

New Zealand agriculture “riding the wave of change into 2024” – Rabobank annual outlook

New Zealand agriculture will need to ride the wave of change in 2024, with three prevailing undercurrents – **central bank actions, the recovery of the Chinese economy** and **geopolitical tensions and conflict** – set to charter a course for the sector in the year ahead, according to a new report by agribusiness banking specialist Rabobank.

In the bank’s annual flagship report, **New Zealand Agribusiness Outlook 2024**, titled **Smooth Sailing Or Choppy Waters?**, Rabobank says the currents of change will likely run deep for New Zealand food and fibre producers – who could be navigating challenges in the nation’s export-focused agri sector in the year ahead.

“New Zealand farmers are no strangers to facing challenges, and 2024 promises to keep them on their toes,” report co-author senior agricultural analyst Emma Higgins said.

“With many variables to pay attention to, setting sail for success this year will require a strategic mindset, agility and collaboration – traits New Zealand farmers and growers have no shortage of.”

Ms Higgins said the chief undercurrent affecting agriculture will be **central bank actions**, that will flow through to the cost of funds.

“The current restrictive monetary policy settings might start to ease up later this year – but don’t be getting hopeful for a throw-back to post-GFC (Global Financial Crisis) rate levels. Immense challenges remain for central bankers in developed countries when making calls to cut – or not to cut.”

Ms Higgins said the bank’s view is that the Reserve Bank of New Zealand, in step with the US Federal Reserve, will likely hold off Official Cash Rate cuts until the second half of 2024, with any cuts likely only to be modest.

“Still, wholesale interest rates have eased back since Christmas and are flowing through to retail – some good news for those with loans and mortgages,” she said.

The second undercurrent New Zealand agribusiness could face in 2024 will be the **Chinese market** which is expected to create a challenging course for exporters.

Ms Higgins said “our key export market (China) is likely to continue to have a slow economy this year”.

“Property price pressures, weak consumer confidence, dwindling demographics, and lethargic global consumer demand for Chinese exports will all play a role here,” she said.

“And this doesn’t bode well for strong commodity prices for New Zealand food and fibre export products heavily reliant on China.”

Ms Higgins said escalating **geopolitical tensions and conflict** where the third major

undercurrent that could throw up some 'chop' for the New Zealand farming sector.

"The catch-all phrase 'geopolitics' will permeate across sectors and countries in 2024," she said.

"While the Ukraine conflict continues to drag on – with no quick end in sight – recent escalations in the Middle East, as well as continued concern concerning China-Taiwan relations, along with fresh worries for North Korea all add to the number of regions to keep abreast of. And, at this stage, markets are arguably still to price for this risk.

"The latest shipping disruptions in the Red Sea place upward risk of another global supply chain shock and for potential implications one does not have to look further than the 2021 snarled supply chains and energy crisis."

The report said input costs for New Zealand food producers, along with freight costs for getting products to global markets should be watched.

"Of course, limited fiscal stimulus and weak global consumer demand could possibly see New Zealand exporters sail right through this," the report said.

"For now, our global crude oil price outlook remains rather modest and well below USD100/brl – at least while the conflicts in the Middle East don't spread wider."

In the last week, Ms Higgins said, tensions with China had emerged as a further potential geopolitical threat for Kiwi exporters.

"Earlier this month, Deputy Prime Minister Winston Peters and Defence Minister Judith Collins met with their Australian counterparts to discuss deepening military ties with Australia, the US and the UK. This meeting led to the issuing of a joint statement announcing their intent to further strengthen the Australia-New Zealand alliance to address challenges in close partnership," she said.

"This was met with a scathing response from the Chinese embassy in New Zealand and brings into play the potential for adverse impacts to the New Zealand-China trade relationship should tensions escalate further."

Tail winds and cross currents

While these undercurrents are anticipated to have the largest influence on the sectors fortunes in 2024, the reports says, there are also some tail winds and cross currents that could help with navigating the "blue horizon" this year.

The report notes that according to NIWA (National Institute of Water and Atmospheric Research) 2022 and 2023 were the two warmest years since records began in 1909. With the outlook for 2024 likely to be similar.

"The much talked about El Nino has delivered a mixed bag of weather so far. NIWA indicates that El Nino will be alive and kicking at least until Autumn 2024, but global institutions now see an increased probability that El Nino will fade. Variable weather has so far been generally supportive for food producers," Ms Higgins said.

“Due to marine heatwaves north of New Zealand intensifying through summer, the warm and humid conditions will likely sporadically continue towards autumn. With feed supplies reasonable to date, pressure may come on. Animals and temperate forage plants are not always in their happy place in warmer and more humid sub-tropical conditions in terms of quality and growth for plants and performance for animals.

“And it’s important producers keep a close eye on feed supply, quality and stocking rate/demand heading towards winter.”

Ms Higgins said sustainability and emission reductions will remain a key theme for the sector in the years ahead.

“Supply chains are working on GHG solutions – all the while testing consumers’ willingness to pay. On farm, most of the transitions are still to come as many farmers seek to either continue their knowledge journey or consider which changes to put in place.”

Ms Higgins said one ‘wildcard’ for 2024 remains, with the year ahead set to bring intense democratic activity around the world.

“Internationally, this year will likely see almost half the global population queue at the polls. Superpower election results from the likes of the US, India, the European Union and Russia, will determine global stability for years to come. Pivotal trading countries like South Korea, Indonesia, and the UK are also amongst the list of those with elections in 2024,” she said.

“Closer to home, New Zealand’s new coalition government is settling in with priorities being decided.”

Commodity outlook

Dairy - While dairy commodity prices are back to long-term averages, current fundamentals provide the perfect ingredients for price volatility to be a key theme for 2024.

Beef - The bank expects resilient beef pricing in New Zealand over the next 12 months with good demand forecast from the US. Good supply from Brazil and Australia may hold pricing verses the highs of 2022.

Sheepmeat - Sheepmeat remains a subdued waiting game for 2024. There is hope that the second half of the year will see a more positive upward correction in pricing.

Horticulture - The kiwifruit industry is expecting a year of record returns as progress has been made to improve fruit quality over the past few years.

Consumer foods - 2024 will likely be another difficult year for many households. Moderating inflation and potential rate relief will help.

Farm inputs - After a few seasons of persisting rising prices, the coming year will see a reversal in the trend and lower costs from fertilisers and agrochemicals are expected.

FX - The New Zealand dollar has been under pressure in January as a re-assessment of

the speed of rate cuts in the USA put a bid under the US dollar, but we expect it to rise over 2024.

Oil - Escalation of military activities around the Red Sea is leading to soaring shipping prices of affected routes and tightening of global shipping capacity.

Regulation - A new Government may bring fresh eyes to the helm, however, the general direction of travel for the broader regulatory environment is likely to remain the same. 2024 might be the year for more collaboration.

End.

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