

Need that Follow-Up

Huey can't seem to find the "replay" button. The drought-affected areas on the east coast of both islands desperately need some follow-up rain to kickstart autumn. With daylight hours now diminishing rapidly, time is running out to get this big engine up and running. It's a similar situation to the autumn of 2020 (first lockdown). It was only the dry, mild winter following that allowed a recovery from that drought. Here's hoping.

Cost of Debt, Banking Inquiries and Debt Management

The **Waikato/King Country** is having a rock star autumn with good temperatures and regular rain. There is some cheap duck feed around, with an oversupply of maize silage and maize grain. Maize silage contracts have defaulted and there is virtually no storage capacity for maize grain. Lambs have been grown to heavier weights and are killing out at around \$120-\$130/hd. Cattle killing space is tight but there is good feed to weight-gain cattle in the meantime.

The **Gisborne region** is getting a little dry but no one is complaining! The sunshine is great for the soul. It doesn't take much for a Gisborne farmer to be disillusioned about sheep, and this season represents a low point in their popularity.

Hawkes Bay is looking for follow-up rain after the 15-30 mm a week ago. Having had good rain to the end of February, there is still colour and pasture density to work with, provided soil moisture can be retained. A wave of high worm burden appears to have dissipated with the cooler, dry weather and FE is now off the radar.

The **Manawatu/Rangitikei** is in a similar position, with the Taihape district being a bit uncomfortable with the dry. Some cold night temperatures and the odd frost. A lot of dry duck dams aren't likely to be filled before opening weekend.

The **Wairarapa/Tararua** region has stalled again, after useful rain 10 days ago. With no usable soil moisture in the top 10 cm, it has only been morning dew that has kept any colour going. At least the rain relieved stock water pressure in the meantime. Those that have condition-drafted their ewes after mating have had an unwelcome surprise - ewes are a lot harder under the wool than they look. Ewe lamb replacements are a good 2-3 kg behind last year and numbers that may go to the ram are being revised downward. Beef cows are in good nick and have scanned well.

Progress in the Methane Emissions Debate?

Farmers feel that they have had a 'win' with the government announcing an independent review of the current approach to methane emissions and climate change policy. This review is to focus on actual warming effects rather than the emissions themselves. The trouble is these emissions are in your face. According to MfE, sheep and cattle contributed 48.6% of New Zealand's total emissions in 2022, of which 25.7% was from dairy cattle, 12.4% from sheep and 10.5% from beef cattle. In the meantime, AgriZeroNZ and the NZ Greenhouse Gas Research Centre (NZAGRC) are investing significant sums in vaccine technology, boluses and high-fat grass species to reduce emissions. Their focus is to find ways to reduce methane production from ruminants without having to significantly reduce livestock numbers.

The **saleyards** were quieter this week with ANZAC day falling in the Thursday. **Store lambs** firmed slightly at Stortford and again at Feilding, albeit across small yardings. Recent rain appears to have lifted optimism. Shorn male lambs made \$2.85-\$2.95/kg at Feilding. Some good quality **R2 cattle** sold well at Stortford, with steers making \$3.10-\$3.20 and heifers \$2.80-\$2.95/kg. The **dairy cow kill** hasn't fired up like expected so far, and the **manufacturing beef** schedules are holding steady for now. A slight firming in the **local trade beef** pricing.

AT A GLANCE	Apr-22	Apr-23	- 2 Weeks Ago	- 1 Weeks Ago	This Week	Latest change
2023 Store Lamb (30-35kgLW) (S Yards)	\$4.20	\$3.85	\$2.45	\$2.65	\$2.75	\$0.10
Indicator PM Lamb (15-19kg)	\$8.30	\$7.33	\$6.10	\$6.15	\$6.20	\$0.05
Store R2 Steer	\$3.15	\$3.31	\$3.20	\$3.15	\$3.15	\$0.00
P2 Steer (295-320kg)	\$5.95	\$6.00	\$5.90	\$5.90	\$5.95	\$0.05
P2 Bull (295-320kg)	\$5.90	\$5.90	\$5.90	\$5.90	\$5.90	\$0.00
Local Trade Beef (220kg)	\$5.79	\$5.94	\$5.90	\$5.85	\$5.90	\$0.05
AP Stag (50-65kgCW)	\$7.95	\$8.85	\$8.60	\$8.60	\$8.60	\$0.00
Strong Wool Indicator	246	255	300	300	300	0
90-day Bill Rate	1.72%	5.44%	5.63%	5.64%	5.62%	-0.02%
US Bull Price 95c/lb US)	308	284	294	294	294	0
\$NZ/UK Exchange Rate	0.5248	0.5009	0.4778	0.4758	0.4758	\$0.000
\$NZ/\$US Exchange Rate	0.6830	0.6212	0.5980	0.5887	0.5946	\$0.006

