Will the Party Continue in 2022?

New Zealand Agribusiness Outlook

February 2022

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Food & Agribusiness

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Celebratory Mode for New Zealand Agriculture

2021 marked half a decade of broad-based profitability for New Zealand food producers.

Adverse weather, concern about food shortages, and Covid-induced supply chain chaos worldwide all helped to channel record farmgate pricing locally for most New Zealand-produced commodities (except wool) in 2021. This marks five years of broad-based profitability for NZ farmers, a milestone achievement that clearly deserves celebrating.

Profitability in 2021 also extended to downstream companies, which also performed well – so well, in fact, that a new dairy plant is underway in Tokoroa.

New Zealand exporters can also rightfully raise a toast for navigating erratic supply chains, with Fonterra shipping more product in 2021 than any other year.

A favourable dollar also underpinned returns in 2021. While the NZ dollar averaged USc 70 over the past year (a lift of USc 5 on 2020), it was well below the USc 83 seen in 2014, the last time markets were this strong.

Trade flows held up well, and despite a global pandemic still raging, a new free trade agreement with the UK has been agreed to in principle. The relationship between NZ and China has also remained cordial.

Total exports of goods from New Zealand to China soared to new heights in 2021. Over the last year, China procured around one third of NZ exports, paying 20% more than in 2020.

At a local level, New Zealand farmers have hit their first milestone under the new climate change regulations, with 25% of farmers knowing the greenhouse gas number for their business. This will need to be built upon, if the sector is to hit by the end of 2022 the prescribed 100% target.

At the same time, dairy farmers have been redirecting healthy cashflows achieved in prior production seasons towards debt repayment. National dairy debt is now back in line with 2011-2015 levels, setting up dairy farmer balance sheets well for the unknowns that may arrive in the future.

An impressive list of achievements, laying strong foundations for NZ agriculture for the year ahead.

But Some Hangovers From Covid Are Settling In

As we stretch into a third year of life with Covid, reverberations still remain.

Global food security concerns have seen market intervention remaining a theme, helping to push commodity prices higher. China continues to focus on national food security for integral commodities, Russia is ramping up wheat export quotas, and the energy crisis in Europe has governments shielding consumers from the full impact.

Spiraling inflation is a global phenomenon and is on the steepest trajectory in 30 years. Economic reboots worldwide, pumped up by huge Covid-induced cash injections to support incomes and employment, have translated into strong aggregate consumer demand and have been facilitated with ease by e-commerce. Commodity prices have benefited from this so far and will, for the most part, remain supported as staples in the consumer's basket.

Structural challenges pertaining to the vulnerability of supply chains are likely to continue to plague supply and demand fundamentals over 2022 and will help slant risk to the upside for further inflationary pressure.

All eyes will be on the level of central bank intervention, which will determine whether structurally higher inflation will stick around for years to come or we embark on a period of slower growth as consumer demand is hit by inflation and supply-shock costs. New Zealand will be a test case, with the Reserve Bank of New Zealand (RBNZ) one of the first central banks in the world to lift rates.

Let's Put the Champagne on Ice – The '22 Year is Young

The profitable run for most NZ agri sectors looks likely to extend into 2022. But New Zealand's year of reckoning with Covid-19 is upon us – so it's too early to break out the champagne just yet.

Elements of 2022 will be as unpredictable as ever, and potential snags for this year, many of which we have flagged for some time now, are more precarious than ever before.

The rapid spread of Omicron worldwide illustrates the pandemic is not quite done with us. New Zealand is now embarking upon our first widespread experience of the virus, compounding the already significant challenges ahead this year for our exporters.

As economies grapple with containing the virus, the landscape for restrictions on movements to manage the spread is more varied than before. China is still taking a zero-covid approach, while parts of Europe are tentatively raising endemic status. How our key trading partners deal with the virus this year will be central to exporter success.

Central to our country's wealth remains firmly the economic strength of China. Dwindling demographics, property price pressure, and debt crackdown, in addition to specific commodity challenges like elevated dairy inventories, remain important red flags for our export return strength. Tension between the West and China – or increasingly the West and Russia for that matter – must also be considered.

Labour shortages in New Zealand are a very real and critical challenge for the agri sector. The strain on businesses is taking the shine off excellent returns. Horticulture, meat processors, agriculture contractors and dairy farmers will be the most impacted in the upcoming months by increased absenteeism with the spread of Covid-19.

While many sectors are tipped for record commodity prices once more in 2022, rocketing input costs and crimped production in some regions will not translate into new benchmark profits. Exporters once again will need to navigate high shipping costs and challenging logistics to get product to market to secure profitable returns for New Zealand farmers.

Opportunities Abound for NZ Ag to Lead

We think 2022 will hold reasons to be excited, despite headwinds gathering pace.

Production prospects of competitors offshore have been significantly hampered, with South America, the west coast of the US, and parts of Europe continuing to work through inclement weather impacts on feed, reducing their ability to ramp up production in the face of high prices.

While costs of inputs are likely to remain elevated over the year, urea prices have eased from record levels, and we see some possibility of a further decline – albeit slow – in urea prices over the next six months.

Exporters are still looking at a favourable exchange rate. The Kiwi-US cross is anticipated to trade towards USc 70 levels over the next three months before rising slightly to USc 73 by the year's end.

As we have said many times before, the direction of free cash flow in profitable seasons is incredibly important for shaping NZ ag's response to more challenging times. It's also an opportunity for both farmers and the government to prepare for a changing business environment.

Pressure on NZ agriculture to contribute to the broader climate and environmental cause will continue – and the milestones (outlined in our Regulation pages) to meet this year are evidence of this.

The speed and extent of changing land use from pastoral farming to forestry will need to be addressed this year to deliver the appropriate form and scale of afforestation required.

NZ ag has the unique opportunity to be true world leaders for solving the global methane issue in a way that is good for both farming businesses (and therefore the NZ economy) and the environment.

Now is the time to hold a broader discussion on future land use, farming systems and the role of technology in New Zealand agriculture. We must establish a pan-sectoral strategy linking our obligations for low-methane farming with positive environmental, social, and economic outcomes for future generations.

