



cutting through complexity

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

1 October 2014

Organisations referenced in this week's Field Notes include:

AgResearch	New Zealand Winegrowers
Allan Gray	NT Cattlemen's Association
Alliance Group	NZX Agrifax
Australian Food and Grocery Council	NZ Yarn
Ballance Agri Nutrients	Open Country Dairy
Balle Brothers	Overseas Investment Office
BEL Group	Pengxin New Zealand Farm Group
Chiquita Brands International Inc	Rabobank
Dairy NZ	Reserve Bank of New Zealand
Diary Women's Network	Rural Equities
Farm Source (RD1)	Sealord
Federated Farmers	Service and Food Workers Union
Fieldays	Shanghai Pengxin Group
Fonterra Co-operative Group	Synlait
Fyffes	Tandou Ltd
Horizon Regional Council	Tatua Co-operative Group
Hunan Dakang Pasture Farming	TPG Capital
Huon Aquaculture	Treasury Wine Estates
Jackson Estate	United States Department of Agriculture
Kohlberg Kravis Roberts	University of Canterbury
Massey University	Wallace Corporation
Meat Industry Excellence Group	Westpac Bank
Ministry for Primary Industries	Wool Research Organisation
National Farmers' Federation	Wools of New Zealand
New Zealand Merino Company	Zespri

This week's headlines

Horticulture	Kiwifruit growers to sue Govt over PSA [29 September/ Business Day: NZ Farmer]
Dairy	Fonterra forecasts price drop [25 September/ NZ Herald]
Dairy	Dairy company 'holding steady' with record result [30 September/ Business Day]
NZ Food Awards	Traditional treatment nets supreme award [25 September/ NZ Food Awards]
Farmers and producers	Confidence down among dairy farmers [24 September/ NZ Herald]



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HOT OFF THE PRESS:
**KPMG AGRIBUSINESS
AGENDA 2014 VOLUME 1**

Horticulture

Chips off the Balle block [26 September/ Rural News Group] Pioneer potato growers, the Balle family, have joined chipmakers to produce a new brand of chips, Chip Off the Old Block, which will be produced solely from Balle's potatoes. Dacey Balle, Managing Director of Balle Brothers, said that ingredients will be limited to potatoes, sunflower oil and natural seasoning, with minimal processing through the manufacturing process.

Kiwifruit growers to sue Govt over PSA [29 September/ Business Day: NZ Farmer] An alliance of kiwifruit growers representing over 10 percent of the industry announced plans to file a class action law suit against the Government, seeking \$885 million in damages from alleged negligence on the part of Biosecurity New Zealand (now part of the Ministry for Primary Industries). MPI said in a statement that it was confident that it had acted appropriately and highlighted that it was not aware of the Crown being held liable for such a biosecurity breach previously. Kiwifruit Vine Health statistics indicate that 83 percent of all acreage was now affected with the Psa disease. A Lincoln University report stated that Psa could cost the industry as much as \$885 million in the long run, with as many as 1,400 jobs lost by the end of 2015. An independent report by international consultants Sapere established that Biosecurity New Zealand was negligent and that the import requirements for kiwifruit pollen were inadequate. The potential class action law suit, 'The Kiwifruit Claim' will launch an advertising campaign to recruit growers and post-harvest operators to join the action.

Chinese importer wins early bout in Zespri smuggling case [29 September/ The National Business Review] Zespri has failed an early attempt to shut down proceedings against it by Shanghai Neuhof seeking in excess of \$30 million for an alleged breach of its trade relationship and wrongful termination of the contract between the parties, although an \$8 million claim was removed in the Auckland High Court based on Zespri's argument that the heavy evidential challenges faced by Neuhof meant that the cost of defending the proceedings were an abuse of process. Justice Courtney acknowledged the strong evidentiary challenges that are faced by Neuhof, but held that the remaining claims are to proceed to trial. Zespri said it will continue to contest the case and stressed its view that the case is unlikely to succeed. In 2012, a Zespri subsidiary was fined an equivalent \$960,000 for the under declaration of Customs duties in China, with Shanghai Neuhof general manager, Xiongjie Liu sentenced to 13 years in prison and the company fined an equivalent of \$7.6 million.

