

Research Rural Wrap

14 October 2026

Many moving parts

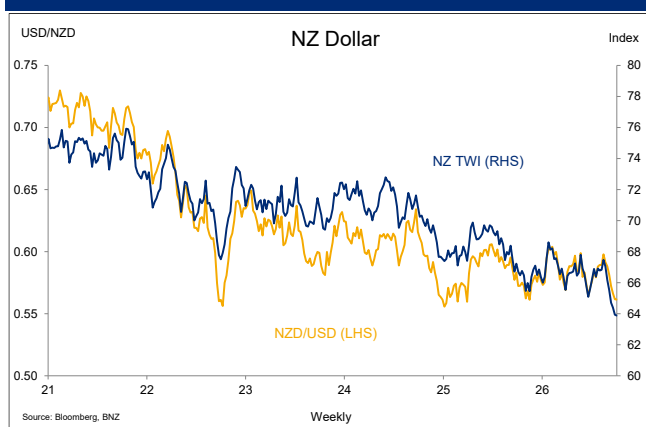
- **Lower NZD supports primary prices (and costs)**
- **Skimmilk powder prices up sharply**
- **We lift our 2026/27 milk price forecast to \$10.00**
- **Beef and lamb prices complete very strong season**
- **El Nino impact one of many factors on the watch list**

Major pastoral agriculture sectors recorded strong pricing over the past season with some setting records. Looking ahead, there is much to monitor with multiple factors on the move across prices, costs, and currencies. There is also the uncertainty heading into a close general election and clear weather risk in the form of a very strong El Nino.

Wild swings and elevated oil prices continue as they follow the latest headlines from tensions in the Middle East. Brent crude prices have been gyrating above \$US100/bbl over the past month or so. This is much higher than the broad \$US60-\$70/bbl range prevailing before the US-Iran conflict erupted in late February. Higher oil prices remain a material driver of costs directly and indirectly through supply chains.

The NZ dollar has accelerated its material push lower over the past month or so. The NZD/USD has recently been wobbling about well below US60c while the trade weighted index fell to a 15-year low this week.

NZ dollar weakens



A lower NZ currency is positive for exporter incomes, although it can also add upward pressure on imported costs and general inflation. The latter has the attention of

the RBNZ, with the central bank already nudging its OCR higher. Further increases are expected.

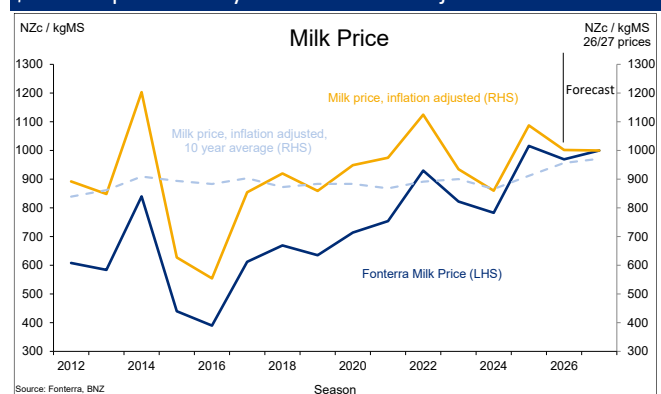
Dairy companies recently finalised their milk prices for the 2025/26 season. Fonterra's industry benchmark milk price finished the season at \$9.69/kgMS. This is about 5% lower than the previous season's \$10.16, but still above average on an inflation-adjusted basis.

Fonterra's 2026/27 milk price forecast midpoint of \$9.50 sits in a range of \$8.50 to \$10.50. The outlook for this season is currently a battle between falling milkfat prices, surging protein prices, and a materially lower NZ dollar.

Over the past couple of months, GDT milkfat prices have fallen about 10%, while skimmilk powder prices are up nearly 20%. Reflecting the opposing fat and protein price moves, wholemilk powder prices have wriggled about 4% higher. Meanwhile, the NZD/USD has fallen around 5%. These are significant movements in a short space of time.

