normal due to the wet spring.

Demand for uncontracted feed wheat and barley remains subdued. Dairy industry demand tends to be the swing factor that drives spot market prices. Despite the recent dry conditions and favourable milk prices, dairy farmers are not particularly keen to buy extra supplementary feed. The dairy industry is becoming more focused on profitability. This means some farmers are opting to run lower-cost systems rather than to farm for higher production.

It appears that prices may have to soften a little if growers are in a hurry to clear silos.

Contracts for next season's wheat and barley are currently being negotiated. But the gap between grower and seller expectations remains too wide, in a lot of cases, for contracts to be finalised.

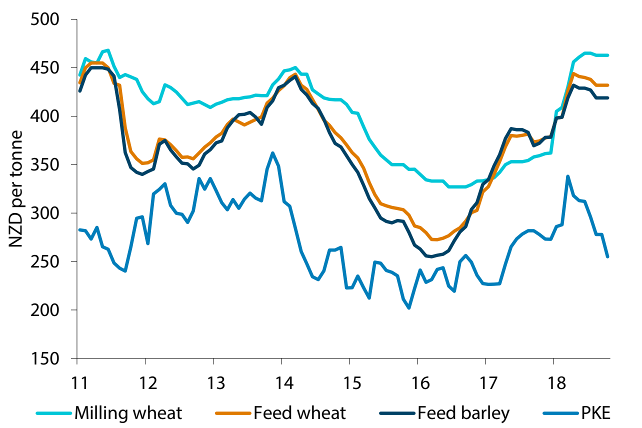
MAIZE SEASON UNDERWAY

The maize silage harvest is virtually complete in the North Island, and harvesting of maize grain is due to get underway. In some regions maize silage yields have suffered due to dry conditions earlier in the season. The acreage of maize silage planted last spring was also down, which will further reduce the quantity harvested.

International prices for Palm Kernel Expeller (PKE) have eased. Prices in Malaysia are now about 20% lower than they were a year ago. Local market prices have also softened a little. There has been some additional late-season demand for PKE but demand is generally subdued. Fonterra suppliers who are feeding PKE will be closely monitoring their Fat Evaluation Index (FEI) results to ensure they don't have their milk downgraded. Feeding high quantities of PKE (and some other types of feeds) can trigger higher FEI readings.

Contracts for PKE for next season are currently available in some areas at less than $230/t, which is relatively cheap compared to where prices have been in recent years. These prices have prompted some farmers to sign contracts for their next season requirements.

NZ GRAIN PRICES



Source: AgriHQ

FORESTRY

FORESTRY

The forestry sector remains buoyant on the back of strong export demand for logs. Global and domestic markets are soaking up the extra volume of wood that is being felled.

Demand for logs and log pricing remains robust. China continues to lead the market in terms of the volume of logs sought. They also lead the market in terms of pricing, with other nations having to match the prices offered from this market in order to secure supply.

The volume of logs stockpiled on wharves in China eroded earlier in the year, indicating additional buying activity would be required to rebuild stocks. This is exactly what has happened.

LOG EXPORTS LIFT

In February log exports shot up, with export values up 20% compared with the same month the previous year. This was a combination of more logs being shipped and higher prices being obtained.

Monthly data is influenced by the timing of ships sailing, but the volume of logs being exported continues to trend up. In the past six month the quantity of logs and other wood products exported was 10% greater than the same time the previous year.

The Chinese New Year holiday period can impact the timing of shipments, but this is becoming less of an issue for our log exporters than it once was. There is always a lull in building activity in China at this time.

In China prices are still holding up well but some supply competition does exist, which limits the potential for further price increases. Lower-quality logs sourced from the US and Uruguay compete with New Zealand logs. However, due to the trade war, the quantity of US logs being purchased by China is low. Logs from Uruguay are again competitive in this market as shipping rates are currently low.

CHINA'S ECONOMY REMAINS A RISK

Despite the recent lift in demand, risks remain in place regarding a slowing of China's economy. China is feeling the impact of its trade war with the US. Manufacturing activity in China is on the decline, debt levels are high, and it is certainly not a given that government stimulus packages will be able to deliver the desired level of economic growth.

