Transforming Mill Road

Agro-Ecological has recently acquired a neglected but fundamentally high quality horticultural property in Hawkes Bay (watch the video by clicking on the link below).

Managing Director, Geoff Burke, characterises this property as an exciting opportunity for land use change and significant value creation for investors.

The focus is on improving the overall health of the property including the performance of the grape vines but also in introducing kiwifruit production which is generating excellent returns.

There are still opportunities for investors to access this development proposition with the investment open until the end of October 2014.

Watch Video – ‘Transforming Mill Road’

In the News

Agro-Ecological was featured in three articles on the Agri Investor website over recent weeks. A brief extract from one of the articles is included at the top of the next column. The above mentioned kiwifruit and grape development project was also featured: Agro-Ecological raises kiwifruit project capital – exclusive.

Regenerative agri: a New Zealand Approach
(click here to read full article)

What is an ecologically constructive management system?

It is one that improves ecosystem service-type metrics such as water quality, biodiversity, soil biodiversity/soil organic matter. It also recognises and seeks to advance the farm ecology in order to generate superior production performance by understanding and utilising ecological science or, more specifically, agro-ecological science.

Delivering Value

Agro-Ecological’s Head of Agronomy Dr. Charles Merfield’s cutting edge paddock level research work has once again featured on the New Zealand agricultural television programme Rural Delivery (watch the video by clicking on the link below).

In his latest television appearance Dr. Merfield outlines his practical research work in non-chemical weed control and the significant advantage this offers producers in this world of ever expanding herbicide resistance and superweed impact.

Watch Video – Dr Charles Merfield
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Conventional Stress
A significantly reduced milk payout forecast of $6/kgms from Fonterra for the coming season is creating pressure in the NZ dairy industry. The reality of recent dairy auctions is that many rural economists believe that current prices would indicate a forecast payout of around $5.60/kgms.

With intensively managed dairy systems having significantly increased their cost of production on the back of last season’s record payout of $8.40/kgms there is concern over the viability of many producers.

It again reflects the superiority of an ecologically literate, low cost approach to dairy production in NZ. There is a very clear price movement pattern at work in the NZ dairy sector and it has been this way for at least 6 years. In this environment the specifics of an investment management strategy are critical to success and the characteristics required for consistent success, quite transparent (low cost production, feed self-sufficiency, fundamentally good soils and high value production output).

Fonterra now offering permanent organic contracts (see page 4)

New Zealand Dollar/Interest Rates

New Zealand Dollar
The NZD is currently trading at .8310. The NZ TWI rate is currently 78.75. These levels are respectively 3% and 1.5% lower than 3 months ago. The recent depreciation is consistent with the deterioration in New Zealand’s terms of trade. The surprise is that the currency has not depreciated further given that recent data suggests economic growth may have peaked.

The NZD continues to be described as at a level which is “unjustified and unsustainable” by the Reserve Bank of New Zealand. Bank of New Zealand research team modelling of the NZD shows “modest overvaluation” on a short term basis, and “grossly overvalued “on a long term basis.

Conventional wisdom forecasts the NZD depreciating over time. However, New Zealand’s relative fundamental economic position looks attractive. The Government’s fiscal position is sound, monetary conditions are “normal”, the economy is continuing to grow (albeit at a slower pace), inflation is low, immigration flow is strong, corporate balance sheets are sound and household debt levels are improving.

New Zealand remains an attractive destination for investment. Over the medium term, we believe the NZD will reflect that reality.

New Zealand Interest Rates
The NZ cash rate (OCR) is currently 3.5% having risen 50bps over the last 3 months. The NZ 10yr bond rate is currently 4.15 having rallied 10bps over the last 3 months. And the New Zealand yield curve has continued to flatten in line with moves in rates curves around the developed world in recent months.

The interesting developments in New Zealand this quarter have been the deterioration in the terms of trade (driven primarily by declining dairy prices), data prints suggesting slowing economic growth and a continuation of the benign inflationary environment. This would suggest our central bank will hold OCR rates at current levels in the short term.

Inflation pressures in NZ are lower than the Reserve Bank has expected, which should mean rates are on hold at the next meeting.

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The US Federal Reserve will continue to run accommodative monetary policy well into 2015, and the ECB is shaping to ease monetary conditions in coming months. The RBA have also reiterated that they are on hold. In this developed world scenario NZ cash rates look stuck at 3.5% for the time being and NZ 10yr bond rates will likely trade in a 4.00/4.50 range.

**Reading the Charts**

The NZ$ has declined in recent times as global tensions and easing dairy commodity prices have started to take their toll. For some time prior to this however the dollar had been stubbornly high.