Emma Higgins
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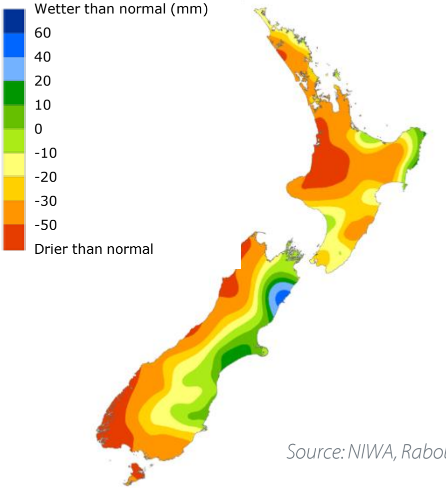
2022 Commodity Outlook

Dairy	Firm pricing across the dairy complex will continue in the face of declining global milk supply, calling for a profitable year for NZ farmers despite elevated costs.
Beef	We expect farmgate beef pricing to remain elevated above the five-year average in 2022, supported by constrained global beef supply and strong demand from China and the US.
Sheepmeat	Rabobank expects lower global sheepmeat production and steady demand from China to support elevated farmgate pricing over the coming year.
Venison	The venison market's recovery is likely to continue with the reopening of foodservice in Europe and the US. Rabobank anticipates farmgate pricing will continue to strengthen through 2022.
Horticulture	Orchard-gate returns for kiwifruit are expected to remain elevated in 2022, off the back of strong consumer demand. Significant changes to licence areas and the tender process will be made in 2022.
Consumer Foods	Unprecedented supply chain disruption and inflationary pressures mark the start of 2022. The global pandemic will continue to make for highly dynamic food markets.
Farm Inputs	In recent weeks, demand and supply drivers that elevated global urea prices to record levels have begun to ease. We expect this is the beginning of a slow decline in urea prices over the next six months.
FX	The NZD is anticipated to continue to strengthen throughout 2022, supported by strong global demand for commodities and the RBNZ front-runner role in rate hikes to battle inflation.
Oil	Rabobank expects prices of Brent Crude Oil to remain at USD 81/bbl for the remainder of 2022. This is likely to bring about higher-than-average diesel prices for local farmers.
Regulation	Regulatory frameworks continue to be developed. Key milestones will include a decision on an emissions pricing mechanism for agriculture and release of the government's emissions budget.

Climate

Soil moisture anomaly (mm), 27 January 2022



Source: NIWA, Rabobank 2022

La Niña weather conditions intensified in December 2021 and are expected to be a key climate driver in the first three months of 2022.

Temperatures across the country are forecast to be higher than normal in early 2022, with warm nights and periods of high humidity continuing to be factors. Marine heatwave conditions also intensified in December, with coastal surface water temperatures ranging from 1.6°C to 2.5°C above average. The warmer sea temperatures are expected to continue to have an effect on air temperatures and humidity through to March 2022.

NIWA expects rainfall to be near normal in the east of both islands and equally likely to be near or below normal in all other areas. Onshore winds from the east may lead to more cloud cover and drizzly days for both islands.

Soil moisture levels are likely to be near normal in the west and east of the North Island and are equally likely to be near or below normal in all other regions.

What to watch

- ***Hotspot regions*** – While excellent weather for holiday makers, January 2022 has been characterised by minimal rainfall across many parts of the country. A number of regions have been identified by NIWA as 'hotspots' – regions experiencing significant soil moisture deficits. These include the top of the North Island from North Waikato upwards, as well as the upper South Island, parts of Southland, and Otago.
- ***Elevated risk of tropical cyclone activity through Q1 2022*** may offer some relief, particularly for the north of the country, while also bringing with it risk of heavy rainfall events and flooding.

Dairy

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Global Supply Is Driving Local Prices

Commodity markets leapt into the new year, with dairy product prices lifting across the board and cheese and butter hitting new highs on the Global Dairy Trade. Restricted global milk supply is the main theme behind soaring prices, with dairy commodity prices teetering at levels not seen since 2014. The combined slowdown in milk supply in the EU, US and New Zealand has led to an acutely tight supply situation, which has international buyers scrambling for available supply amid shipping delays. Margin erosion and weather-related issues on-farm are the main causes, and we think a quick turnaround in the supply trend is unlikely. The European seasonal peak in Q2 2022 will be a key item to watch.

Farmgate milk prices for New Zealand farmers in the 2021/22 season have reached new records (in nominal terms), with Fonterra's midpoint of their forecast range sitting at NZD 9.20/kgMS. In real terms (i.e. adjusting for inflation), the farmgate milk price would need to hit around NZD 9.50/kgMS to match the last record milk price of NZD 8.40/kgMS experienced in 2013/14.

Despite record forecast prices, a portion of farmers are unlikely to experience record profitability. Cost structures are higher than those experienced in the 2013/14 season, due to inflationary pressure on input costs and structural changes such as higher wages. The effect of rising interest rates is still to be fully felt. Despite this, elevated milk price forecasts should still provide farmers with a profitable 2021/22 season.

What to watch

- ***Changes to Fonterra's capital structure*** – Fonterra suppliers voted strongly in favour of Fonterra's proposed 'Flexible Shareholding' structure. New changes will come into effect as soon as possible from the beginning of the new season, including working with the government on any required changes to the Dairy Industry Restructuring Act 2001.

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Dairy

Buying Tactics Are a Consideration

Demand may also continue to be supported by logistic disruptions in the short term, as regions look to rebuild inventories to prepare for improving demand post-Covid. A broad theme that will continue in most markets is achieving the balance between procurement strategies in the face of rising raw material costs, shipping delays, and some uncertainties in end-user demand.

Also on the demand side, China will remain a significant determinant for elevated powder prices holding over the year in 2022. Local Chinese milk production growth remains high as a wave of farm expansion takes shape. However, this makes the cost of local milk more expensive – helped further by elevated feed costs. This dynamic fosters Chinese import appetite – despite the high costs of importing milk in the form of milk powder (particularly at these prices). If the cost of locally produced milk remains expensive, we expect this will provide support for global benchmarks above long-term averages through 2022.

However, it might not be all plain sailing for our key market, China. Economic uncertainties within China, driven by Covid lockdowns, government shifts in some sectors, and power shortages, remain key downside risks to China continuing its import streak – on top of elevated dairy stocks.

Looking at the global market fundamentals, a slowdown in import demand from China, which Rabobank expects later in 2022, is what will be needed to cool prices in the face of limited supply-side increases.

What to watch

- ***A sting in the tail of Covid*** – Broadly speaking, pandemic impacts continue to shape local and offshore food markets, as well as disrupt consumer purchasing behaviour. Looking ahead, consumers will confront food inflation and cost-of-living pressures, which are likely to negatively impact dairy purchases in some emerging markets over the coming year.

