



Fortnightly Agri Update

7 March 2018



Trump and trade

Another week and another twitter tirade from US President Donald Trump. Last week Trump used his Twitter account to announce plans to slap a 25% tariff on steel and a 10% tariff on aluminium exports entering the US, justifying the move in the interests of “national security”. It is expected that his plan will be confirmed in the coming days (despite widespread lobbying to halt or soften the action).

As it's become increasingly likely to be implemented, financial markets have reacted nervously, and European leaders have threatened retaliation by taxing iconic imports from the US such as Levi's and bourbon. Officials from other countries such as Mexico, Brazil and China have also warned of the prospect of retaliatory action. The latest move is a continuation of the growing protectionist sentiment that has been bubbling since Trump was elected US president on his “America First” platform. He has already applied tariffs to solar panel and washing machine imports. The latest actions have ignited fears of an escalating tit for tat trade war. One that could potentially widen to include other sectors and countries and become a major drag on global economic growth.

Still, it's unlikely to be smooth sailing for Trump in his attempt to put “America First”. He's faced criticism from within his own Republican party, and there's the prospect of legal challenges mounted at the WTO. What's more, as the higher input costs start to be passed through to domestic prices American consumers are likely to question how they are benefitting from increased protection for the US steel industry. Indeed, some point to Trump comments about the

potential for exemptions of Canadian steel exporters if “new and fair NAFTA agreement is signed” as evidence of the announcements being a negotiation tactic rather than the launch of a trade war.

Trump isn't the first US president to use trade restrictions to try and support the US steel industry. However, in previous periods, the restrictions have been withdrawn sooner than expected in response to international pressure and trade disruptions. The current proposals are different in that they are being introduced under the threat to national security justification (which could give the President greater ability to maintain the barriers) but there's plenty of uncertainty about how long the proposed restrictions could remain in place.

At first blush, these developments might not be such a concern for New Zealand (or New Zealand farmers). We're not a major aluminium or steel exporter. But New Zealand, with its strong agricultural export base, is a nation reliant on trade. While retaliatory action could see some doors open and other doors close for New Zealand exporters, this would be hugely disruptive. What's more, New Zealand certainly doesn't have a lot of bargaining chips when it comes to retaliatory moves. We have a relatively small economy, with very few barriers to trade, and little incentive to put up walls. If the US were to impose similar tariffs on dairy imports or agricultural imports more broadly it would have a big impact on the agricultural sector.

In the near term, we think such a move to extend tariffs to agriculture looks unlikely. Yet there's no doubt that the growing protectionist sentiment evident not only in the US but also in other parts of the world (the UK's vote in favour of Brexit is another example), signal an uncertain and challenging environment for New Zealand exporters.

New Zealand exporters are going to have to work harder to differentiate themselves on the basis of quality and ability to match evolving consumer preferences, not price. It also highlights the importance of diversification amongst trading partners. With some countries all too willing to erect trade barriers, there are benefits to exporters of not having all their eggs (or in our case milk and meat) in one basket.

Anne Boniface
Senior Economist

GlobalDairyTrade Auction Results, 7 March 2018

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-3.2%	6,245
Butter	-1.0%	5,280
Butter Milk Power (BMP)	-4.3%	1,959
Cheddar	1.7%	3,759
Lactose	n.a.	n.a.
Rennet Casein	2.2%	5,128
Skim Milk Powder (SMP)	5.5%	2,051
Whole Milk Powder (WMP)	-0.8%	3,232
GDT Price Index	-0.6%	1,049