The charts and fundamentals suggest the NZ$ has lower to go but the charts at least indicate that this current decline is approaching good support levels.

The directional trends over the coming quarter will be influenced by the NZ election, commodity prices (notably dairy) and the various conflict situations around the world.

**Regulations Over Troubled Waters**

The abuse of waterways has reached an extreme level that the New Zealand public is unwilling to tolerate.

Regional councils are enacting regulations that will change the face of farming and most notably dairy farming.

The days of simplistically applying nitrogenous fertilisers – most obviously urea – importing feed and damn the externalities – or let the ratepayers pick up the cost while the polluters take the profits, are over.

Read more and understand the regulatory exposure risk inherent in any high input synthetic nitrogen based management strategy.

Contact us at farmland@agro-ecological.com
Enterprises Views

Dairy

It has been a mixed season in terms of weather across the country with some areas experiencing very high levels of rainfall, whilst others have benefited from a relatively mild winter.

A consequence of the latter has meant pasture growth is positive and calving is underway and proceeding in an orderly fashion. For those suffering the big wet, it has meant pressure on feed and soils although this has been less of an issue for well managed organic systems.

In key milk producing regions such as the Waikato and east coast of the South Island, increased production so far will help farmers in the face of the significantly lower forecast payout. It is of course very early days as for many calving is still on going.

Demand for organic product is robust with some of the more innovative and market driven processors in the South Island developing programmes specifically in order to work with Agro-Ecological, which is an exciting development and innovation.

Fonterra has been offering new organic contracts to suppliers coming off contract in the Waikato/BOP and the Lower North Island since April. These contracts have no end date other than the suppliers now have to give at least 16 months’ notice of leaving Fonterra and Fonterra has to give at least 30 months’ notice. This has provided both parties a lot more certainty around the organic programme.

Fonterra is also undertaking a refresh of its Organic Strategy, which will look at all parts of the Organic Programme to see what can be improved.

Fonterra has hosted a visit by Organic Valley from the USA, which included visits to Fonterra sites, an overview of Fonterra’s transport and an organic farm visit.

Beef/Sheep – North Island

Winter 2014 has been wet with a fairly constant pattern of 6 wet days and one fine over the last 6 weeks.

As a result of the wet and relative lack of sunshine and warmth, pasture growth is below average for the time of year. The more positive news is that when the grass does grow the quality will be good, and sowing new pastures will be underway as and when the soil conditions improve.

Lambing has started and so far so good. We are waiting for the venison schedule to lift in anticipation of selling R2 stags, cull R2 hinds and cull MA hinds. A minimum of $7.00/kg is the target by the end of September.

Calving is well underway – many are past half way and there have been reports of metabolic problems on a number of farms, although no organic ones that we are aware of.

Beef/Sheep – South Island

Over the last 3 months most areas have been experiencing higher than average rainfalls. The mud that this has brought has put pressure on stock condition, pasture growth and pasture recovery periods. Most areas have thankfully had enough conserved feed after good conditions in summer. Calving and lambing has now begun in most places.

There remain strong market signals across all organic primary produce, with demand outstripping supply and competition developing in a number of key sectors, especially meat products.

Please note for those who may be reading about cropping and are surprised to find mention of livestock or vice versa:

Organic production systems more naturally operate with a higher degree of diversity and integration of different enterprises classes.

Beef + Lamb New Zealand have released their New Season Outlook 2014-15. They outline a positive season ahead with favourable climatic conditions at this early stage, higher product prices and a favourable exchange rate combining to deliver improved returns to NZ’s beef and sheep farmers.

The prediction is for sheep and beef farm profits to improve by 8% on last season.

All beef and sheep farmers across the country will be hoping the season goes as well as the outlook suggests.

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Mixed Cropping

After a wet and challenging autumn, winter has on many days felt more like spring, which coupled with half the normal rainfall for July and August, means that now spring is really here with the start of September, everyone is champing at the bit.

Lambing is now well underway with the earliest lambs nearing the month old mark, and with temperatures climbing, and a good number of sunny days, this year’s lamb crop is off to a good start.

Pasture growth is also starting to pick up which is critical as dairy calving is also gaining momentum and with milking starting, dairy cow feed intake is going to take off, so a good feed supply is going to be essential.

Cropping farmers have also been making up for the limited autumn sowing windows due to the drenching rain in April, and have been getting into the cultivation / tillage and drilling with gusto.

The soil is even sufficiently dry in places that drilling is kicking up a bit of dust, and a few farmers have even seen fit to give the irrigators a test run after six months of sitting idle.