A Buoyant Outlook With Downside Risk Post Q1

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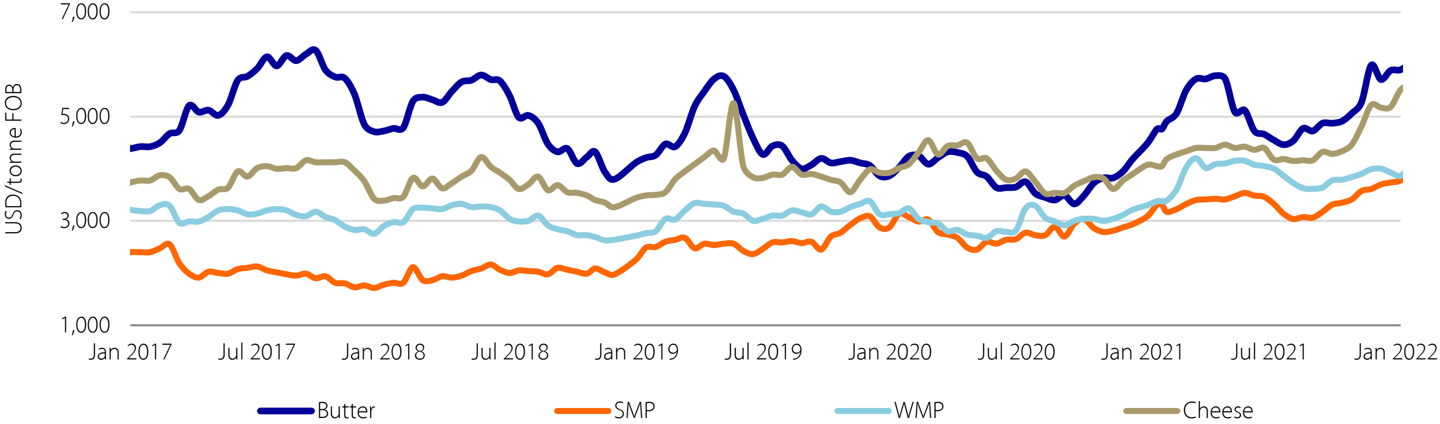
Global dairy prices (FOB) with all major benchmarks up 20% to 40% on last year



Source: USDA, Rabobank 2022

The dairy commodity complex starts 2022 on a very firm footing. All major benchmarks are 17% higher or more than the same time last year. When compared to five-year averages, current spot pricing is even firmer. A very challenging supply profile across the major export regions has been a major contributing factor. A lack of stocks in major exporting regions also adds pressure to markets and has buyers in a delicate procurement position. The demand outlook is complex. Many economies are reopening, but new variants and outbreaks mean this is not a linear path. Consumer demand will also be tested by inflationary pressures and less income support. Rabobank does not rule out further upside in the near term. But prices will be tested by the European peak in Q2 2022 and the knock-on impacts on fundamentals from expectations of softer Chinese demand in 2022.

Beefed up Demand and Prices in '22

New Zealand exporters and farmers can look forward to another year of strong returns in 2022, off the back of reduced global beef supplies and steady consumer demand.

Global beef supply is expected to remain constrained in 2022 as key export countries rebalance production. Rabobank expects US feedlot cattle slaughter to reduce by 2.5% YOY in 2022, as the liquidation of the beef herd continues due to drought, high feed costs, and tight farm-level profit margins. A small lift in production (1%) is anticipated in both Brazil and Argentina in 2022. Rabobank expects Australian beef production to lift in 2022 by around 5% YOY, driven largely by a lift in slaughter numbers from a 20-year low in 2021. We expect New Zealand beef production to decline in 2022 following a one-off lift in steer (+15.4%) and heifer (+13.7%) slaughter numbers in 2021 due to higher bobby calf retention in 2019. The lift in production in Brazil, Argentina, and Australia is not expected to be sufficient to offset the decline in the US.

Consumer demand and willingness to pay for beef is likely to remain elevated through 2022 as countries recover from the Covid pandemic. In particular, the high level of demand for New Zealand beef from China seen through 2021 is expected to continue, as the pork industry recovers from the effects of African swine fever. Demand from the US for New Zealand lean trimmings is expected to remain elevated, as Australian supply remains low.

Rabobank expects NZ farmgate beef prices to remain above the five-year average in 2022. Key risks to pricing include processing and supply chain challenges, consumer willingness to pay easing due to high beef prices and weaker economic conditions, and the potential strengthening of the NZD against the USD.

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Beef

What to watch

- ***The already tight global beef situation could be further exacerbated by La Niña weather conditions.*** Argentina and Brazil are currently experiencing extreme drought in some regions, which is having a significant impact on crop yields. The dry conditions could drive up feed costs and the length of time cattle are held on farm, resulting in cattle not fitting the 30-month of age or younger criteria for Brazilian exports into the Chinese market. To meet demand, China may be willing to pay more for NZ beef , further supporting elevated farmgate pricing in 2022.

US and Chinese Demand Drive Strong Pricing

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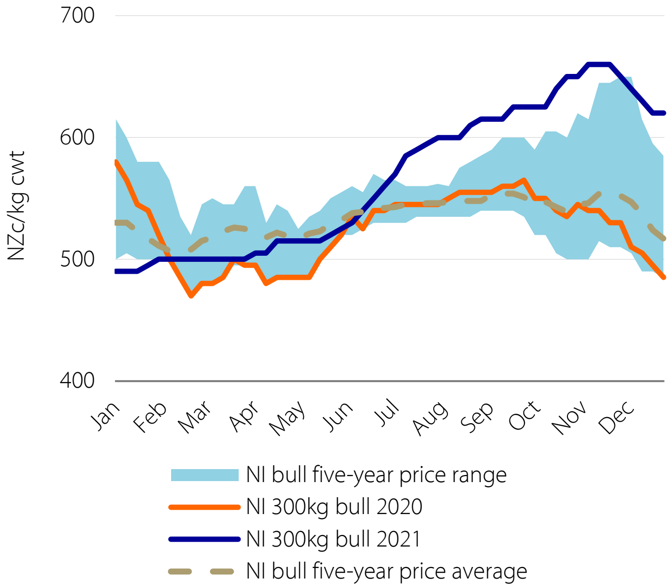
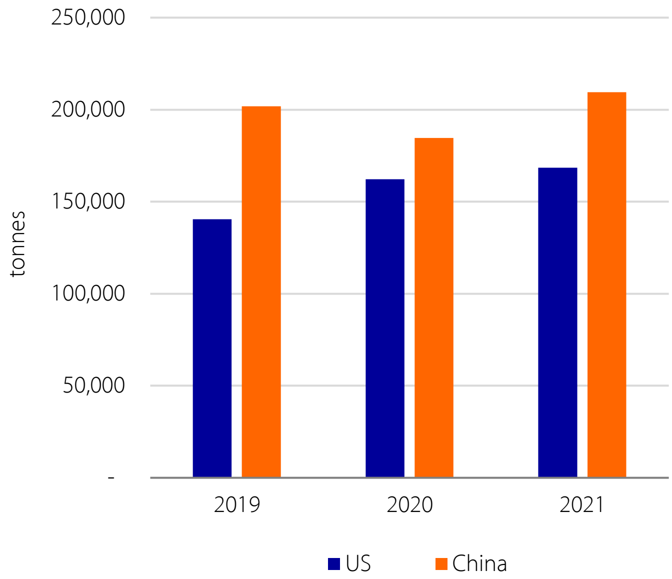
AgriHQ North Island bull price moved well above the five-year range in 2H 2021