Viticulture

Winemaker's comments ruffle feathers [25 September/ Business Day] An article in British drinks trade magazine, the Drinks Business, quotes Jackson Estate chief winemaker, Matt Patterson-Green as saying many lower to mid-tier New Zealand wines on sale in the United Kingdom were "boring" and "soulless" and are the flow-on from the 2008 oversupply. Jackson Estate managing director, Jeff Hart said that the comments made at the end of a 45 minute interview about Jackson Estate had been taken out of context, and that it is very unlikely that the words "boring" and "soulless" were used. However the magazine is standing by its article, while Wine Marlborough general manager, Marcus Pickens expressed his disappointment at the comments and stated that they were not true. New Zealand Winegrowers CEO, Philip Gregan said that the comments were unfortunate and that the industry endeavours to produce a very high quality product, which is demonstrated by New Zealand's success internationally.

Wool

Christchurch Yarns bid extended [24 September/ Radio New Zealand Rural] NZ Yarn's deadline for its bid to acquire the Christchurch Yarns wool spinning business out of receivership has been extended to October 18. NZ Yarn chairman, Bay de Lautour highlighted the importance of keeping the plant operational in New Zealand, by saying that it is the last independently owned wool spinning plant in the southern hemisphere that produces woollen carpet yarn.

Wool research head defends levy plan [25 September/ Radio New Zealand Rural] With just over two weeks remaining, over 20 percent of sheep farmers have voted in the referendum to re-establish the compulsory wool levy, which will be used for non-commercial activities such as communication, education and innovation of the industry. Wools of New Zealand has questioned the need for a new levy, as research and development can be handled by the existing Wool Research Organisation. Wool Research Organisation chairman, Derek Milton said that the organisation does not deal with on-farm research and development as they have been cut without the support from the levy.

NZ Merino company doubles annual profit [29 September/ Otago Daily Times] The New Zealand Merino Company recorded a post-tax net profit of \$1.9 million for the year to June, an increase from \$870,000 on the previous year, with the company declaring a dividend of \$950,000. Company chairwoman, Ruth Richardson said that it was halfway through the plan of doubling company value over three years. New Zealand Merino Company CEO, John Brakenridge said that the industry faced many challenges, including declining global prices, lack of industry profitability, changes in consumers' needs and channels to market and a substantial increase in fine and superfine production in Australia. He also highlighted company and industry specific issues that needed to be addressed, including industry consolidation and rationalisation.

Fishing and aquaculture

Canada bans NZ live mussel exports after parasite find [25 September/ Business Day: NZ Farmer] A Ministry for Primary Industries spokesman confirmed that Canada has placed an interim ban on the live greenshell mussel exports from New Zealand, based on the Cawthorn Institute's report of a single celled parasite, Perkinsus olensi being found in Marlborough Sounds mussels. In accordance with international agreements, the finding was notified to the World Animal Health Organisation, consisting of 180 member nations. MPI clarified that the importation of frozen greenshell mussels representing the vast majority of exports to Canada remained unaffected by the ban. The spokesman highlighted that the parasite does not carry a food safety risk, and no production or health impacts were anticipated from the organism. The Ministry said that currently there were no methods for eradicating.

Union slams fish factory job loss [26 September/ Business Day] The Service and Food Workers Union said that Sealord's proposal that reduces the operations and number of people working at its Nelson Wetfish factory by as much as 100 is a tragedy and was preventable. Sealord commented that the factory was not economically viable, and that the company needed to focus on running a smaller Wetfish operation focused on higher value products. The Service and Food Workers Union national secretary, Neville Donaldson called on the Government, Sealord and Iwi to work with them to keep the jobs in Nelson.