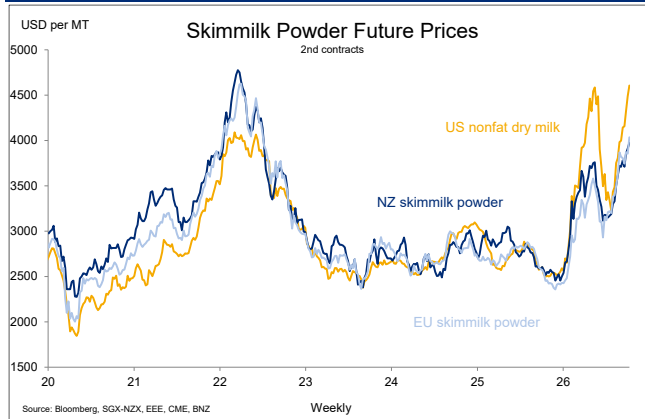
Milk powder prices and currency movements have a much bigger influence on farmgate milk price in NZ than milkfat prices. We recently lowered our NZ dollar forecasts and in combination with skimmilk powder prices surprising on the high side encourages us to lift our 2026/27 milk price forecast up to \$10.00 (from \$9.50 previously). Risks are two sided around this point forecast. It assumes some further mild increases in average GDT pricing over the remainder of the NZ season. Such an outcome would see milk prices little changed from the previous season on an inflation adjusted basis.

\$10 milk price steady on an inflation adjusted basis



Futures pricing for skim milk powder and similar products have been bounding higher with those in the US outpacing those in the EU and NZ. A few factors are at play here. Adverse weather in the EU slowed milk production earlier this year. Global dairy prices are on the lower side of normal relative to the input costs of grain, oil, and fertiliser. Further slowing in global milk supply growth would add more support to prices. And it remains to be seen how much an El Nino weather pattern dents Southern Hemisphere production this season.

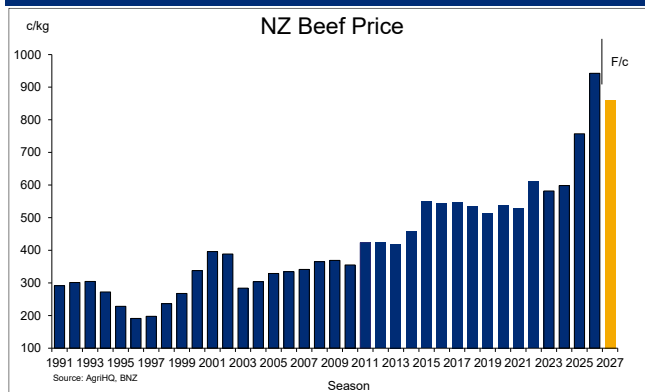
Skim milk powder prices power upwards



The NZ season has started strongly with production up more than 4% season-to-date to August. The seasonal peak is expected as usual this month. If production is meaningfully dented later in the season, dairy product prices could push higher than expected. Conversely, to the extent that some weather risk is already built into prices there is also a chance of some unwind if weather outcomes are not as adverse as some might fear.

Beef prices in the season ended September averaged 24% higher than in the previous season which itself was up 27% on the season before that. Fair to say it has been a stellar couple of seasons. Inflation adjusted season average prices lifted to their highest level since at least the early 1990s.

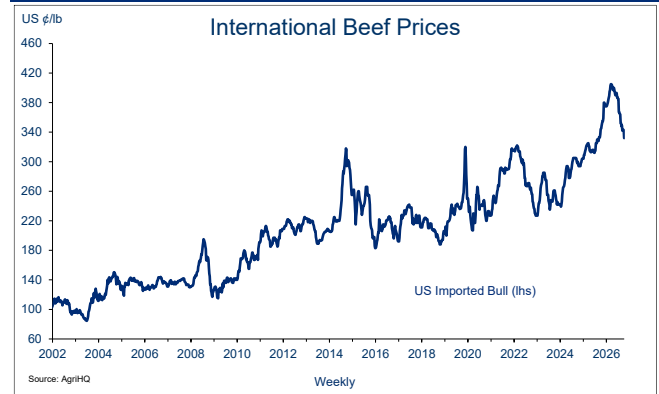
Big beef



We continue to forecast the 2026/27 season average NZ beef price to retreat from the previous season's record but remain above average on an inflation adjusted basis.