Source: AgriHQ, Rabobank 2022

NZ beef exports to China and the US by volume for the Oct/Sep season pushing higher



Source: Statistics NZ, Rabobank 2022

Lamb on the Menu in 2022

Global availability of sheepmeat is expected to lift in 2022 due to increasing Australian production, while New Zealand sheep numbers are expected to continue to decline. Despite record prices through 2021, the New Zealand sheep flock is likely to continue to face downward pressure in 2022 due to land use competition for forestry. We anticipate that the New Zealand sheep flock will continue to decline in 2022 – Beef and Lamb NZ forecast a 0.8% decline. Meat and Livestock Australia are forecasting an 8% lift in Australian lamb production in 2022.

New Zealand's total sheepmeat exports lifted fractionally in the 2021 season; however, the end destination changed considerably, providing significant opportunity for the 2022 season. The inconsistency of foodservice channels across Europe in 2021 saw New Zealand's sheepmeat exports to the EU reduce by 23% YOY. However, two key markets absorbed excess product, with shipments to the US and China soaring by 38% and 16%, respectively, versus the 2020 season. Market diversification into the US provides an exciting opportunity to capitalise on growing consumer demand for lamb and increased supermarket trade. Demand from China is set to remain steady in 2022, with demand growth anticipated in the UK and EU-27 as foodservice recovers.

Rabobank anticipates that farmgate pricing will remain elevated in 2022 above the five-year average. Strong demand from our key markets is likely to support firm pricing, despite an increase in Australian production and the threat of Covid. A Covid outbreak in NZ will further exacerbate staff shortage issues at processing plants, potentially having an impact on farmgate pricing. Shipping challenges will be ongoing in 2022.

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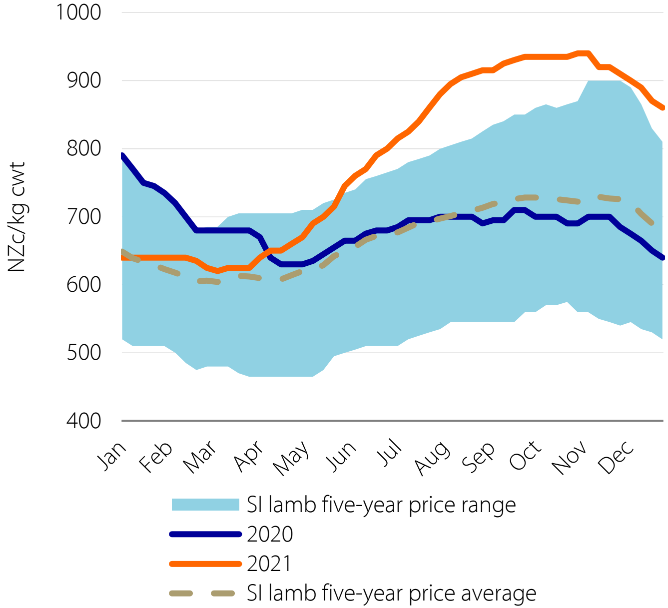
Sheepmeat

What to watch

- ***The NZ-UK free trade agreement*** was agreed in principle in October 2021. The signing of the FTA would give New Zealand sheepmeat exporters immediate access to transitional tariff-free UK import quotas that will increase over a 15-year period. The FTA should enable increased off-season supply of lamb into the UK.

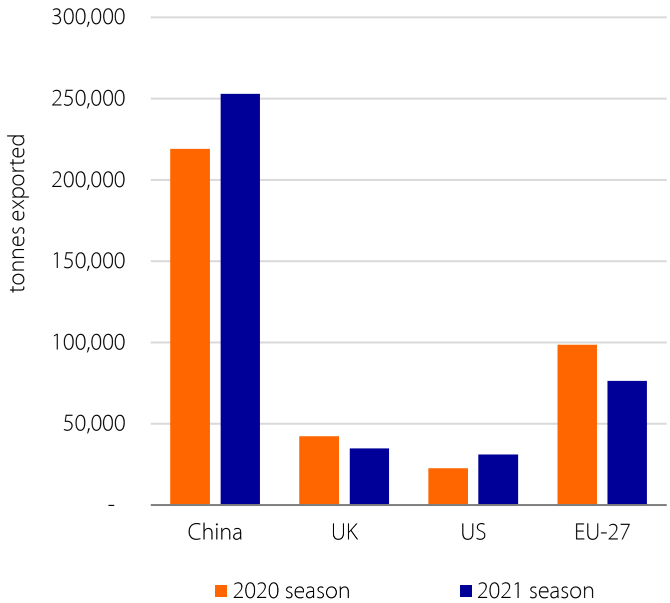
Positive Pricing Outlook After a Very Strong 2H 2021

AgriHQ South Island lamb price moved well above the five-year range in 2H 2021



Source: AgriHQ, Rabobank 2022

Changes in key sheepmeat export destinations, with reduced EU and UK trade offset by China and the US



Source: Statistics NZ, Rabobank 2022

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Venison

Venison on the Up… Slowly

The outlook for the venison industry in 2022 is brighter, as demand recovery is expected to continue and farmgate pricing is likely to strengthen.

The recovery of foodservice in the US and Europe – New Zealand's key venison markets – is expected to support increased demand for venison in 2022. However, the rise of new Covid variants and further lockdowns pose a real risk to demand recovery. High inventory levels in European chillers were reduced in 2021, allowing for supply and demand to be better balanced in 2022.

Venison exports have historically relied upon the foodservice sector, but after disruptions from Covid, the New Zealand venison industry successfully pivoted and diversified its market channels to include food retail and e-commerce. The sale of retail-ready venison mince packs into US supermarkets is proving successful and opening an important market channel. We expect export volumes to the US to continue to grow through 2022. In the 2021 season, the US was New Zealand's largest market, taking 25% of total exports (3,781 tonnes).