Having said that, spring is a highly variable season in New Zealand, and it is not until the end of October that we can consider ourselves clear of the usual bouts of cold wet weather that can sweep up from the Antarctic, but we do have a good foundation for the year to date.

Kiwifruit

The arrival in the New Zealand kiwifruit industry in November 2010 of the bacterial disease Pseudomonas syringae pv actinidiae (Psa) challenged the yield potential of both organic and conventional orchards. Certified “tools” available for organic orchardists to reduce the impact of Psa have been limited, however orchardists have battled the disease and apart from the demise of the Hort 16A (Gold) variety, other varieties are currently looking promising.

Yields have dipped over the last four years on many orchards, as many orchardists prioritised the battle against Psa to attempt to ensure their orchard’s future. This combined with a variable market return has put a greater focus on orchard practices and a renewed determination to restore orchard returns to acceptable levels.

The organic kiwifruit orchardists are a resilient group, with a determination to provide the markets with a “world class” product. While the last four years has been testing for many growers, the industry has a renewed focus and the ability to deliver results that once again demonstrate the success of the organic kiwifruit sector.

NEW – REVISED PAPER
Farmland Investing: Are you asking the right questions?

- Soils?
- Independent evaluation or greenwash?
- Are the deep financial risks associated with ecology and environment understood and managed effectively?
- Practical experience, and a knowledge edge?
- Active or Passive?

Contact us at farmland@agro-ecological.com and we will be happy to supply you with a copy.

A Tale of Two Farms

Two farms, one big, one very big; both look good.

One is an asset to enthuse about, the other is one to avoid.

But which is which?

Contact us at farmland@agro-ecological.com
Climate Outlook

Seasonal Climate Outlook: September – November 2014

The equatorial Pacific Ocean remains ENSO-neutral at the end of August 2014. Despite the Southern Oscillation Index being currently negative, a fully coupled (ocean and atmosphere) event has yet to initiate.

International guidance indicates that the chance for El Niño developing over the September – November 2014 period is about 55%. This figure has decreased compared to forecasts issued in previous months, and all signs indicate that this event would – if it does indeed occur – fall in the weak to moderate category.

During September–November 2014, mean sea level pressures are expected to be lower than normal to the north as well as over most of the country. This pressure pattern is expected to be accompanied by generally anomalous easterly flow and perturbed conditions.

Sea surface temperatures for the coming three months are expected to be near average around the coasts of New Zealand.

Temperature

It was a mild winter for much of the country, but especially for the South Island where winter temperatures were predominantly above average (0.5 to 1.2°C above average). The exception was parts of Central Otago, where winter temperatures were well above average (more than 1.2°C above average), and isolated parts of mid-Canterbury, where near average winter temperatures were observed (within 0.5°C of average). Winter temperatures were above average or near average across the entire North Island.

Rainfall

There was a notable dichotomy of winter rainfall anomalies experienced within both the North and South Islands. In the North Island, winter rainfall was well above normal (more than 149% of normal) throughout Northland, yet it was below normal (50-79% of normal) for a number of central, eastern and southern parts. In the South Island, winter rainfall was above normal (120-149% of normal) in Arthur’s Pass, Mount Cook National Park and Wanaka. In contrast, winter rainfall was below normal for the majority of the eastern South Island.

Sunshine

Winter sunshine was abundant for much of Waikato, North Canterbury, the Mackenzie Country, the Southern Lakes and Central Otago where winter sunshine was above normal (110-125% of normal), and in some cases well above normal (more than 125% of normal). In contrast,
parts of southern Wairarapa received below normal winter sunshine (75-89% of normal).

**Soil Moisture**

At the start of winter, soils were drier than normal for parts of Northland, Auckland, northern Gisborne, the Central Plateau and Hawke’s Bay, whereas they were wetter than normal throughout the eastern South Island, the Southern Lakes and Central Otago. As of 1 September 2014 soil moisture levels were near normal for large parts of the country. The exception was parts of Taranaki, the West Coast and Tasman as well as the districts of Selwyn, Waimakariri and Timaru, where soils were slightly drier than normal for the time of year.

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**Investment Themes**

This quarter the investment themes of relevance are:

- Investment Risk
- Climate;
- Resource Constraints; and
- Market.

**Investment Risk**

*Neonic* pesticides affecting bird populations - study

A Dutch University study produced results indicating that neonicotinoids, long implicated in the killing of bees, are also negatively impacting on bird populations.

Caspar Hallmann of Radbound University was quoted as saying “Our results suggest that the impact of neonicotinoids on the natural environment is even more substantial than has been reported in the past” and “Future legislation should take into account the potential cascading effects of neonicotinoids on ecosystems”.

