

Fortnightly Agri Update

20 June 2018



Yes deer

While New Zealand's deer industry is considerably smaller than the traditional heavyweights of sheep and beef farming, like its counterparts, it is also enjoying a run of strong demand and high prices for its meat. In this fortnight's Agri Update, we take a look at New Zealand's deer industry and highlight some of the challenges and opportunities for the sector.

Deer were introduced to New Zealand in the late 19th century and quickly flourished. As early as 1910, large numbers of deer were becoming a problem, damaging native plants and pastures. Between 1920 and the 1960s the Department of Internal Affairs and the Forestry Service attempted to control the population. Fast forward to the 1970s and helicopters were being used to hunt wild deer firstly as a way to keep numbers under control, and then for profit. But as the popularity and price of wild venison rose, so did the number of hunters, with 'deer wars' erupting.

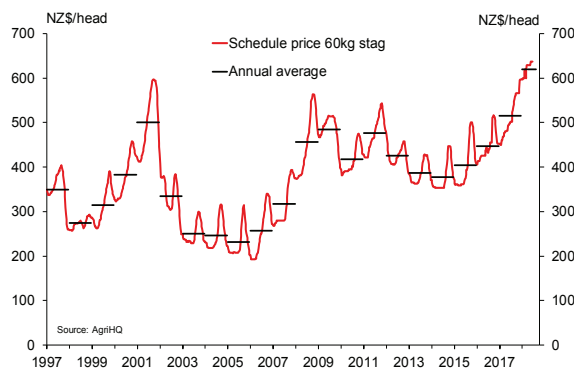
The pace of culling of wild deer was unsustainable and this, combined with a demand for NZ venison offshore made farming deer an enticing proposition. The first licence to farm deer was issued to a farmer near Taupo in 1969. And from there the sector grew quickly. Perhaps too quickly. By 1979 there were around 800 farms and 42,000 deer. Just a year later the number of farms had almost doubled and there were more than 100,000 deer being farmed in New Zealand. Deer numbers peaked in the early 2000s with around 1.75 million deer farmed in New Zealand.

But with the boom, also came the bust. Deer numbers have declined significantly in recent years with around 800,000 now farmed in New Zealand. Volatility in venison and velvet prices along with strong returns from alternative land uses has seen farmers exit the industry.

More recently, the outlook for the sector has been improving. Venison is viewed as a relatively healthy meat, low in fat and high in protein. It's also reportedly in demand as an ingredient in gourmet pet food (reportedly for cat and dog food targeted specifically for animals prone to sensitive skin).

On the back of tighter local supply and strong demand in the US and Europe, venison prices have improved significantly, lifting the value of venison exports to around \$190m in the year to March 2018. Still well down from the high point for venison exports in the late 2000's, but an improving trend nonetheless.

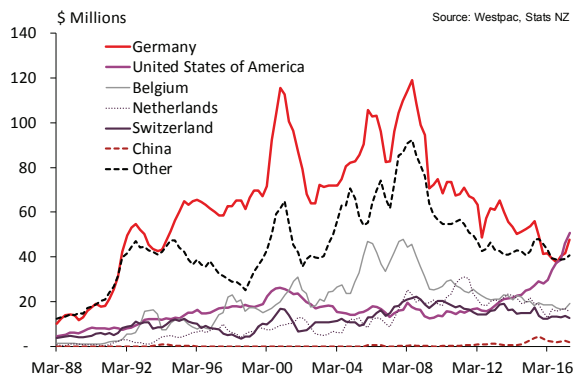
Venison prices



The growth in venison exports to the US has been particularly notable. Supported by a broader firming in the US economy, changing consumer tastes and preferences have also reportedly driven a lift in demand for venison.

Paleo diets and the popularity of health foods have reportedly led to increased demand for venison along with other products such as bison and wild boar.

Value of venison exports



The US has now overtaken Germany as the primary destination for NZ's venison exports. Exports to the US in the year to March were up almost 50% on the same period a year earlier, with almost 50% of venison exports by value and 36% of exports by volume headed there.

Increased demand from the US has also changed the usual seasonal price pattern. Prices traditionally peak around October, driven by demand for chilled product in Europe. But in 2017 prices continued to climb into the final months of the year and have edged a little higher in the first half of 2018. With growth in the US economy expected to remain firm going forward, the NZD/USD expected to depreciate further and few signs that the current healthy buzz is set to unwind any time soon, prices should remain underpinned by firm demand.

Venison isn't the only product produced by deer farmers. In recent years there has been increased focus by the industry on increasing the value of co-products, the most important of which is velvet (which comes from the antlers of stags). Amongst other things, deer velvet is used in Chinese medicine and as a dietary supplement. New Zealand is one of the world's largest velvet producers.

While export volumes have growing strongly, velvet prices have improved only marginally in recent years. However, there are signs this is starting to change with anecdotal reports of buyers rushing to secure supplies. The value of NZ velvet exports in the year to March was around \$70m, which is around 30% higher than a year earlier.