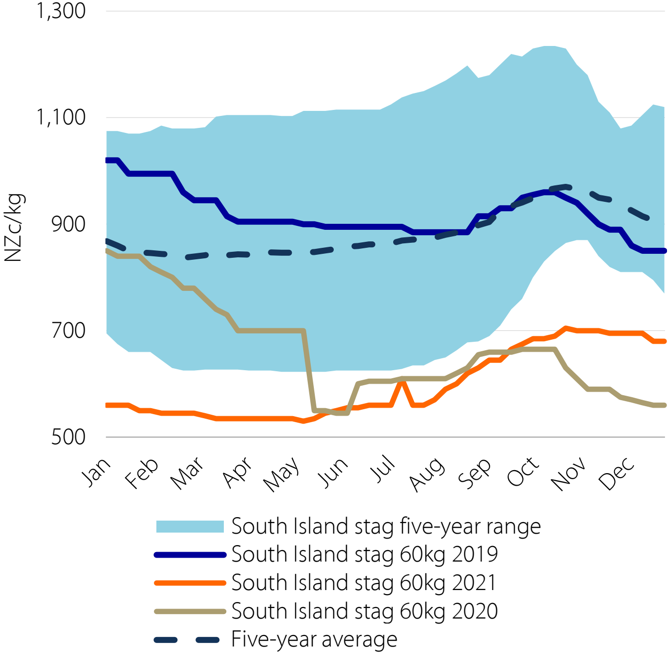
The South Island stag price moved above NZD 7.00/kg cwt in January 2022. Rabobank anticipates that farmgate pricing will continue to strengthen through 2022. Total deer numbers lifted 1% in 2021; the number of male deer increased 5% – most likely due to strong velvet prices – while venison remained subdued. The number of hinds mated decreased by 4%, which could potentially lead to lower volumes of venison produced in 2022, particularly if more R1 stags are retained for velvet production instead of meat.

What to watch

- ***China is an exciting new market for New Zealand venison.*** In response to the pandemic and the need to diversify markets, Silver Fern Farms, with support from Deer Industry New Zealand, launched a project to accelerate market development in China. The project has been successful, and a broad range of cuts are being sold into the Chinese market through the use of e-commerce channels.

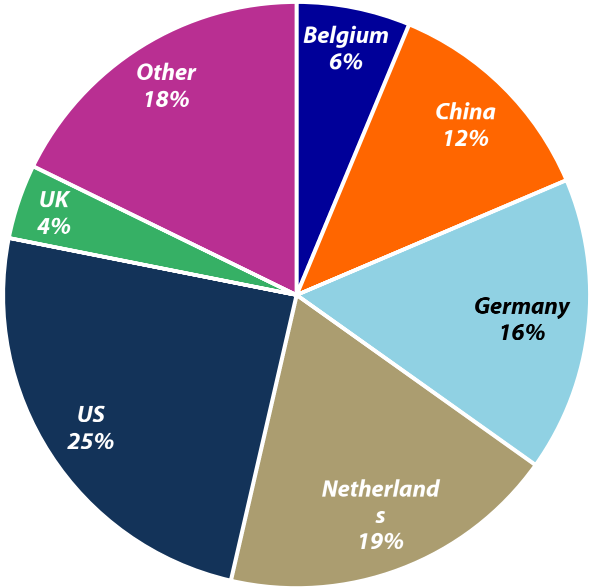
Demand and Pricing Recovery on Track

AgriHQ South Island Stag Price remained subdued in 2021



Source: AgriHQ, Rabobank 2022

New Zealand venison exports in the 2020/21 season, ending September 2021



Source: Statistics NZ, Rabobank 2022

Fewer Gold Licences for Release

The outlook for the New Zealand kiwifruit industry is positive for 2022, with strong demand and orchard-gate returns (OGR) anticipated, despite significant changes being made to the licence areas and tender process for the Gold variety.

Zespri's forecast OGR for the 2021/22 season signal another profitable season for kiwifruit growers – albeit below the extremely strong returns experienced in 2021. Forecast OGR for Gold stand at NZD 11.05/tray (as of November 2021), while Green OGR are forecast at NZD 6.34/tray for the 2022 season. Due to onshore fruit loss and related lost volumes into Japan, as well as some further deterioration of fruit quality in the market, it is likely that this pricing will be revised NZc 10 to NZc 15 lower in February 2022.

Released Gold licence areas will decline from 700 ha in 2021 to just 350 ha in 2022 and are anticipated to remain in this range from 2023 to 2026. In 2022, 350 ha of Red licences will be released, with this area expected to grow to 500 ha in 2023. No Organic Gold licences will be released in 2022. The reduction in licence releases for Gold and Organic Gold are intended to manage supply volumes.

Zespri has forecast kiwifruit production to increase 33% over the next five years. Most of the growth is going to come from Gold kiwifruit, with production expected to lift from 98m Class 1 trays in 2022 to 161m trays by 2027 (+64%). Green volumes are expected to continue to pull back in preference for Gold expansion, with Zespri expecting to increase Gold production by 14m trays each year – managed partly through the release of growing licences for Gold.

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Horticulture

What to watch

- ***Labour shortages remain an exceptional challenge***. Zespri expects the industry will face a shortage of 6,500 people for the 2022 harvest, up from 4,500 in 2021. This figure includes recognised seasonal employer (RSE) workers but not potential absenteeism caused by transmission of Covid. Labour issues will be a theme for the coming five-year period, with Zespri expecting to need an additional 1,000 workers per year to meet growth targets.

Orchard-Gate Returns for 2022 Look Golden

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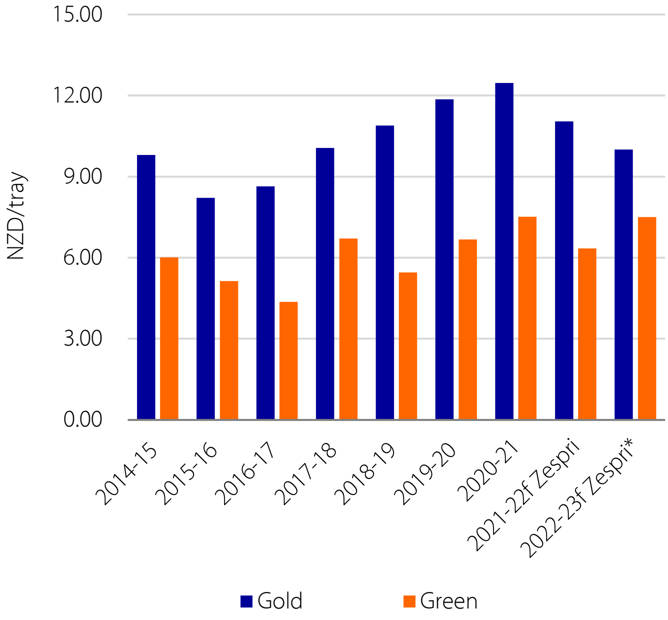
Zespri orchard-gate returns, actual and forecast



Zespri forecast orchard-gate returns 2021/22f*

Fruit varieties	***2021/22f OGR (per tray)***
Gold	NZD 11.05
Organic Gold	NZD 12.23
Green	NZD 6.34
Organic Green	NZD 9.54

**Note: Median of the medium-term range provided by Zespri.*
Source: Zespri, Rabobank 2022

**Note: Forecasts were set in November 2021*
Source: Zespri Kiwiflier December 2021

Consumer Foods

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Highly Dynamic Food Markets in 2022

The global pandemic will continue to impact food markets and supply chains in 2022. The rapid emergence and spread of the Omicron variant is having a profound impact on local and global food markets. Though vaccination programs are in full swing in the developed economies, many governments have reinstated containment measures. For food and beverage companies this is leading to transitory supply chain costs and challenges in keeping product moving through to consumers. Supply chain issues look set to disrupt food markets in the first half of 2022.