Dave Goulson a biologist at Sussex University in the UK outlined that neonicotinoids may have long-term impact on insect populations. Only 5% of the pesticide’s active ingredient is actually absorbed by the crop with the majority of the balance entering soil and water where it can persist for months and even years.

The chemical can be taken up by surrounding vegetation, following crops and washed into lakes, canals and rivers where it could impact on aquatic insects and therefore birds and fish, which predate those insects.

He saw a similar knock on effect to DDT, which was highlighted in Rachel Carson’s famous book ‘Silent Spring.’

National Policy Statement for Freshwater Management 2014

Water quality continues be an issue in NZ (see our Regulations Over Troubled Water paper) with the release of the National Policy Statement for Freshwater Management 2014 released by the Government in the last quarter.

The bottom line being urea based high input pastoral agriculture – even if it is described as ‘free range’ – is on its way out as a viable management strategy.

This is yet another example of the new and developing reality heavily favouring active agro-ecological management strategies.

**Climate**

*Legume-based forage production systems reduce nitrous oxide emissions*

A recent scientific paper outlined some very interesting results around legume based forage production systems and the impact on nitrous oxide emissions — a dramatically more severe climate change gas than CO₂.

The core message being that legume based (i.e. clover) biological fixation of nitrogen instead of synthetic fertiliser based forage production is a promising mitigation option without significant reduction of DM (dry matter) yields.

These are results that will come as no surprise to long term followers of AE.

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Resource Constraints

'Peak soil' threatens future global food security

Reuters covered the topic of Peak Soil, the threat it poses to global food security and that climate change will only exacerbate the problem.

Scientists vindicate 'Limits to Growth' – urge investment in 'circular economy'

Limits to Growth was right. New research shows we’re nearing collapse

The Guardian featured two articles covering the 33rd report to the Club of Rome which outlined the extreme consequences of the expected convergence of multiple resource constraints and pressures on the global economy and society as a whole and the remarkably accurate forecasts of the original report.

Market

OECD and FAO see lower farm prices; livestock and biofuels outpacing crop production

The latest OECD-FAO Agricultural Outlook highlighted a number of interesting points including:

- Diets are becoming higher in protein as incomes rise and urbanisation increases.
- Achieving gains in ways that are both inclusive and sustainable is seen as a formidable challenge.
- Nominal meat prices are expected to remain high throughout the outlook period. Feed costs remain above historic norms and rising costs related to other inputs such as energy, labour, water and land will also support higher prices. Sheep meat prices which fell sharply from high levels in 2013, should resume rising over the medium term in line with the prices of other competing meats.
- Global meat production is projected to rise by 1.6% p.a. over the Outlook period, down from 2.3% p.a. in the last ten years. The sheep meat sector will also exhibit strong growth, recovering from slow growth during the past decade.
- The most significant import demand growth originates from Asia, which represents the greatest share of additional imports for all meat types.
- Several dairy product prices reached new highs during 2013, and a correction is expected in the near future, followed by firming nominal prices over the medium term. Real prices are projected to decline slightly in the next decade, albeit remaining considerably above the pre-2007 levels.
- Per capita consumption of dairy products in developing countries is expected to increase by 1.2% to 1.9% p.a. The expansion in demand reflects robust income growth and further globalisation of diets. By contrast, per capita consumption in the developed world is projected to increase between 0.2% and 0.9% p.a.
- A general expansion of trade in dairy products is expected over the coming decade. Strong growth is expected for whey, cheese and SMP, at more than 2% p.a. Lower growth is expected for WMP, at 1.7% p.a., and especially butter at 0.7% p.a. The bulk of this growth will be satisfied by expanded exports from the United States, the European Union, New Zealand, Australia and Argentina.

DEEP, DOWN AND DIRTY

Soil: An Agro-Ecological Primer

"The top 20cm of soil is all that stands between us and extinction"

Learn about Soil and in particular its critical relevance in New Zealand agriculture to creating good, well performed, resilient production systems and investment performance.

Contact us at farmland@agro-ecological.com for your copy of this insight into the critical yet poorly understood base of all farmland assets.
Agro-Ecological Investment Management

Agro-Ecological is a specialist asset management firm, focused on agriculture/farmland as an asset class managed ecologically/organically.

We provide investors with access to farmland from a measurably SRI/ESG and Impact Investment perspective.

Our approach applies a knowledge driven, active management strategy, designed to generate long-term triple bottom line value for our investors.

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“We believe the active application of agro-ecological science based knowledge and experience provides a deep and material competitive advantage.”
Geoff Burke, Managing Director