Dairy

Fonterra forecasts price drop [25 September/ NZ Herald] Agricultural commentators highlighted that dairy farmers will face serious difficulties if Fonterra's latest milk price forecast of \$5.30 per kilogram of milksolids eventuates, especially if the prices remain low this season and next. Dairy NZ's general manager of research and development, David McCall said that most farmers should be able to manage with prices this season as long they are not burdened with another drought. Fonterra chair, John Wilson, said that the current market conditions are a result of strong global milk production and the Russian importation ban on dairy products. Fonterra CEO, Theo Spierings, highlighted the need to push its high earning and most important product line, whole milk powder. The Co-operative said that its normalised earnings before interest and tax for the year to July declined 50 percent to \$503 million, with net profits declining 76 percent to \$179 million, based on higher cost of goods sold and higher interest and tax expenses. Fonterra said that despite the lower milk price forecast, it had increased and widened its dividend forecast from 20 – 25 cents to 25 – 35 cents. Mr Spierings said that progress was being made in securing the regulatory approvals for the re-export of whey protein and base power to the Chinese market, by means of the partial tender for a shareholding in China's Beimgmate.

Fonterra eyes better peak milk flow control [26 September/ Business Day: NZ Farmer] Fonterra is confident that it has the resources to manage its peak milk flow this dairy season. During the peak milk period until December, Fonterra is using a site near its Whareroa plant to store buttermilk prior to it being irrigated to farmland. The Co-operative also holds a resource consent to spread by-products to land in Taranaki, as well as delivering buttermilk to piggeries, calf rearers and encouraging farmers to use it as stock food or liquid fertiliser. Fonterra Managing Director of Global Operations, Robert Spurway said that it had invested in over 50 projects nationally to optimise milk collection, processing, transport and manufacturing this season. A milk concentration plant in Longburn is processing two million litres of milk per day to cut down its volume by half prior to transferring it to South Island, which has a later milk peak.

Relying on recovery [26 September/ NZ Farmers Weekly] Fonterra CEO, Theo Spierings said that the milk price forecast is based on an expectation that world powder prices will recover from the current USD 2,700 to USD 3,500 per tonne in March 2015, but also mentioned that the crisis in Ukraine and Middle East, as well as the ebola outbreak weighted heavily on its forecast. The Co-operative has also had to reduce the advance payment by 48 cents per kilogram to \$4.00 from November, for the first time since 2008-09. Fonterra is expecting 90 million litres a day peak milk flow late in October, a 3.5 percent increase on last season's peak. Fonterra CFO, Lukas Paravicini said that an expenditure of \$50 million has ensured a 1.4 to 1.5 million litres of extra capacity a day, with the ability to process 90 million litres a day without interruptions. Mr Spierings said that the focus will be shifted back from quantity to quality. NZX Agrifax dairy analyst, Susan Kilsby said that her forecast of \$5.10 kilograms of milksolids included the futures market quotations for the next six months reaching USD 3,000 tonnes for whole milk powder in March 2015. She said that although Fonterra may be able to reach USD 3,500, there are no indications of this at present, with a greater likelihood for the payout to decline further.

Dairy company 'holding stead' with record result [30 September/ Business Day] Tatua Co-operative Dairy Company, which focuses on specialised dairy products recorded a group operating revenue of \$266 million and earnings before tax of \$136.4 million (\$10.32 per kilogram milksolids (kgms) prior to retention and taxation) for the 2013-14 season. Its final payout for the season to the 109 suppliers will be \$9 per kgms. Tatua CEO, Paul McGilvary, said despite the strong result last season, the 2014-15 year will be challenging, with prices having seen a significant decline. He said that current forecasts remain stable at around \$6.50 kgms, with a review expected in November. He explained that as the co-operative focused on higher value products and did not produce commodities, its return improved with a lower milk price. He said that the lower milk price is likely to affect the company, but with a lag and not to the same extent as Fonterra. New Zealand's second largest dairy company, Open Country Dairy also lowered its milk price for the new season from \$6.00 per kilogram of milk solids to \$5.30 per kilogram of milksolids. Open Country Dairy chairman, Laurie Margrain said that it was facing the same challenges as Fonterra. Mr Margrain indicated a strong possibility of a further drop in its payout, and mentioned that while the strong New Zealand dollar was a factor, the selling price of milk products needed to increase in order to increase the forecast.