Cost-of-living pressures felt by many consumers. Food and beverage companies in all geographies are reporting margin pressure stemming from inflation in all parts of the business, including raw materials and distribution. Inflation is expected to remain high through much of 2022. As a result, companies are taking action on retail pricing across a range of consumables. Against the backdrop of this food inflation, consumers are facing additional cost-of-living pressures and reduced income support. The impact on consumer food purchases will vary significantly across geographies and categories; a keen eye on the potential demand destruction in emerging markets will be needed.

A rapid and structural pace of change will continue in consumer behaviors and food innovation. There are some clear pandemic winners, including products catering to consumers who work (and eat more) at home and prefer snacking and convenience. This, of course, takes place against a backdrop of consumer demand for natural, clean, fresh, and personalised food products. E-commerce in the food system has enjoyed a transformational boost through the acquisition of new consumers.

What to watch

- ***China's zero-tolerance Covid policy*** – China continues its strict lockdown policies ahead of the Winter Olympics. There is also growing concern about the state of the economic recovery, which, combined with the policy, is impacting consumer markets in China. There was a slowdown in the growth of total Chinese retail sales towards the end of 2021. Food retail posted double-digit growth in the most recent data. But when adjusted for inflation, it was a more subdued picture.

Food Market Channel Disruptions Continue

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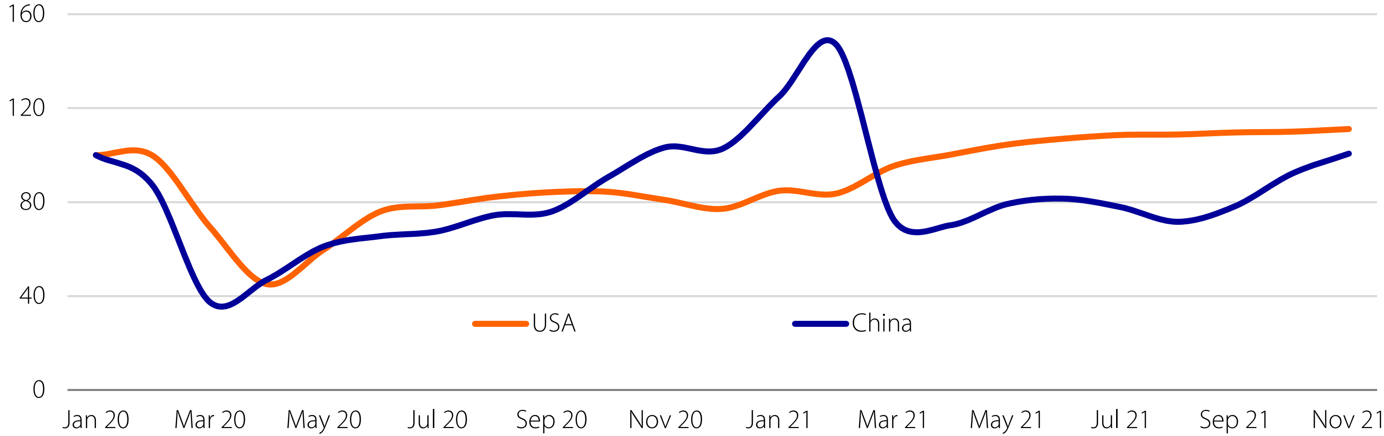
Index of year-on-year turnover in foodservice (seasonally adjusted)



Source: ABS, Rabobank 2022

The global pandemic and mobility restrictions still mean many consumers around the world are eating more at home. Towards the end of 2021, the world's two largest consumer markets, the US and China, had a bumpy but steady rebound in the foodservice channel back to pre-pandemic levels. Fast-forward to early 2022 and the impact of a highly virulent Omicron strain is being felt in food markets again. At the start of 2022, China imposed tough restrictions to try and control an outbreak of Covid in some provinces. Over the course of 2022, many major foodservice sectors should rebound again – but with weak consumer spending and subdued foot traffic continuing, it will not be a linear pathway to recovery.

Marginal Urea Price Relief in Sight

In recent weeks, some of the demand and supply drivers that elevated global urea prices to record levels have begun to ease. We expect this is the beginning of a slow decline in urea prices over the next six months.

While this is good news for NZ farmers, we expect local urea prices will remain materially higher than 2021 for this season. We also expect freight interruptions will continue to plague deliveries, which may cause some delays.

Prices of European natural gas, a key raw material in urea, have now fallen by 60% from mid-December 2021 levels due to increasing supply. There is also some optimism that the Nord Stream 2 pipeline will be approved by regulators, which would further pressure gas prices but geopolitical tension with Russia already drives gas price volatility.

Following recent global headlines about urea shortages, some indicators show that the supply balance is improving. The two most recent Indian tenders were oversubscribed by more than double. Some 1.19m tonnes of urea were booked for the most recent December 23 tender, after offerings of 2.75m tonnes. Furthermore, northern hemisphere demand has been very quiet in recent weeks, which has left the market wondering where all these extra tonnes will go.

Despite our expectation of lower prices over the next six months, we expect local prices will remain well above average. Rabobank expects global prices of corn, soybeans, and wheat will all remain relatively high, which is likely to act as a floor in global fertiliser prices, as farmers will continue to aggressively chase yield and protein. It's important to keep in mind that local prices may take as much as three months to reflect global price movements.

In contrast, we expect that phosphate prices will remain at current levels or even increase marginally over the next six months. We expect supply of phosphate will remain very tight while China's export restrictions remain. Typically, China exports about 30% of global phosphate trade.