Some slowing of manufacturing activity in China is inevitable as its economy transitions from a manufacturing to a knowledge-based economy, but for now being an efficient producer of goods is what makes its economy tick. Log exports are particularly exposed to China's rate of residential construction, as the resulting timber is often used for boxing concrete.

Demand from other markets for New Zealand logs is steady but prices would be considerably weaker without China underpinning the market.

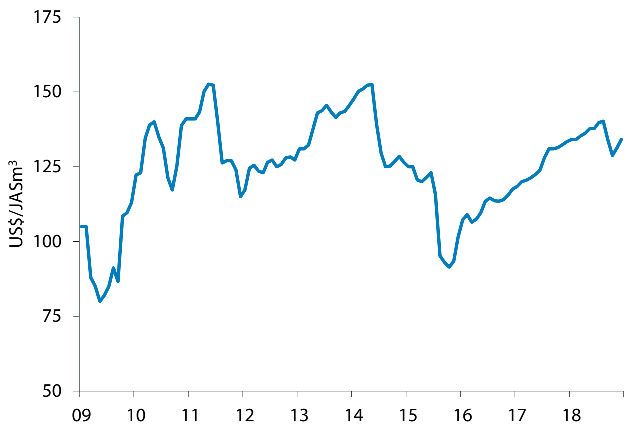
LOG PRICES STRONG

Prices of pruned logs are about 5% stronger than year-ago levels. In-market prices for unpruned logs are also firmer due to ongoing strong demand. The fact that export log prices have steadily firmed in recent months despite higher export volumes is extremely positive.

Further growth in harvesting is expected to be constrained by labour availability. Automation of some aspects of harvesting could alleviate some labour pressures.

FORESTRY

LOG PRICE (UNPRUNED A GRADE)



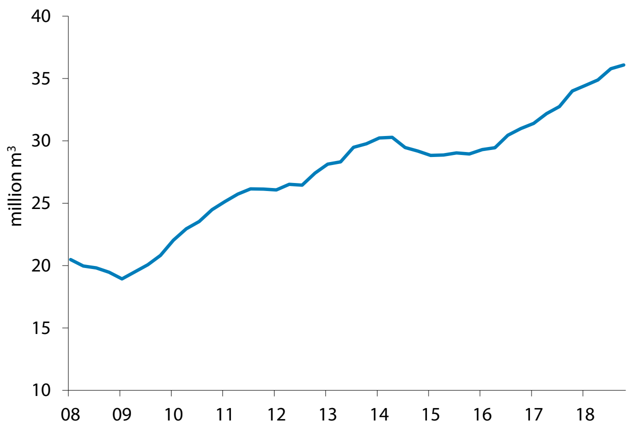
Source: AgriHQ

HARVESTING ACTIVITY STRONG

Roundwood removals in the second half of 2018 were 20% greater than the five-year average. Harvesting rates fell away slightly in the final quarter of the year, but there hasn't been any let-up in demand for tree felling crews.

Annual felling rates increased by 2.1 m^3 roundwood in the 2018 compared to the previous year. That's about an extra 74,000 truck and trailer loads.

ROUNDWOOD REMOVALS



Source: MPI

HORTICULTURE

HARVEST TIME

Orchardists across the country are in the thick of picking and processing fruit. The apple harvest is well underway, as is the grape harvest. The kiwifruit season has just begun, while the hops harvest is complete.

Water restrictions through the dry summer have been an issue in some areas and some impact on yields can be expected. However, orchardists and viticulturists have managed to juggle the water they have had available and therefore the overall impact on yields at the national level is expected to be small, notwithstanding the impact on some individual growers could be considerable.

Labour for picking, packing and processing remains a challenge as the various harvests overlap and seasonal labour remains tight. But thus far a combination of seasonal labour and casual labour from backpackers means the fruit is being processed.

QUALITY VINTAGE ON LOWER VOLUMES

The grape harvest has begun in earnest. Yields are expected to vary across the country. In Marlborough, the main Sauvignon region, yields look to be well down. On a brighter note, the quality of this vintage is expected to be excellent.

A lack of water for irrigation has been an issue in some parts of Marlborough, and this has impacted yields. The lack of grapes means a strong spot market, but there will be very few growers who have grapes that aren't already committed to contracts.