Fonterra equity fund move [30 September/ Otago Daily Times] Fonterra is examining the advantages of establishing an equity partners fund that would obtain equity from investors for New Zealand and Australian farmers, allowing farmers to grow production and manage volatility, while maintaining environmental standards and other requirements. The Co-operative stated that the fund's implementation is conditional on farmers retaining control over their farms. Fonterra also announced the launch of Farm Source, which consolidates service, support, rewards, digital technology and financial options for farmers, with its existing 67 RD1 stores to be converted to Farm Source hubs. Fonterra is targeting to access a 30 billion litre global milk pool by 2025, and will also examine adopting Farm Source to other markets where its milk pools are growing.

Red meat

Alliance criticised over board terms [25 September/ Radio New Zealand Rural] The Meat Industry Excellence Group chairman, John McCarthy said that some Alliance farmer shareholders have contacted him expressing concerns that the board is keeping long serving directors on the board for extra terms, disregarding the fact that the board requires new blood to facilitate the reform of the meat industry. Alliance chairman, Murray Taggard said board members had a right to apply for a waiver to extend their service for longer than 12 years. However he highlighted that over half of the board has changed in the last three years.

China pollution threaten lamb prices [29 September/ NZ Farmers Weekly] The closure of tanneries in China has caused processors to warn farmers about its impact, with Alliance Group marketing manager for beef and co-products, Carl Alswailer saying that the effects of the mass shutdowns in April-May are likely to be seen this season. Additionally he highlighted that there has been a slight slowdown in the Chinese economy, resulting in a decline in demand for luxury goods, including leather. He expects that with their small scale, many of the most contaminated plants will close permanently. Mr Alswailer said that both of New Zealand's main markets for garment grade pelts, China and Russia have seen a decline in demand. He said prices have declined 50 percent this year, with lamb prices having the potential to decline by \$5 per head. Mr Alswailer said that while prices appeared to be stabilising at the lower levels, stocks continued accumulating. China is expected to purchase 40 percent of the New Zealand lamb pelt production, with Australia, Africa, the Middle East and the UK competing with New Zealand. With the shutdown, clean up requirements and reduced capacity in China, pelt processing costs are expected to reach as high as European and United States levels. China's Ministry of Environmental Protection said that environmental standards may result in 45 percent of skin processors having to shut down. Wallace Corporation general manager for hides and skins, Ted Hulbert estimated wet sheep pelts, even with wool on would be worth less than \$2.00 each.

Kiwis enjoy record burger patty beef prices [29 September/ NZ Farmers Weekly] NZX Agrifax analyst, Nick Handley said prices for beef used in United States hamburger patties are likely to remain at elevated levels, while American farmers rebuild their herds from the drought, with the price of United States imported 95CL bull beef (raw ingredient for meat patties) having increased 50 percent to USD 3.18 per pound (\$3.37 per kilogram) in the last year. Mr Handley said that the United States was New Zealand's largest beef market, accounting for 43 percent of the country's \$2.1 billion of annual exports. The United States Department of Agriculture's estimates indicate that beef production would not experience an increase until 2017. He said that the increase in price has resulted in higher value cuts being added to the manufacturing pack, reducing supply of cuts, such as knuckles for other markets, such as Indonesia and Korea.