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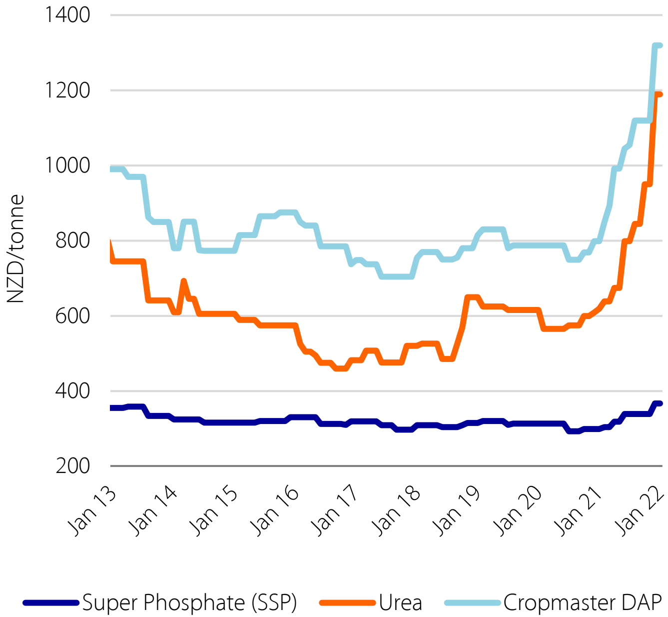
Farm Inputs

What to Watch

- ***Ukraine and Russian crisis*** – The threat of conflict, or even further sanctions on Russia and ally Belarus is a major upside risk for fertiliser prices. If Russian gas supplies into Europe reduced, or even cut, this would again send nitrogen prices upward. Furthermore, 23% of global ammonia trade, 14% of urea and 10% of phosphates is exported by Russia. Together with Belarus, both countries make up some 30% of global potash exports. Interruption to supply would again send prices upward from high levels.

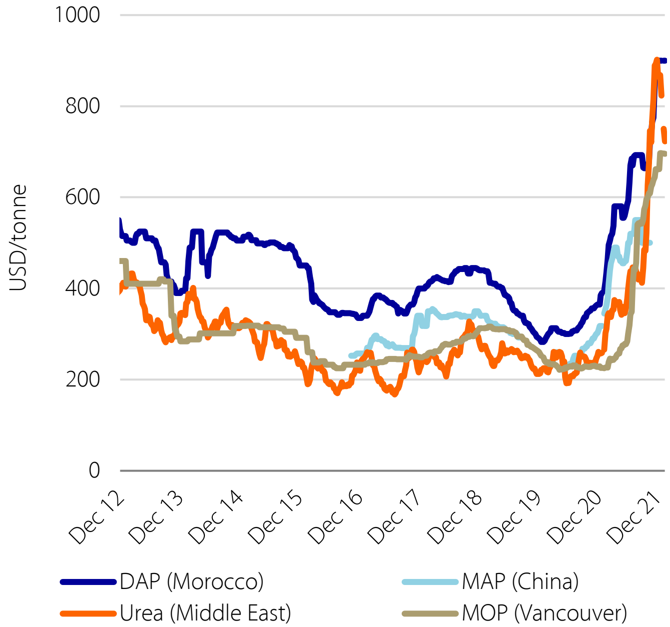
Local Urea Price Decline May be Delayed Relative to Global Prices

NZ local retail prices pushed to record highs



Source: Ravensdown, Rabobank 2022

Global fertilizer benchmarks hit record in late 2021



Source: CRU, Bloomberg, Rabobank 2022

FX

NZD to Find Higher Ground in 2022

We expect the New Zealand dollar to maintain the strength it gained in 2021, supported by healthy global demand for commodity products and the expectation that the Reserve Bank of New Zealand's increases rates, and to gain further strength in the backend of the year.

New Zealand was highly successful in managing the Covid vaccine roll-out and curbing outbreaks through 2021, and this translated to strong economic growth. The booming economy and supply chain pressures did, however, deliver considerable inflationary pressure. Inflation reached 5.9% in Q4 2021 – the highest level since the goods and services tax was increased 2.5% in October 2010. This was led by housing and household utilities, transport, and food costs, which rose another 7.6%,15%, and 4.1% respectively in that quarter. With these pressures, the RBNZ was one of the first banks in the world to lift rates, with two 0.25bp instalments in Q4 2021, and it is expected to continue to be a front-runner. It is forecasting inflation to move above 5% in 2022 and is expected to increase the official cash rate by another 150 bps in 2022 to try to keep inflation between 1% and 3%.

Strong consumer demand and constrained commodity availability globally are expected to maintain elevated commodity pricing in 2022 and, with it, demand for the New Zealand dollar. However, supply chain challenges and labour availability remain key risks. Unemployment dropped to 3.4% in September 2021 – the lowest since December 2007 – as a result of the economy's strong recovery and the border remaining closed.

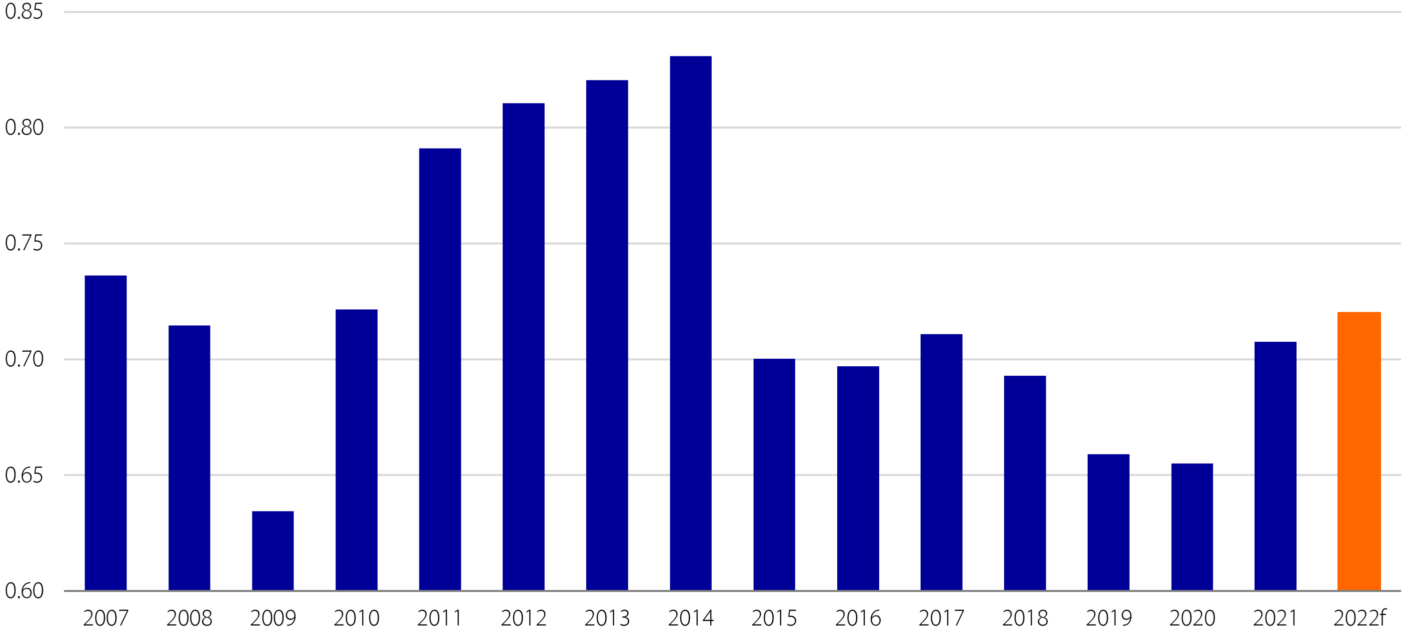
A spreading of Omicron in New Zealand in early 2022 is inevitable. However, based on data from other countries, it is unlikely to throw the New Zealand's economic recovery off course. We forecast the NZD to trade around USc 70 on a three-month view, lifting to USc 73 over the next six to twelve months.