Overall returns to growers could be down by 20%. The challenge for wine-makers will be to allocate the reduced crop the best they can in order to meet market obligations. Costs will also be spread over a lower volume, increasing both growing and processing costs on a per unit basis.

GOLD KIWIFRUIT IN VOGUE

The kiwifruit industry is setting itself up for a record harvest. The industry has continued to expand, with some of this expansion coming on stream this season. The volume of gold varieties harvested this season could eclipse green for the first time.

Licenses continue to be granted by Zespri, which are eagerly being purchased by new operators and as current operators looking to expand their area in vines or swap a portion of green production for gold.

The harvest is just underway with some early maturing fruit already in the packhouses. Gisborne tends to be the first region to start picking due to its climate resulting in earlier maturity dates. However, Bay of Plenty is also well underway, with fruit maturing slightly earlier than normal due to the warm summer.

Resources for picking and processing kiwifruit are expected to be at full stretch in the next couple of months. As more of the crop moves to gold (G3 variety), greater resources are required, due to this variety having higher yield and a tighter optimal picking window than the traditional varieties.

Picking of green varieties will also soon be underway with the picking season stretching through to June.

It is a little too early to get a good steer on yields for the season but good fruit size indicates yields should be favourable.

Zespri recently undertook a share split on a three-for-two basis, ie a shareholder with two shares received three after the share split. At the same time, the share price dropped from $9 to $6, hence the overall value of the shares held is unchanged. A share split potentially provides more liquidity and allows more precise parcels of shares to be traded. Zespri is attempting to align its shareholders more closely with its producers.

HORTICULTURE

Zespri shareholders are currently allowed to hold six shares for every tray of production based on the average of the best two out of the last five seasons. Those holding more shares than entitled have several years to sell their excess shares.

Applications for allocation of 700ha of new SunGold licenses close on 10 April, with successful bidders notified after 29 April.

Orchard gate returns for the 2018-19 season are forecast to be $140,195/ha for the SunGold variety (including organic). This compares to $63,796/ha for Green. Actual returns to growers can vary considerably due to premium and incentive payments. SunGold returns are up 22% on the previous season, while Green returns are up 6.5%.

ROSY RED APPLES

The apple harvest is well underway in the main producing regions.

Nelson growers are reporting that harvest volumes are a little lower than normal. Wet weather at flowering impacted fruit set, while water restrictions due to the dry summer meant some apple trees were irrigated at less-than-optimal quantity and/or frequency.

Plenty of sunshine has resulted in good colouring on apples, which increases their appeal and potential value.

The industry is buoyant at present with plenty of enthusiasm regarding future returns. This is being reflected in ongoing investment within the industry in orchards and processing facilities.

HOPS READY FOR THE BREWERS

The hop harvest is now over for the season. The harvest period is very condensed as the optimal harvest time for each variety lasts only a few days. Growers tend to grow several different varieties to maximise the use of processing facilities, as initial processing is done at the hop garden. Processing involves cutting down the vines, feeding them through a machine to separate the hops from the vines, then drying the hops in kilns before packaging in bales for delivery and further processing.

The next stage of hop processing is pressing the dry hops into pellets, which is mainly done by the industry co-operative, NZ Hops. Once palletised, the hops are then packed and stored before being supplied to local and international brewers. A small quantity of hops is sold fresh to local brewers.

RURAL PROPERTY MARKET

PROPERTY SLOW TO MOVE

Activity in the rural property market was subdued in the three months to February. This is the time in the season when you would typically see a lot of dairy farms change hands. However, a lack of demand means there are a lot of farms on the market still looking for buyers.

Grazing properties are more sought after. Good returns from the sheep and beef sector is driving this demand, alongside buyers looking for properties suitable to plant in trees.

The horticulture sector is in expansionary mode, but the sales data is yet to reflect this sentiment.

PROPERTY TRANSACTIONS SLOWING

Rural property price data lacks clear direction. Median prices on a per hectare basis are bouncing along influenced by individual sales.