Cost of Debt, Banking Inquiries and Debt Management

In this article we review the drivers in international finance markets and for domestic inflation, as they affect our retail interest rates. We also discuss current reviews of the NZ banking sector and report on our latest survey of retail interest rates from the five main trading banks in the rural loan market.

OCR Settings and “Sticky” Inflation Forecasts

- On April 10, the Reserve Bank announced that it would keep the OCR at 5.5%.
- Having been “bullish” about interest rate drops by mid-year, the main trading banks have now backed off this outlook on the basis of the latest inflation and GDP results.
- Inflation for the March 2024 quarter came in at 4%, which on face value was a good result (down from 4.7% December quarter 2023 and from 7% in December quarter 2022). But the Reserve Bank effectively missed its overall target by 0.5%.
- Most of this decline in inflation came from the tradable or imported component (represented by costs like imported cars, oil and international travel). The non-tradable or domestic component of New Zealand’s inflation remains “sticky”, averaging 5.8%. Some of the main contributors to the high domestic inflation are the cost increases in rent, insurance and rates.
- One of the things that is keeping domestic inflation high is the strong labour market. After the GFC, unemployment in New Zealand moved up to 6.7%, which had a strong dampening effect on consumer demand. Unemployment in NZ is currently only 4% and is forecast to increase to 5% by the end of the year.
- **The acknowledgement of these persistent inflation pressures have led both the Reserve Bank and trading banks to take the view that the OCR is likely to remain at 5.5% through to the end of 2024. Some banks are picking 25pt reductions in the OCR rate in each quarter of 2025, targeting 3.5% by June 2026.**

Overseas Influences

- The governments in the US, UK, Europe and Australia are doing a better job of controlling inflation than we are in New Zealand.
- The US Federal Reserve is expected to reduce interest rates by 100 pts by the end of this year. Rates in the UK and EU are expected to reduce by 75 points over the same period and rates in Australia are expected to come back by 50 points by the end of 2024 and another 75 points by the end of 2025.
- If these reductions were to eventuate, we could see a reduction in the pricing of 3- to 5-year interest rates in New Zealand.
- But for the primary sector, this is a two-edged sword. If the interest rate differential between say the US and New Zealand were to increase (because of reductions in US interest rates), this will put upward pressure on the NZ exchange rate against our trading partners.
- There are however a number of risk factors making international economies nervous, and less inclined to reduce interest rates quickly. The wars in the Ukraine and Middle East are primary concerns but also the poor economic performance in China and reduced consumer demand there.
- When financial markets are nervous this tends to restrict the supply of capital, so we would see the US Federal Reserve hold up its 3-5 year interest rates, which will in turn affect the cost of medium-term borrowing in New Zealand.

More Competition in the NZ Banking Sector?

- In June last year, the Commerce Commission was asked by the government to look into the potential barriers or behaviour affecting competition and quality of services in the NZ banking sector.
- In its draft report released last week, the commission confirmed that retail banking in New Zealand lacked effective competition.
- Using carefully chosen words, the Commission said that the four major banks - ANZ, ASB, BNZ and Westpac - focused more on “price-matching strategies” which resulted in “very stable market shares”. It said that

disruption was needed to push more aggressive competition in the sector. It recommended that barriers should be reduced for new players to come in and take on the major banks. It also recommended that the government look at speeding up the move to have Open Banking operating in the sector by mid-2026, allowing consumers to switch banks more easily.

