



# Fortnightly Agri Update

4 April 2018



## A primer on *Mycoplasma bovis*

Last week, New Zealand's Ministry of Primary Industries (MPI) announced a plan to cull 22,300 cattle across 28 infected farms in a bid to stop the spread of *mycoplasma bovis*. While those directly involved in the dairy industry will now be familiar with the disease, further afield there will be less understanding of just what it is and how it is affecting New Zealand's farming sector.

*Mycoplasma bovis* is a bacterium that affects cattle. It was officially discovered in New Zealand in July 2017, though there is speculation (and some evidence) that it could have been around for several years before this. Infected cattle can develop mastitis, pneumonia, arthritis and late term abortions. However, it can also lie dormant, presenting no symptoms and only becoming apparent during times of stress – making it difficult to detect. *Mycoplasma bovis* is an issue for the health of cattle and milk production, but doesn't present any food safety risks. It is already present in many other countries such as Australia, UK and the US. New Zealand's outbreak has largely been concentrated in the South Island, with just one North Island property testing positive.

On the farms where *mycoplasma bovis* has been confirmed, the impact has clearly been devastating for individual farmers, businesses and the wider community. While farmers will qualify for compensation under the Biosecurity Act, there are already complaints about how long the compensation process is already taking, as well as uncertainty about just what compensation farmers will be eligible for. In addition to this uncertainty, the loss of many years' worth of improvements in breeding stock and the stress of sourcing new cattle and effectively rebuilding the business from scratch will have a massive

impact on affected farmers. Add to this the lingering cloud of uncertainty over the future of cattle on farms currently under restricted places notice, and sentiment in the affected areas is set to remain downcast for some time yet.

On a nationwide scale however, the impact on milk and beef supply will be much smaller. New Zealand's dairy herd is around 4.8 million, so the population to be culled accounts for around 0.5%. That's well within usual seasonal variation in the NZ dairy herd, which can change by 2-3% (in either direction) from season to season. Breaking it down to a regional level, it works out to be a little over 1% of the Otago, Canterbury and Southland herds combined. While processing capacity might be stretched temporarily at a regional level, there should be ample capacity nationwide to process the additional cow cull (what's more, farmers will be eventually looking to replace their herds, meaning some cattle that would have otherwise been culled won't be).

For the industry more broadly, the response highlights the importance of biosecurity to the New Zealand agriculture sector and the broader economy. It hasn't yet been confirmed how *mycoplasma bovis* entered New Zealand, but possibilities include imported cattle, semen or embryos, imported veterinary medicines, imported feed and used farm equipment.

*Mycoplasma bovis* is not the only imported threat which has emerged in New Zealand in recent years. Amongst others, *bonamia ostreae* has stopped oyster farming in Stewart Island, myrtle rust disease has emerged as a threat to iconic plants such as pohutukawa, Manuka and feijoa, and infestations of brown marmorated stink bug (a threat to a wide range of New Zealand crops) have resulted in

ships being turned away from New Zealand ports. While New Zealand's geographic isolation has meant challenges when it comes to trading with the rest of the world, being a small island nation which is difficult to get to has certainly had advantages when it comes to avoiding many of the plant and animal diseases the rest of the world has had to deal with. But, with increased mobility of people and goods, brings increased risks. These risks can never be eliminated, but they must be carefully managed and there are tradeoffs to consider. Although there are clearly benefits to strong biosecurity borders, strong cases can be made for many other activities that require government funding such as schools and hospitals. Ultimately, the industry and farmers themselves will need to remain vigilant to biosecurity risks, working together with government to protect New Zealand's agriculture sector.

**Anne Boniface**  
Senior Economist

#### GlobalDairyTrade Auction Results, 4 April 2018

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-7.0%	5,806
Butter	4.1%	5,494
Butter Milk Power (BMP)	1%	1,988
Cheddar	2.2%	3,679
Lactose	1.1%	549
Rennet Casein	12.1%	5,668
Skim Milk Powder (SMP)	-1.8%	1,849
Whole Milk Powder (WMP)	1.6%	3,278
GDT Price Index	-0.6%	1,036