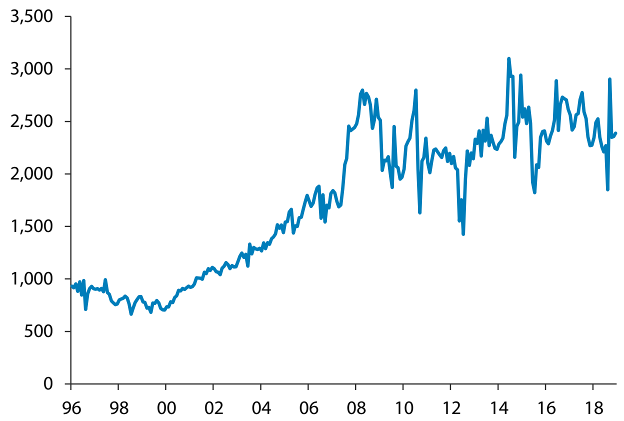
What is clear is that the number of properties changing hands has slowed. This is particularly the case for dairy farms. The number of property transactions tends to be a lead indicator for price movements. When demand is high, more property transactions occur and price movements tend to follow. The trend is less easy to see in a market where demand is lower, as property prices don't fall as readily as they go up. Typically in that situation prices stabilise and we see fewer transactions, as vendors tend to be reluctant to sell at prices below where they perceive the market to be.

DAIRY PROPERTIES HARD TO MOVE

Dairy farms are particularly sticky. Only one third of the Waikato dairy farms put up for sale in the spring have sold. It is now getting late in the dairy season for sales to be finalised. Therefore, unless vendors are willing to accept lower offers, they could well be stuck with their farms for a further season.

In Taranaki a large number of properties has changed hands after a tough couple of seasons. This region has suffered more than most from extreme weather in the past couple of years, which has taken its toll on equity positions and industry confidence. However, it appears there are buyers willing to step up to purchase first farms or expand existing land holdings.

DAIRY PRICE INDEX



Source: REINZ

Dairy farm sales in Canterbury are virtually non-existent, with REINZ reporting just two sales since August. The number of dairy farms changing hands in Southland is also muted.

FARM SALES BY FARM TYPE

3-Month Seasonally Adjusted		Current Period	Previous Period	Last Year	10 - Year Av.	Chg. P/P	Chg. Y/Y	Chg. P/10yr
Dairy	Number of Sales	37	42	58	51	↓	↓	↓
	Median Price ($ per ha)	29,449	34,231	26,655	29,642	↓	↑	↓
Livestock - Finishing	Number of Sales	102	122	123	74	↓	↓	↑
	Median Price ($ per ha)	29,405	29,255	30,794	21,088	↑	↓	↑
Livestock - Grazing	Number of Sales	114	107	101	152	↑	↑	↓
	Median Price ($ per ha)	10,270	11,088	11,193	14,038	↓	↓	↓
Horticulture	Number of Sales	42	42	50	44	↓	↓	↓
	Median Price ($ per ha)	150,283	165,424	238,715	166,159	↓	↓	↓
Arable	Number of Sales	26	26	23	22	↑	↑	↑
	Median Price ($ per ha)	31,914	106,220	28,889	27,246	↓	↑	↑
Forestry	Number of Sales	13	14	15	12	↓	↓	↑
	Median Price ($ per ha)	5,567	6,218	7,083	7,027	↓	↓	↓
All Farms	Number of Sales	339	359	365	356	↓	↓	↓
	Median Price ($ per ha)	23,442	27,214	26,428	23,159	↓	↓	↑

RURAL PROPERTY MARKET

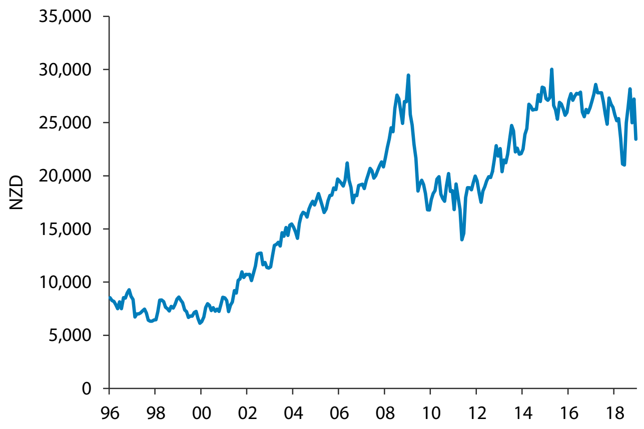
FIRM DEMAND FOR GRAZING PROPERTIES

Demand for grazing and finishing properties is more robust. Sector confidence is strong on the back of two very good seasons for lamb prices, while beef returns remain solid.