- Open banking gives consumers greater access to, and control over, their banking data. Consumers can share banking and credit card transaction data securely with trusted third parties, which provide applications and services that save time and money. It means customers looking to change banks can have their new bankers better able to access their financial information at their existing institution.
- The UK introduced open banking in 2017, with 60% of the UK population using open banking by September 2023. Australia launched open banking in 2020.
- The commerce commission also cited the capital requirements imposed by the Reserve Bank as being one of the main regulatory barriers preventing more competition in the banking sector. (This is one of the reasons why KiwiBank currently doesn't offer a rural banking service).
- The capital requirements imposed by the Reserve Bank in 2021 are some of the toughest in the world. The four major banks were told that they had to hold capital reserves of at least 18% (up from 10.5%) by the end of a 7-year period starting in July 2022. The smaller banks needed have capital of 16%. This is double the reserves that are required in European banks and is significantly higher than what is required in Australia. At the time that these regulations were imposed, international banking consultant Mortlock Consultant observed that "the Reserve Banks model places far too much emphasis on capital and far too little on risk mitigation, making lending much more expensive in New Zealand than it needs to be".
- The Reserve Bank has pushed back on this accusation by the Commerce Commission, saying that they don't believe that capital requirements are a barrier to competition.
- **Clearly, the government will have to play a role in adjusting these regulations to allow smaller banks and new players to offer more effective competition in the banking sector.**

Federated Farmers Investigation into Rural Banking

Leading up to the general election in September last year, Federated Farmers called for an enquiry into the banking of the rural sector, including the interest rate differential between rural and residential housing lending.

Two weeks ago it was announced that the Primary Production Select Committee is starting an investigation into rural banking.

The enquiry will address the regulatory settings that affect rural lending costs and other key variables such as risk weightings that affect the setting of interest rates.

Fed Farmers are also calling for greater transparency in rural lending practice i.e. greater divulgence of the risk weighting criteria and price differentials that can apply within rural lending propositions. They are asking why all rural loans are risk-priced, where housing loans all work off a simple metric of LVR. They seek an explanation for the 120-150 pt differential between residential and rural lending rates. They question the inconsistency of lending policy over time (e.g. policy around principal repayment) and the apparent demise of the relationship-based approach to rural lending and reduced accountability of rural lenders.

In its defence, the rural lending sector will cite higher capital reserve requirements imposed by the RBNZ (twice that required to lend to the housing sector), the additional servicing time and costs associated with individual rural loans, the greater risk of rural lending conferred by larger single loan packages (compared with residential) and the exposure of whole sectors to single economic shifts (e.g. all dairy loans affected by the milk solids payout or all pastoral loans affected by lamb prices).

Current Retail Interest Rate Settings

We have conducted our usual survey of the retail interest rates available in the primary sector from the five main trading banks.

Average Rates

The rates quoted below are an average of the main rural lending banks. They're based on lending to a hypothetical business that fits the profile of BakerAg's average client (in our FAB database). Individual business rates will vary depending on the size of your business, your banking history and banking covenants (see commentary below). The last time we reported on average rates was in May 2023.