The outlook for Chinese and Korean demand is key for this market. As is the ability and willingness of farmers to meet new exporting standards (following the reclassification by Chinese authorities of velvet imports from agricultural by-product to pharmaceutical product). The development

of new markets will also be important. Nutritional supplements are becoming increasingly popular, including a successful range of Korean health foods that has been a key source of growth in demand in recent years. Increasing wealth of Chinese consumers should also support demand in the long term. In the near term however, slower growth in the Chinese economy could be something of a headwind to further improvement in prices.

Where to from here?

Like other New Zealand agricultural exports, deer farmers are benefitting from the solid global growth backdrop, particularly in the US. This, along with an expected further depreciation in the NZD/USD and tight supplies should continue to underpin firm venison prices going forward. The outlook for velvet prices is probably more uncertain with greater risk from the concentration of export markets.

However, over the long term, the sector will need to continue to innovate. The Cervena marketing programme in the US appears to be paying dividends while the sector's Primary Growth Partnership programme, Passion2Profit, has also been viewed favourably. Any trade agreement with the EU in the wake of Brexit could also provide opportunities for the sector.

But like other commodity food producers, deer farmers will need to keep on top of changing consumer preferences, including increased awareness of environmental and animal welfare concerns.

Anne Boniface

Senior Economist

GlobalDairyTrade Auction Results, 20 June 2018

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-2.5%	6,060
Butter	0.8%	5,611
Butter Milk Power (BMP)	n/a	n/a
Cheddar	-3.6%	3847
Lactose	8.2%	769
Rennet Casein	-2.2%	4,898
Skim Milk Powder (SMP)	-1.1%	2003
Whole Milk Powder (WMP)	-1.0%	3189
GDT Price Index	-1.2%	1,038

Farmgate milk price forecasts

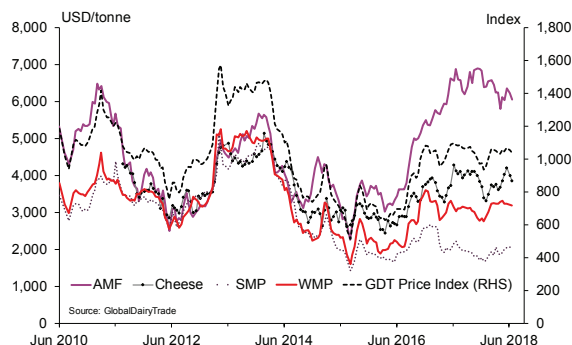
	2017/18		2018/19	
	Westpac	Fonterra	Westpac	Fonterra
Milk Price	\$6.75	\$6.75	\$6.40	\$7.00

Beyond the farm gate

Dairy

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

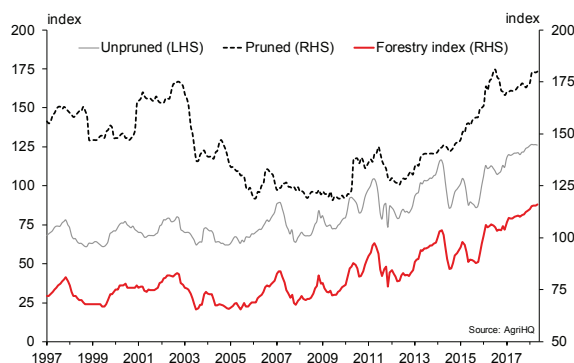
Dairy prices edged lower in last night's GlobalDairyTrade auction with the headline index falling 1.3%. Prices eased for most products on offer, including a 1% fall in whole milk powder prices. Only lactose prices bucked the trend, rising 8%. Volumes offered on the GDT platform are now starting to tick higher and will continue to do so over the coming months in line with usual season patterns (although we would note that the volume of product offered on the GDT platform has tended to be trending lower in recent years). Our \$6.40 milk price forecast is contingent on further gradual easing in dairy prices from these levels in the coming months.



Forestry

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

Log prices continue to defy our expectation of a moderation in prices, and remain elevated. However, there are reports of slowing log sales in China (though this may be due to temporary factors). Locally construction activity has stalled. Consent issuance has continued to largely drift sideways in recent months, albeit at high levels.



Global growth

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

Our most recent global growth forecasts suggest global growth will remain solid this year and, but the composition will change. Growth in China is expected to slow while US growth is forecast to improve to 2.8% in 2018. Slower growth in China is expected to be a headwind for most New Zealand commodity producers. Heightened threat of trade tensions between the US and China, and consequent risk to growth is contributing to nervousness in financial markets.

	2016	2017	2018 (f)	2019 (f)
United States	1.5	2.3	2.8	2.5
China	6.7	6.9	6.3	6.1
Japan	0.9	1.7	1.3	1
India	7.1	6.7	7.1	7.2
Other East Asia	3.9	4.5	4.3	4.3
Europe	1.8	2.3	2.1	1.6
Australia	2.6	2.2	2.7	2.5
World	3.2	3.8	3.8	3.7

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

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