#### Farmgate milk price forecasts

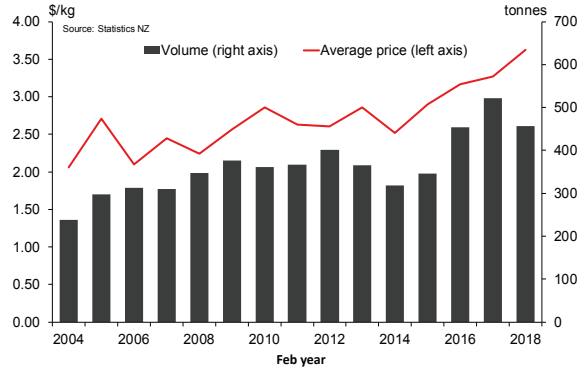
	2017/18		2018/19
	Westpac	Fonterra	Westpac
Milk Price	\$6.55	\$6.55	\$6.50

# Beyond the farm gate

## Kiwifruit

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

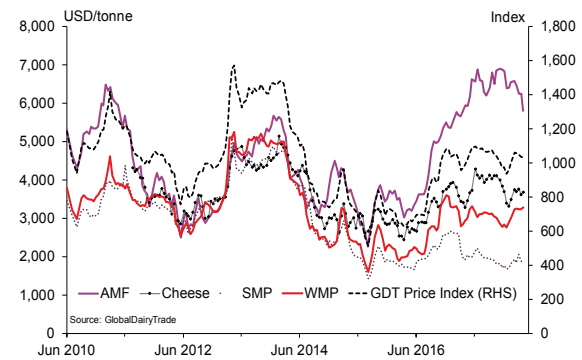
The New Zealand kiwifruit harvest has kicked off, with expectations of increased volumes on the back of favourable conditions for many growers. However, as for other parts of the horticulture sector there has been some concern whether they will be able to source the seasonal labour required for fruit picking. These issues aside, the outlook remains promising for kiwifruit growers. Gold yields in particular continue to increase with solid demand for the fruit from key Asian markets.



## Dairy

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

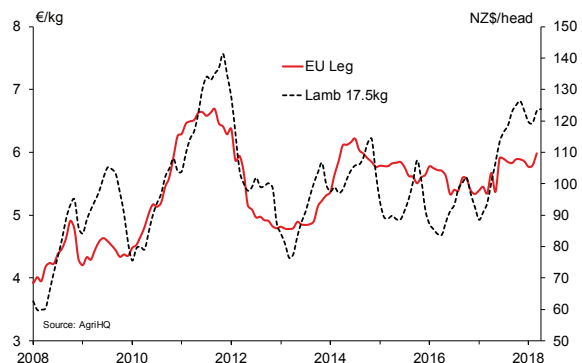
There were mixed results in last night's GlobalDairyTrade auction. The headline price index edged lower for the fourth consecutive auction, down 0.6%. However, this headline result was driven by a 7% fall in AMF prices. Skim milk powder prices were also weaker, falling 1.8%. However, prices for other commodities on offer, including whole milk powder (WMP), rose. WMP prices are now the highest they have been since January. This result was a little stronger than we had pencilled in. At this stage however, there's nothing in last night's outcome to shift our view that dairy prices are likely to moderate further in the coming months as demand growth from China eases from the very strong pace we've seen in recent months and global supply continues to track higher. For now, dairy markets continue to appear broadly balanced.



## Lamb

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

Lamb prices have been unusually strong for this time of year on the back of solid international demand for chilled product in the run up to an early Easter. However, demand for chilled product has also been strong on the back of tight global supplies. We expect prices to ease from current levels, but locally many farmers still have plenty of feed and may continue to hold on to stock for longer.



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

---

# Contact the Westpac economics team

---

**Dominick Stephens**, Chief Economist +64 9 336 5671

**Michael Gordon**, Senior Economist +64 9 336 5670

**Satish Ranchhod**, Senior Economist +64 9 336 5668

**Anne Boniface**, Senior Economist +64 9 336 5669

**Paul Clark**, Industry Economist +64 9 336 5656

**Any questions email:** [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

---

## Disclaimer

---

### Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

### Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

### Country disclosures

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any

product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz). For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at [www.westpac.co.nz](http://www.westpac.co.nz).

**China, Hong Kong, Singapore and India:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**UK:** The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential

# Disclaimer continued

---

Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

## Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

**U.S.:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.