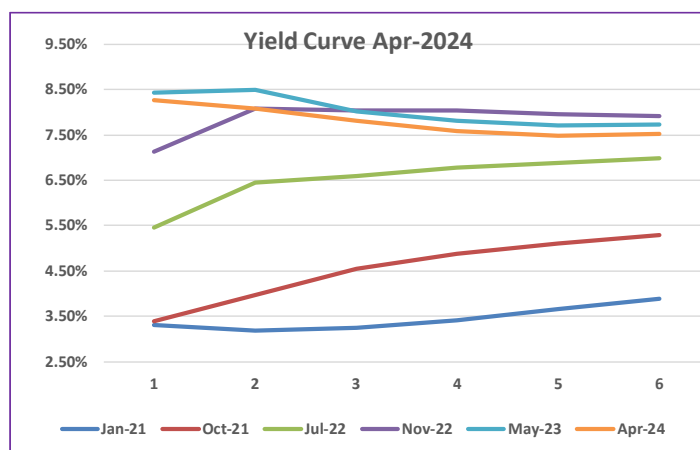
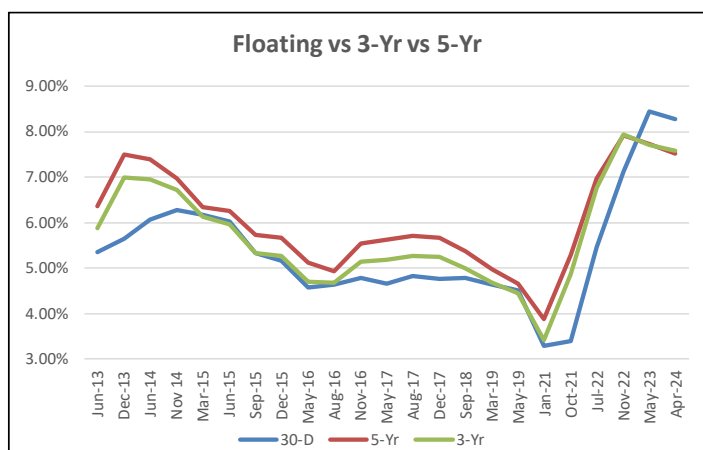
When comparing these rates with what you might be quoted, please remember that these apply to an "average" client and that the interest rate market is "fluid" at the moment as it responds to the latest inflation rate data and tries to anticipate Reserve Bank policy.

Indicative Agri-Banking Retail Rates

	30-day	1-yr	2-yr	3-yr	4-yr	5-yr
April 2024	8.27%	8.08%	7.81%	7.58%	7.48%	7.53%
May 2023	8.44%	8.49%	8.02%	7.82%	7.72%	7.73%
November 2022	7.13%	8.08%	8.03%	8.03%	7.95%	7.92%
July 2022	5.46%	6.45%	6.60%	6.77%	6.88%	6.98%
October 2021	3.40%	3.97%	4.54%	4.88%	5.11%	5.29%

Interest Rate Commentary

- Since we last reported these rates in May 2023, 30-day rates have decreased by 17 pts and 1-year rates by 41 pts. The 2-5 year rates have all decreased, by 20-24 pts.
- The spread from 'floating' to 5-year rates (in the Yield Curve), is still negative with the five year rate being 74 points lower than the floating rate. This reflects the long-term view that interest rates are going to come down. The left-hand graph illustrates how the 3- and 5-year rates have peaked and appear to be declining.