Fieldays

Fieldays confirms multi-million dollar investment [26 September/ Business Day: NZ Farmer] The Southern Hemisphere's largest agricultural show, Fieldays is to spend \$12 million on site development at Mystery Creek over the next five years, with phase one having been completed with the construction of a \$4 million headquarters for the 2013 Fieldays. Phase two of the development is scheduled to be completed by Fieldays 2015 and involves some significant earthworks to create 35 new sites. The Society is also progressing the development of a Dairy Innovation Centre, with the centre having the ability to hold live demonstrations of the latest innovations in dairying technology. Fieldays CEO, Jon Calder said that the developments would create more exhibition space and new exhibition buildings, while allowing the event to grow and evolve.

NZ Food Awards

Traditional treatment nets supreme award [25 September/ NZ Food Awards] The 2014 Massey University Supreme Award at the 2014 New Zealand Food Awards was awarded to smoked in West Auckland the traditional way, over manuka wood, with Sealord Group's Hot Manuka Smoked Salmon being commended by the professional judging panel and the consumer judging panel. Other award winners included Alpine Origin Merino which won the KPMG Export Innovation Award for its Silere Alpine Origin Merino product. Full details of the awards and winners can be found on the award website www.foodawards.co.nz.

Rural connectivity

Nikora exits Balance board [25 September/ Rural News Group] Hawke's Bay farmer Dean Nikora has resigned from the Ballance Agri Nutrients board in order to accept an overseas appointment as AsureQuality group director food safety advisory. Ballance chairman, David Peacocke said that the board is actively encouraging potential candidates for director nominations. The successful candidate is to complete the remainder of Mr Nikora's term and retire by rotation in 2016. A qualifying candidate must be registered to vote in Ward B, hold over 100 Ballance Agri Nutrient shares or represent a company or partnership with over 100 shares, as well as being aged under 68 years. The date of election is scheduled for November 25.

Environment and emissions

\$18m spent to clean up dairy farms [27 September/ NZ Farmer] Based on 165 responses to a dairy farmer survey sent out to 918 farmers in the Horizon Regional Council area, dairy farmers have spent an average of over \$110,000 each, cleaning up their environmental footprint over the past five years. Of the total spend of \$18 million by 165 farmers, 61 percent was on effluent management and upgrades, with 9 percent spent on initial instalment of riparian planting and fencing and 30 percent spent on stock exclusion such as bridges, culverts and feed pads. Horizon regulatory manager, Richard Munneke said during the 2013-14 season, dairy farmers in the region had achieved 97 percent compliance over discharges. He highlighted that there were no longer discharges of dairy farm effluent to waterways in the region, compared to 439 discharges in 1997.

Research and development

'McScience' approach denies NZ public a legacy [25 September/ NZ Farmer] In an opinion piece Doug Edmeades reflects on the increasing commoditisation of science in New Zealand, using the term 'McScience' (as coined by Lancet editor, Richard Horton), and commented that science being treated as a commodity, rather than a search for the truth. He expressed his dissatisfaction at the AgResearch redundancies and stated that agriculture's success is based on science. He suggested that the Crown Research Institutes (CRI's) have been a complete failure and highlighted his lack of confidence in the proposed AgResearch reforms as a method of addressing the problems. He said that the Crown Research Institute Act's purpose of making money erodes the purpose of science. He highlighted the concerns expressed by the 2001 Commission of Enquiry into Genetically Modified Organisms which raised concerns over whether CRI scientists were promoting the company interest, rather than expressing an objective view. The government views CRI's as commercial companies where the scientists promote the company view, limiting the ability for the public to obtain an independent view. The ex-CRI watchdog, The Crown Company Monitoring Advisory Unit, highlighted the significant conflict between the public role of the institutes and their commercial objectives. A recent survey of CRI scientists indicated a "stunning level of dissatisfaction" in Mr Edmeades view. He said that AgResearch will not be able to solve its problems until the CRI's are converted to non-profit organisations.