What to watch

- ***The strength of the USD*** – The US Fed has flagged three 0.25bp rate hikes in 2022 to ease inflation. In December 2021, the US CPI reached 7% YOY, and we see this, alongside record-low unemployment and supply chain issues, as potentially enough to prompt a fourth 0.25bp lift in 2022, which could undermine some of the NZD gains we currently see for the year.

Strong Currency in Store for NZ Exporters in 2022

New Zealand currency against the US dollar, 2007-2022f



Source: RBNZ, Rabobank 2022

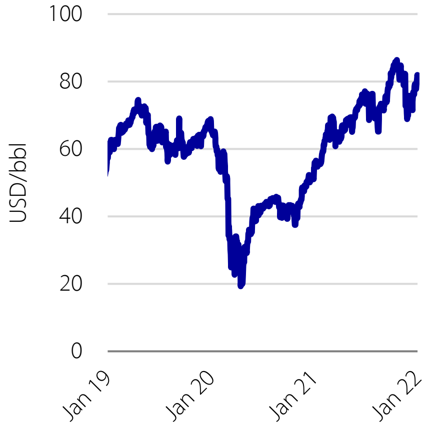
Oil Prices at the Mercy of OPEC+

Rabobank expects Brent Crude Oil average between USD 80/bbl and USD 85/bbl for the remainder of 2022. This is likely to bring about higher-than-average diesel prices for local farmers.

Global oil markets face geopolitical volatility and are at the mercy of OPEC+, a cartel of the world's biggest oil producers led by Saudi Arabia. With global demand for oil on the rise again as mobility rebounds, OPEC+ is very closely managing production to keep prices supported.

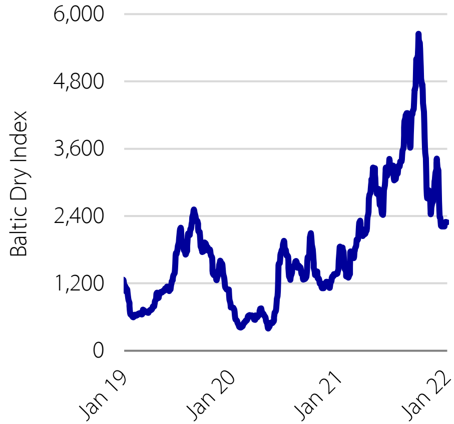
Speculators and institutional investors will continue to play a role in supporting oil prices. In response to high consumer inflation, investors are likely to continue to direct funds towards oil, commodity markets, and commodity index ETFs, not only as an inflation hedge, but also for portfolio diversification. Dry bulk freight rates have tumbled off their 11-year highs and are unlikely to recover quickly while dry containers are expected to continue at high rates in 2022.

Brent Crude Oil



Source: AIP, Bloomberg, Rabobank 2022

Baltic Dry Bulk Freight Index



Source: Bloomberg, Rabobank 2022

More Change and Uncertainty Ahead

Farmers seeking greater clarity on fresh water, climate change, and biodiversity regulations in 2021 were left wanting. The complexity of these issues has only deepened, and the challenge of creating a coherent and pan-sectoral regulatory framework has grown considerably. Nonetheless, progress has been made.

Regulatory milestones for farmers to be aware of in 2022 include a final decision on an emissions pricing mechanism for agriculture's GHG emissions and the announcement of the government's first emissions budget, which will set the pathway for meeting 2050 targets. The emissions budget will be hugely important because it will set out the policies and strategies to reduce GHG emissions in New Zealand in line with the 2030 and 2050 targets.

Of particular interest is whether the government will revise current policy settings that strongly incentivises the planting of pine trees over natives, in order to achieve the scale and form of afforestation as recommended by the Climate Change Commission.

2022 will still include a certain level of uncertainty. But as we have noted many times before, the direction of travel is clear, and the outlook for commodity pricing is strong. This is the perfect time for a review of farming businesses' position and strategy and to make changes where needed in sustainability initiatives off the back of another profitable year.

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Regulation

What to watch

- ***Local government is undergoing huge transformation***. At the centre of this, four new water entities will take on the water assets currently owned by 67 regional councils across New Zealand. While entities are expected to be up and running by July 2024, public consultation and the establishment of oversight groups will be undertaken this year. Ensuring agriculture is appropriately represented will be crucial for the industry across the four proposed entities.

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Regulation

Important Milestones to Meet

As in prior years, there are many changes anticipated for this year. Key dates for the 2022 calendar include:

February

He Waka Eke Noa will share more details about pricing-system options for GHG emissions as an alternative to the New Zealand Emissions Trading Scheme. Engagement with farmers will kick off, and submissions on options will open.

April

He Waka Eke Noa will present pricing recommendations to ministers for a decision to be made.

May

Intensive winter grazing regulations come into effect on 1 May.
The government will publish its first Emissions Reduction Plan on 31 May.

July

The first report on the previous season's nitrogen use on dairy farms is due to regional councils.

Mid-2022

Mandatory and enforceable freshwater farm plans will be phased in.
A draft National Policy Statement on Indigenous Biodiversity is likely to be released in 1H 2022.

September

Water-permit holders will need to provide electronic records to regional councils for takes of 20 litres per second or more.

December

One hundred percent of farms will need to know their GHG number.

What to watch

- ***Whether the government will provide for true collaboration with the primary sector within the Emissions Reduction Plan*** – We would like to see early, active and ongoing engagement between government and industry to ensure that any policies developed are practical and suitable and minimise the likelihood of negative unintended consequences.

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