This is keeping demand for both grazing and finishing properties strong. Demand for forestry land is helping to bolster values as well. While the Government has indicated it does not want to see trees being planted on good-quality farm land, there is nothing to stop this happening.

If we are to plant enough trees to offset our expected emissions, then under current emission proposals about half of the land used for sheep and beef farming would need to be planted out. No doubt alternative ways to reduce or offset greenhouse gases will emerge, or policies may evolve differently. But it is clear that more trees will be planted and this demand will support grazing land values.

MEDIAN PRICE PER HECTARE



Source: ANZ, REINZ

The horticulture sector remains very buoyant. The kiwifruit industry is in expansion mode as Zespri continues to release additional licenses for growing its sought-after Sungold variety. Properties are being sought for greenfield conversions to kiwifruit in the Bay of Plenty, but also in parts of the Waikato.

ECONOMIC OVERVIEW

GLOBAL ECONOMY

A reduction in global growth remains a key risk to New Zealand's economy due to our reliance on our export sector.

All of our main trading partners are experiencing challenges maintaining economic growth.

The current slowing of global growth is expected to be a mid-cycle slowdown rather anything more sinister. However any slowing of growth could negatively impact demand for food products. The OECD forecasts a slight decline in prices of dairy and meat products over the next decade. It says demand growth from China is now decelerating while new sources of global demand are not sufficient to maintain growth.

New Zealand is highly exposed to China, which is adjusting to structurally lower growth rates as the economy matures. China directly accounts for 24% of our exports, and we are also indirectly exposed to this market through our second-largest trading partner, Australia.

At present, China's appetite remains strong for the products that New Zealand supplies. This demand has helped bolster returns across the primary sector.

But economic uncertainty caused by political events such as the US-China trade war and the Brexit process, are adding to headwinds for global economic growth.

Central banks are increasingly looking to adopt measures to stimulate growth. China plans to reduce the level of capital banks need to hold in order to stimulate lending to the private sector. Meanwhile, the US Federal Reserve now plans to hold interest rate at current levels through to 2021, while the European Central Bank also has its rates on hold and is providing extra stimulus though cheap loans to its banks. The RBA has also moved towards a more cautious stance.

NEW ZEALAND ECONOMY

GDP data for the final quarter of 2018, released last week, confirmed that economic growth has softened. The data showed annual growth slipping from 2.6% to 2.3% y/y, after growth in the final quarter of 2018 at 0.6% q/q. This rate of growth was aligned with our expectations but was lower than the Reserve RBNZ had been expecting. And downward revisions to previous quarters suggest that the slowing in growth has been more pronounced than previously thought.

Our view is that the economy will struggle to accelerate from here and that growth will continue to run close to or a bit below 2.5% y/y over the next year. Drivers of growth such as the impetus from construction, tourism and net migration have waned. Meanwhile, the economy is coming up against constraints that limit how quickly it can grow.

Most labour market indicators show the economy is operating at near full capacity, with employment close to its maximum sustainable level. However, recent data suggest that capacity pressures are starting to ebb and resource pressures are past their peak.

Even with the economy running close to full capacity, there was little inflationary pressure. Inflation is tracking below the desired 2% medium-term target, and with capacity pressures expected to ease, it is unlikely this target will be met.

However, there are some factors that are stimulating economic growth. The terms of trade remains strong – that is, the value of the goods we are exporting is strong relative to the value of the goods being imported. Put another way, when our terms of trade is strong, we can buy more smart phones with each tonne of milk powder sold.