International

Cattle producers ready to cash in on live cattle trade to China [26 September/ ABC Rural] NT Cattlemen's Association president, David Warriner highlighted the possibility of an imminent live cattle (feeder cattle and slaughter cattle) trade to China, where local cattle are sold at approximately AUD 6 per kilogram. Mr Warriner believes Chinese stock levels to be at record low levels in the lead up to the Chinese New Year in February 2015. He highlighted the prospect of price increases driven by demand exceeding supply. He stressed the importance of ensuring the Indonesian relationship is maintained with the market not too adversely impacted, but clarified that they may need to pay a higher price for some cattle.

US: Genetically modified what found in Montana [27 September/ NZ Herald] The United States Department of Agriculture said that genetically modified wheat has been found in Montana, the second location in the United States. The finding threatens trade with countries concerned about genetically modified foods, with genetically engineered wheat having not been approved for farming in the United States. The Department said that it was investigating the finding. The genetically modified wheat found in Oregon in 2013 resulted in temporarily bans on United States wheat import to Japan and South Korea, with the European Union calling for tougher testing of United States shipments. Centre for Food Safety executive director, Andrew Kimbrell said that genetic contamination is a serious threat to farmers across the United States.

Chiquita, Fyffes alter merger agreement [27 September/ NZ Herald] Chiquita Brands International Inc and fruit importer, Fyffes said that the proposed changes to the merger between the two companies will provide Chiquita shareholders a 60 percent stake in the combined company, an increase from the previous approximation of 51 percent. With the changes approved by both boards, it is subjected to a shareholder vote. The companies said that they are willing to make some concessions to the agreement to ensure that it is approved by European regulators, although the revision was not motivated by the new United States regulations aiming to make such overseas moves less lucrative. Fyffes spokesman, Seamus Keenan said that the merger is not motivated by tax advantages or a driven transaction. Chiquita is continuing its talks the two Brazilian companies, the Safra Group and the Cutrale Group, that have offered to acquire the company for USD 611 million.

Treasury Wine ends talks with bidders KKR and TPG [29 September/ Sydney Morning Herald Business Day] The Treasury Wine Estates board terminated talks with private equity firms Kohlberg Kravis Roberts and TPG Capital regarding the potential AUD 3.4 billion acquisition of the company based on its decision that a price of AUD 5.20 per share undervalued the company. Treasury Wine Estates chairman, Paul Rayner said that discussions with major shareholders indicated widespread support that AUD 5.20 was insufficient. Mr Rayner stated the board's decision that the company's own plans under its CEO Mike Clarke were a better option.

Scales tipped in favour of \$400m Huon IPO [29 September/ The Australian] Allan Gray Australia managing director and investor, Simon Marais has indicated his support for the proposed AUD 400 to 450 million IPO of the Tasmanian salmon company, Huon Aquaculture, while others, including a fund manager disagree due to the long lag time between investment and returns. Huon Aquaculture controls 40 percent of the Australian salmon market, while Tassal Tasmanian Salmon controls 50 percent and Petuna Seafoods holds the remainder. Mr Marais said his decision to purchase shares in Huon Aquaculture will depend on the price, but the fund manager will examine the deal. Investment bank Credit Suisse is working on the IPO, with a prospectus expected to be lodged within the next week. The basis for the investor pitch is that Australia's salmon consumption is lower than other western countries, as well as the importation of salmon into Australia currently being banned based on biosecurity concerns.