Debt Management

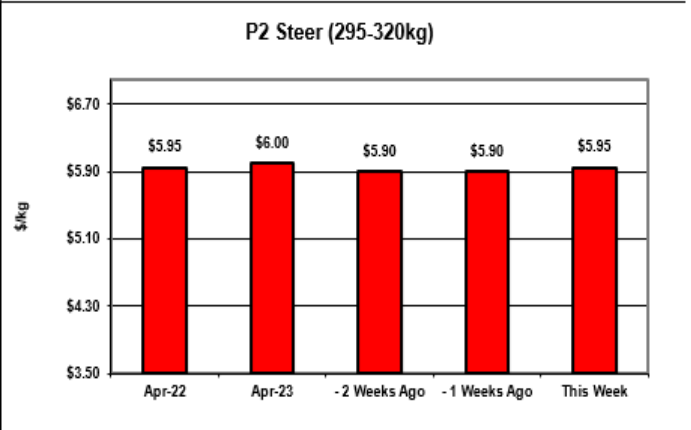
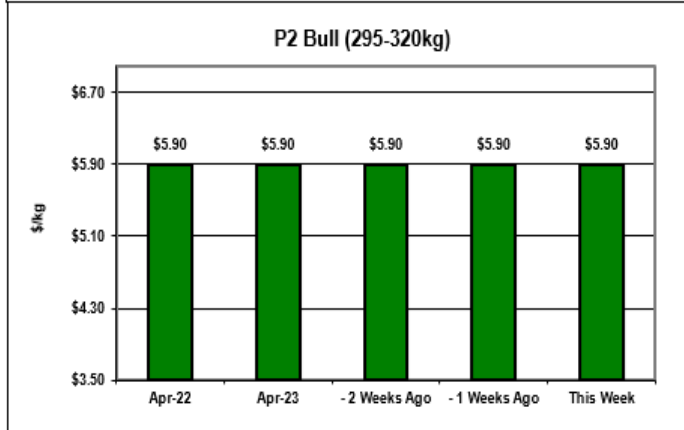
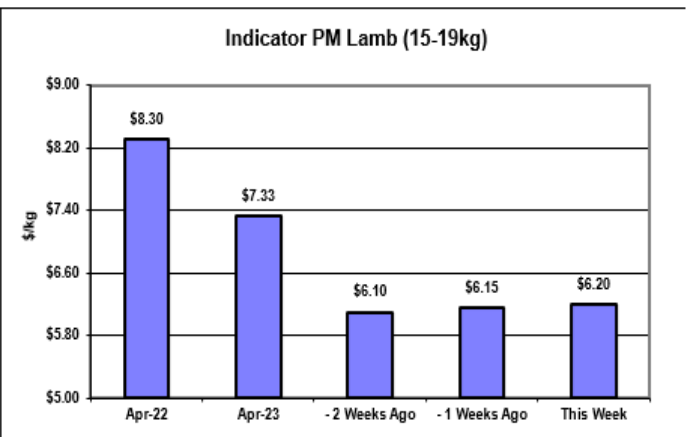
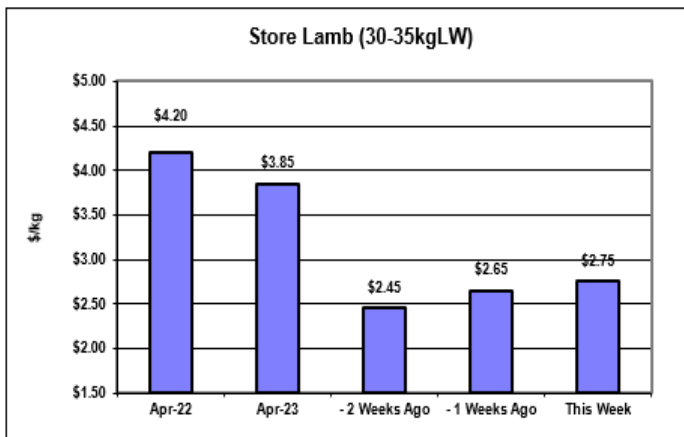
- With the majority of rural debt at the floating end of the market, and with the outlook for short-term interest rates to decrease (albeit not until later next year), there doesn't appear to be any real incentive to fix short-term with an interest differential of only around 20 points. (There have however been opportunities to fix short when the market has over-reached its prediction of medium term interest reductions, for example a few weeks ago when three-year money was priced below 7% and some took the opportunity to forward-fix).
- As stated in previous AgLetters, the customer risk margin that your bank applies to your borrowing has a significant effect on your cost of funds. The range in risk margin among the bank's customers is far greater than the range in average interest rates offered between banks. So have that discussion with your bank around how to minimise the risk margin on your account.
- Working capital requirements are extremely unpredictable at the moment. Hard as it is to face up to bad news, we strongly recommend that you keep your budget up-to-date and be on the front foot with advising your banker of any material changes in working capital requirements and major variances.

Relaxing after winning an argument with the wife



Other Prices

SI Lamb Schedule	\$5.90	=	SI P Beef Schedule	\$5.30	↓
NI Local Trade Beef	\$5.90	↑	NI 220-245 kg M Cow	\$4.00	=
NI 220-245 kg P Cow	\$4.10	=	NI Venison 60 kg stag	\$8.60	=



NOTICES

Tararua Farmer of the Year Field Day – Thursday 2nd May – See Flyer back page this AgLetter.

Huntaway pup wanted: please call Tim 0272461614.