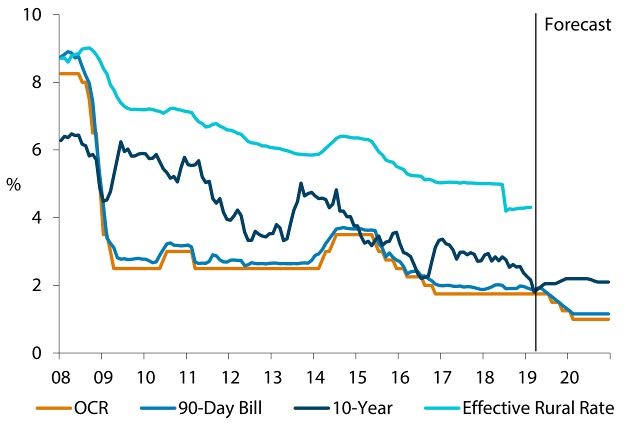
Monetary policy is also stimulatory at present. The OCR remains at 1.75%, having been at this low level since November 2016. We expect the next move in the OCR will be downward. The RBNZ has come around to this view, indicating at the March OCR Review that the next move in the OCR is more likely to be down.

Government spending is also providing some boost to the economy and household spending remains strong.

INTEREST RATES

Effective rural interest rates flattened in the later part of 2018, while total borrowing from New Zealand's rural sector increased. The dairy sector, which accounts for the majority of the debt, is becoming increasingly focused on debt repayment, with expansionary plans now more the domain of the horticultural and forestry sectors.

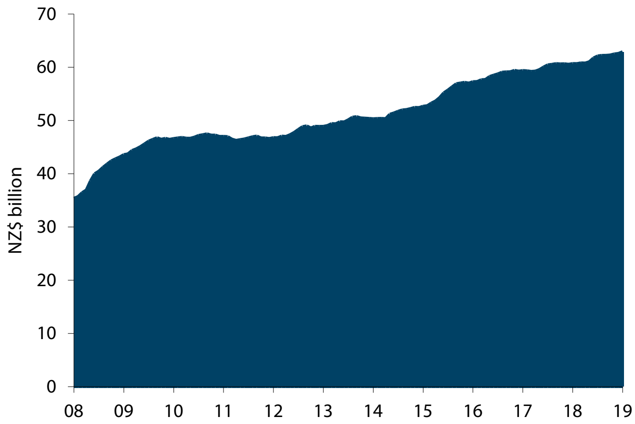
KEY INTEREST RATES



Source: ANZ, RBNZ

ECONOMIC OVERVIEW

AGRICULTURE SECTOR DEBT



Source: RBNZ

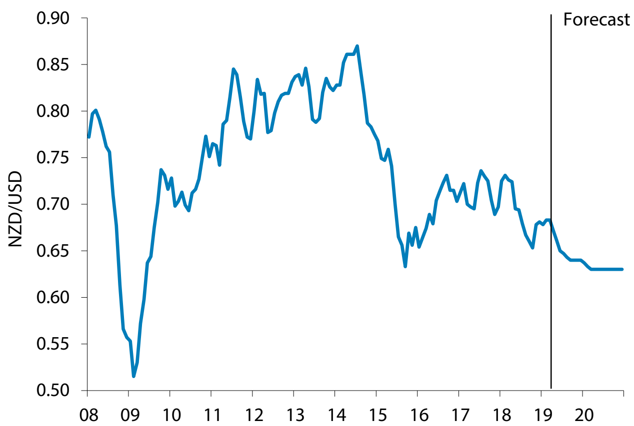
EXCHANGE RATES

The New Zealand dollar has traded at an average rate of US$0.6816 since the beginning of the year. The NZD generally appreciated during this time when central banks across the globe took a more dovish tone, indicating they would either cut interest rate or postpone planned rate hikes.

The RBNZ announced last week that the next rate movement is likely to be down. The NZD reacted to this dovish statement by the RBNZ by rapidly depreciating. Prior to the announcement the NZD was priced above US$0.69 but has now stabilised near US$0.68. In the second half of 2019 further softening in the NZD is expected, with timing dependent on the expected OCR cuts and how other economies perform.

The bank capital changes proposed by the RBNZ are expected to have a material impact on the cost and availability of credit in New Zealand. If implemented, this policy could put further downward pressure on the NZD in the later part of 2019.