Farmers, food manufacturers and supermarkets unite in calls for less government regulation [29 September/ ABC Rural] Farmers, food processors and supermarkets released a joint report, Paddock to Plate, recommending the Federal Government reduce its regulation across the entire food and farm sector. Australian Food and Grocery Council CEO, Gary Dawson said all groups represented want more flexibility in respect of labour laws, saying the practical realities of working in the food and grocery sector required more flexible labour laws. Mr Dawson highlighted the need for Australia to address big cost drivers, including labour and utility costs, and its regulation in order to prevent Australia's competitiveness being undermined. The report includes recommendations from the Australian Food and Grocery Council, the National Farmers' Federation, the Logistic Council and the Australian National Retail Association. Mr Dawson said that its recommendation is a Productivity Commission inquiry is held to identify any doubling up of regulation at local, state and federal levels. The National Farmers' Federation director of policy, Tony Maher acknowledged that the Federal Government has made progress in this arena, but also highlighted other areas where improvements can be made. The Paddock to Plate report has been presented to the Federal Government.

Agribusiness strategy

Agriculture still a winner [25 September/ Rural News Group] Outgoing Ballance CEO, Larry Bilodeau commented that New Zealand does not have a viable alternative to agriculture in order to attempt to place less reliance on agriculture. Although he agreed that New Zealand needed to diversify its economy, he said that it need not be an ultimatum between agricultural export growth and diversification. The Ministry for Primary Industries estimate export value from agriculture, fisheries and forestry to reach \$40.7 billion by June 2018, an 8 percent increase from June 2014. Mr Bilodeau said that Ballance will continue to be part of the effort in producing high quality safe food sustainably. Ballance chairman, David Peacocke commended Mr Bilodeau's exceptional leadership in driving the co-operative from a fertiliser company to one focusing on the full range of farm nutrients.

Agribusiness education

University considers rejecting dairy funding [27 September/ NZ Herald] Proposals under consideration by the University of Canterbury could result in research funding from the dairying and soft drink industries being declined on ethical grounds, along with the current ability to decline funding from tobacco and armaments industries. University of Canterbury board chairman, Steve Weaver said that with no clear consensus, a working group has been established. Some academics have argued that the ability to decline research funding should be extended to industries funded alcohol, gambling, dairying, mining and soft drinks. NZ Initiative think-tank head of research, Eric Crampton said that industry funded research could be extremely valuable, provided that funding arrangements were disclosed and unethical behaviour censured. Dr Crampton said it was distortionary to begin with the presumption that industry funding is undesirable and that Government funding is free from influence.

Economics and trade

NZ exchange rate 'unjustified and unsustainable' - Wheeler [25 September/ NZ Herald] The Reserve Bank of New Zealand Governor, Graeme Wheeler said that the New Zealand dollar exchange rate was unjustified and unsustainable, and prone to a significant downward adjustment. He mentioned that unjustified and unsustainable exchange rate was an important consideration in assessing whether exchange rate intervention is viable, and stated that the Bank would welcome a move towards a more sustainable exchange rate level. Governor Wheeler said that based on past experience, when the New Zealand dollar declines from an unjustified and unsustainable level, the total adjustment can be substantial. Westpac Banking Corporation New Zealand senior market strategist, Imre Speizer explained that the New Zealand dollar could fall below the USD 0.80 level.

Milk powder not leader of the pack [26 September/ Otago Daily Times] According to Statistics New Zealand, the trade balance for the 12 months to August continued its surplus at \$2 billion, the biggest surplus since August 1992. Statistics New Zealand said that the 16 percent rise in combined milk powder, butter and cheese was led by milk fat and cheese, rather than milk powder, for the first time in three years. ASB rural economist, Nathan Penny described this as a temporary trade balance bounce. Mr Penny expects dairy export prices to continue its decline. Westpac senior economist, Anne Boniface expects softer dairy prices to continue to weigh on dairy export receipts in the short term.

Farmers back call for lower dollar [26 September/ Radio New Zealand Rural] Federated Farmers have backed the Reserve Bank of New Zealand's position that the New Zealand dollar is unjustifiably and unsustainably high, saying that this season's declining dairy payout would dramatically reduce New Zealand's income. NZX Agrifax dairy industry analyst, Susan Kilsby said that dairy prices and the New Zealand dollar was undoubtedly linked, with every one cent movement in the dollar adding approximately 10 cents to the payout. Federated Farmers believed that the fair value of the New Zealand dollar was in the low USD 0.70 range, and that it could decline rapidly. However, Westpac chief economist, Dominick Stephens did not agree that the dollar was unjustifiably high. He highlighted the second biggest reason for a strong New Zealand dollar as the very low interest rates in the United States, which is pushing the United States dollar down to a very low level.