B+LNZ AgInnovation Conference 2024

Date: Wednesday 15th May. **Time:** 9:00am - 5.00pm. **Venue:** Awapuni Function Centre, 67 Racecourse Road, Awapuni, Palmerston North. **Click here to see our event flyer >>** <https://bit.ly/aginnovation2024>

STORE STOCK PRICES

(Sale yard prices unless stated otherwise)

		SOUTHERN NORTH ISLAND		CANTERBURY		OTAGO/SOUTHLAND	
Male Lambs (2023) (Shorn)	36-40 kg	\$2.60-\$2.80	↑				
	32-35 kg	\$2.70-\$2.90	↑	\$2.40-\$2.50	=	\$2.50	=
	29-33 kg	\$2.60-\$2.75	↑	\$2.50-\$2.60	=	\$2.50-\$2.60	=
	26-28 kg	\$2.50-\$2.60	=	\$2.40	=	\$2.20-\$2.30	=
	23-26 kg						
Ewe Lambs (Shorn)	32-34 kg	\$2.50-\$2.60	=			\$2.20-\$2.30	=
	29-32 kg	\$2.30-\$2.40	=			\$2.00-\$2.20	=
	26-29 kg	\$2.30-\$2.40	=				
Works Ewes 5yo MA Ewes 2ths	25-28 kg	\$2.75	↑	\$2.50-\$2.60	=	\$2.20-\$2.30	=
		\$90-\$120	=				
Top R2 Steers Med R2 Steers DX R2 Steers	450-500 kg	\$3.10-\$3.15	↑	\$2.90	=	\$2.70-\$2.80	=
	350-450 kg	\$3.10-\$3.20	=	\$2.80-\$2.90	=	\$2.70-\$2.80	=
	300-400 kg	\$3.00-\$3.05	↑	\$2.60	=		
Top Weaner Steers Med Weaner Steers Weaner Beef Bulls	250-300 kg	\$3.60-\$3.70	=	\$3.50	↑	\$3.30-\$3.40	↑
	200-250 kg	\$3.80-\$4.00	=	\$3.50-\$3.60	↑	\$3.40-\$3.50	↑
	200-250 kg	\$3.60-\$3.70	=				
Top Trad R2Heifers Med Trad R2 Heifers DX R2 Heifers	400-500 kg	\$2.90-\$3.00	=	\$2.50-\$2.60	=	\$2.70-\$2.80	=
	300-400 kg	\$3.00-\$3.10	=	\$2.60-\$2.70	=	\$2.80-\$2.90	=
	280-380 kg	\$2.80-\$2.90	=	\$2.30-\$2.40	=	\$2.40	=
Top Weaner Heifers Med Weaner Heifers	220-260 kg	\$3.10-\$3.20	=	\$2.70-\$2.90	↑	\$2.70	
	180-220 kg	\$3.20-\$3.30	=	\$2.80-\$3.00	↑	\$2.70-\$2.90	=
R2 Friesian Bull	450-500 kg	\$3.00-\$3.10	=	\$2.80	=		
	350-400 kg	\$3.10-\$3.20	=	\$2.90	=		
Friesian Weaner Bull	200-220kg	\$3.80-\$4.00	=	\$3.50-\$3.60	=		
	150-200kg	\$4.20	=	\$3.60-3.80	=	\$3.50-\$3.60	=

This newsletter is confidential to subscribers. It is not to be reproduced or distributed to any other party without the express prior written permission of the Editor. The opinions and facts provided are based on information and data believed to be correct at the time of writing. Prices and quotes will however be subject to change without notice. BakerAg (NZ) Limited and CHE Holdings Ltd accept no liability for any loss or damage that may result from actions or failure to act upon the information and opinions provided herein. While antivirus protection tools have been employed, you should check the safety and content of this mail and attachments. The publishers accept no liability for any damage caused by any virus transmitted by or contained in this email and attachments.

Property
Brokers

Proud to be here



TARARUA

Excellence in Farming Awards

TARARUA SHEEP & BEEF FARM BUSINESS OF THE YEAR 2024

CONGRATULATIONS TO THE 2024 WINNERS

Matt and Marilyn Prior

The field day will be held on

THURSDAY 2ND MAY 2024

Start 9.30am

Makuri Country Club, Makuri Domain Road, Makuri

Lunch to be purchased at the venue, \$15 per person, a fundraiser for

Makuri Church and Domain, please bring cash on the day.

Refreshments and food will be served at the end of the day.

Vehicles: Quad bikes or standard side by sides (please note no long wheel base side by sides). Helmets are compulsory.

COMPETITION SPONSORS