NZD BUYS USD



Source: ANZ, Bloomberg

KEY FORECASTS

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Feb-19	Mar-19	Today	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NZD/USD	0.681	0.683	0.68	0.65	0.64	0.64	0.63	0.63	0.63	0.63
NZD/AUD	0.960	0.959	0.96	0.93	0.91	0.91	0.90	0.90	0.88	0.84
NZD/EUR	0.599	0.608	0.61	0.60	0.58	0.56	0.53	0.50	0.50	0.50
NZD/JPY	75.82	75.81	75.81	71.5	69.1	69.1	66.2	66.2	66.2	66.2
NZD/GBP	0.513	0.524	0.52	0.48	0.47	0.47	0.46	0.45	0.45	0.44
NZ TWI	72.5	73.0	74.2	70.2	68.6	67.7	65.6	64.8	64.4	63.5

INTEREST RATES	ACTUAL			FORECAST (END MONTH)						
	Feb-19	Mar-19	Today	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NZ OCR	1.75	1.75	1.75	1.75	1.50	1.25	1.00	1.00	1.00	1.00
NZ 90 day bill	1.89	1.85	1.84	1.83	1.58	1.33	1.16	1.16	1.16	1.16
NZ 10-yr bond	2.16	1.81	1.83	2.05	2.05	2.20	2.20	2.20	2.10	2.10
US Fed Funds	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
US 3-mth	2.62	2.60	2.60	2.65	2.65	2.65	2.65	2.65	2.65	2.65
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.87	1.77	1.77	2.10	2.00	2.00	2.00	2.00	2.00	2.00

ECONOMIC INDICATORS	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
GDP (% q/q)	0.6	**0.6**	**0.7**	**0.5**	**0.7**	**0.6**	**0.7**	**0.6**	**0.7**
GDP (% y/y)	2.3	**2.4**	**2.2**	**2.4**	**2.5**	**2.5**	**2.5**	**2.6**	**2.6**
CPI (% q/q)	0.1	**0.2**	**0.5**	**0.4**	**0.2**	**0.6**	**0.5**	**0.5**	**0.2**
CPI (% y/y)	1.9	**1.6**	**1.7**	**1.3**	**1.4**	**1.8**	**1.8**	**1.8**	**1.8**
LCI Wages (% q/q)	0.5	**0.4**	**0.5**	**0.6**	**0.4**	**0.5**	**0.7**	**0.6**	**0.5**
LCI Wages (% y/y)	2.0	**2.1**	**2.0**	**2.0**	**2.0**	**2.0**	**2.2**	**2.2**	**2.2**
Employment (% q/q)	0.1	**0.5**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% y/y)	2.3	**2.3**	**2.0**	**1.3**	**1.7**	**1.5**	**1.4**	**1.4**	**1.3**
Unemployment Rate (% sa)	4.3	**4.3**	**4.3**	**4.2**	**4.2**	**4.2**	**4.2**	**4.2**	**4.2**
Current Account (% GDP)	-3.7	**-3.6**	**-3.6**	**-3.6**	**-3.7**	**-3.7**	**-3.8**	**-3.9**	**-4.0**
Terms of Trade (% q/q)	-3.0	**0.5**	**1.6**	**0.2**	**0.1**	**0.2**	**0.2**	**0.1**	**0.2**
Terms of Trade (% y/y)	-4.7	**-2.3**	**-1.2**	**-0.8**	**2.4**	**2.1**	**0.8**	**0.7**	**0.8**

Figures in bold are forecasts. q/q: Quarter-on-Quarter, y/y: Year-on-Year

IMPORTANT NOTICE

This document is intended for ANZ's institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (recipients).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (ANZ).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of 'wholesale clients' (as defined in section 761G of the Corporations Act 2001 Cth).

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (ANZ Royal Bank). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): United Kingdom. ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (PRA) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Myanmar. This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (QCB), the Qatar Financial Centre (QFC) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (Qatar); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (DIFC) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (ANZ Representative Office) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

United States. Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (ANZ SI) which is a member of the Financial Regulatory Authority (FINRA) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 10, 171 Featherston Street, Wellington 6011, New Zealand, Ph 64-4-382 1992, e-mail nzeconomics@anz.com, http://www.anz.co.nz