Farmgate milk price forecasts

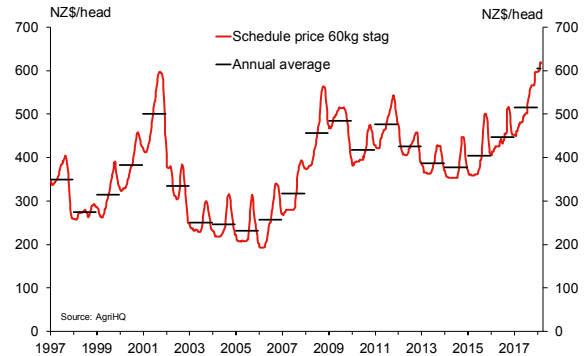
	2017/18		2018/19
	Westpac	Fonterra	Westpac
Milk Price	\$6.50	\$6.40	\$6.50

Beyond the farm gate

Venison

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

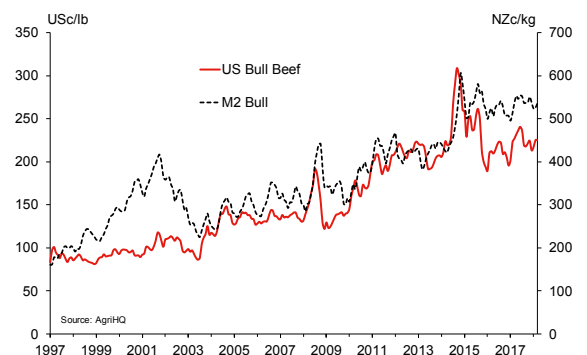
Venison prices have risen strongly over the last year. The US is an increasingly important market for venison exports, and consumer demand there has strengthened on the back of a stronger backdrop for the household sector, falling unemployment and stronger wage growth. In addition, supply from New Zealand has been falling, in part due to herd rebuilding. Stats NZ reports deer numbers grew 1.7% in the year to June 2017 (although fawn numbers still fell 1.5% over the same period), the first time it has recorded an annual increase in deer numbers since 2004. Looking ahead, we expect the NZD to weaken, especially against the USD over the course of 2018. This, combined with a solid consumer demand backdrop in key export markets, is likely to continue to support farm gate prices.



Beef

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

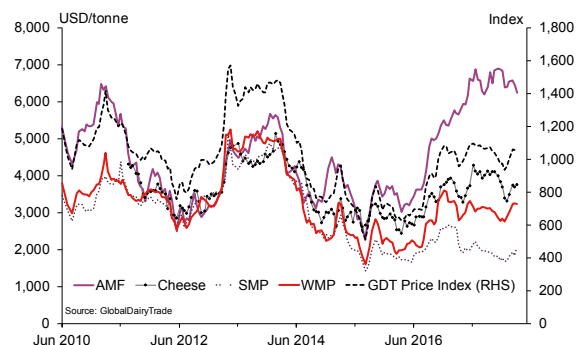
For now, relatively tight local supplies and solid international demand are continuing to underpin beef prices. However, we still expect beef prices to come under some downward pressure over the course of this year as global supply increases. Australian cattle slaughter is expected to lift significantly this year (ABARES is forecasting 9% growth), while US beef production is also expected to grow strongly in 2018, encouraged by high beef prices and favourable feed costs.



Dairy

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

Dairy prices eased a touch further in last night's GlobalDairyTrade auction. In aggregate, the GDT index fell 0.6%, which included a 0.8% fall in whole milk powder prices. In contrast, skim milk powder prices (which have been under pressure over the last year or so because of the accumulation of large stockpiles in Europe) bounced 5.5% higher. Slightly softer prices followed Fonterra increasing the volume of WMP and SMP available through GDT auctions over the next few months. Back in December Fonterra said it expected a 4% drop in milk production this season and cut the volume of product available on the GDT platform. Nationwide, production in January was down almost 7% on a year earlier (on a milk solids basis) and down 1% for the season to January. However, since then on farm conditions have improved in many parts of the country and over the entire season, we expect nationwide domestic production to be down around 1%. We expect dairy prices to soften further in the coming months, as global supply continues to grow. With recent outturns in line with expectations, we remain comfortable forecasting a \$6.50 milk price this season.



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

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