Farmers and producers

Confidence down among dairy farmers [24 September/ NZ Herald] Rabobank's latest quarterly rural confidence survey based on approximately 450 farmers indicates that due to declining dairy prices, rural confidence levels have declined to a two year low with 37 percent of farmers having a negative outlook for the next 12 months (from 24 percent the previous survey). The number of farmers with a positive view of the rural economy declined to 20 percent from 25 percent, with 42 percent expecting the conditions to remain the same. Rabobank New Zealand CEO, Ben Russell said that the drop in confidence was a clear reflection of the bearish global dairy outlook and lower milk prices on dairy farmer sentiment. He highlighted that with the ongoing increase in dairy supplies, a price recovery is not imminent. Almost half of dairy farmers surveyed expected the performance of their farm business to worsen in the next 12 months (30 percent the previous quarter), with only 20 percent of dairy farmers expecting an improved performance (27 percent the previous quarter). Although there was a drop in sentiment among beef and sheep farmers, confidence in the sector remained strong, with Mr Russell saying that both beef and lamb prices having increased from the previous season. However the survey indicated that overall farmer investment intentions remained stable.

Listed Chinese firm targets Lochinver and other NZ farm assets [26 September/ National Business Review] The Shenzhen listed, Hunan Dakang Pasture Farming is running a private placement to raise \$466 million in order to acquire Shanghai Pengxin Group's New Zealand investment subsidiary, Pengxin New Zealand Farm Group from An Yuan Dairy Ltd. The deal includes 16 Crafar farms and the 75 percent stake in Canterbury's Synlait Farms, already acquired by Shanghai Pengxin and the potential acquisition of the 14,000 hectare Lochinver Station. Overseas Investment Office deputy CEO, Annelies McClure said that Shanghai Pengxin's application to acquire Lochinver Station has been modified to reflect the potential transaction. The nature and size of the transaction will result in the Overseas Investment Office needing to reassess the ownership structure of the purchasing company. Society For The Promotion of Community Standards blogger, David Lane said that the new developments lack transparency, with approximately 45 percent of the assets' ownership being held by those who have not been subjected to Overseas Investment Office Scrutiny.

New Kidd on job [29 September/ NZ Farmers Weekly] Last year's Dairy Woman of the Year, Justine Kidd will be taking over from Michelle Wilson on October 22 as the chairwoman of Dairy Women's Network. Ms Kidd said that she will be aiming to support the ability of the Dairy Women's Network to sustainably delivery great outcomes for its members and the industry. Ms Kidd who has an agricultural science honours degree is the head of the BEL Group and owns the business leadership company, JMK Consulting, along with several directorships.

Field Notes

Weekly news update from the KPMG Agribusiness Network – 1 October 2014

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Rural Equities sells assets, raises \$6.3m [29 September/ NZ Farmer] Rural Equities Ltd has sold assets including part of its Australian farm holdings in order to raise up to \$6.3 million, which is to be allocated toward debt reduction and the Eiffelton dairy conversion project. The company said that its sale of carbon credit units for a net price of \$4.20 per unit raised approximately \$250,000 on June 30 book value. It also reduced its stake in Australian agricultural company Tandou Ltd from 12.66 percent to 6.35 percent at AUD 0.44 per share, selling 12.417 million shares, resulting in a June 30 book value gain of approximately \$400,000.

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Field Notes presents a summary of some of the media comment on the Agribusiness sector in the last week. The views expressed do not necessarily represent the views of KPMG but are summaries of the articles published.

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