There are clear signs that the previously very tight US beef market has eased. More product from Brazil and Australia (as they both ran into import quota limits in China), a bit more domestic US supply, and more beef entering the US facing reduced tariffs appear to have taken the top off prices. US imported prices have dropped meaningfully from their highs.

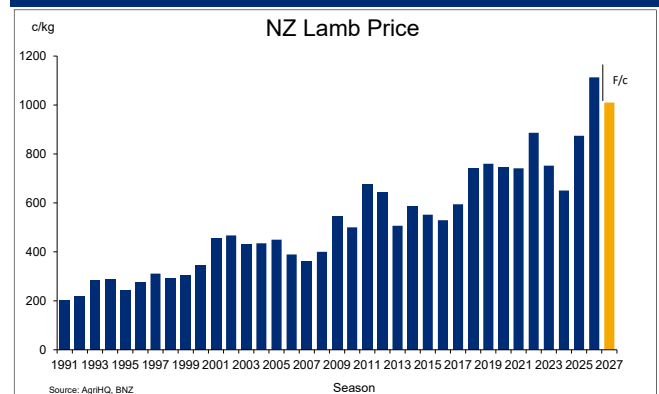
Off the top



Similar to beef, lamb prices in the season ended September hit record highs with a 27% lift on the previous season adding to the 34% lift in the season before that.

Strong gains for sure and, again, have lifted inflation adjusted season average lamb prices to their highest level since at least the early 1990s. However, it is important to note that lamb prices started from a much weaker position a couple of years ago compared to beef.

Lamb levels



Some lamb price headwinds are in play like higher US tariffs on NZ lamb exports as well as an ongoing US investigation into its lamb imports, although underlying market strength seems to have more than offset these to date.

El Nino presents a downside price risk to both lamb and beef prices this season if the weather pattern were to induce meaningfully more southern hemisphere supply as has sometimes been the case in previous episodes.

Conversely, a lower NZ dollar will offer support to local prices as will positive momentum in NZ exports to China, the UK, and Europe if it were to continue.

We remain of the view that the 2026/27 season average NZ lamb price will ease from the previous season's record. That said, beyond this season's weather risk, supply is relatively tight which should help support prices as will the lower NZ dollar and solid demand from a range of export markets.

We will know more on this season's NZ lamb supply over the next month or so when estimated tallies are in. Even if the nation's lambing percentage manages to lift this spring, it may not be enough to offset estimates of a reduced breeding flock.

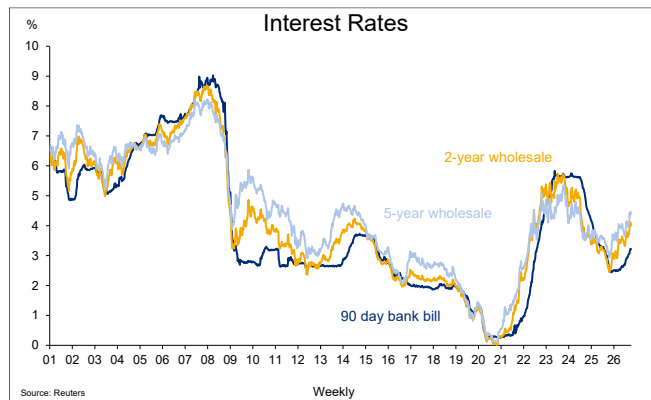
Amid the many and varied moving parts both domestically and internationally at present, error bands around any point forecast at present should be considered wide.

That said, a clear positive for the major primary export sectors of dairy, beef, and lamb is that recent strong pricing puts the sectors in a decent position to deal with whatever the weather, product markets, supply chains, interest rates, or currency markets throws at them next.

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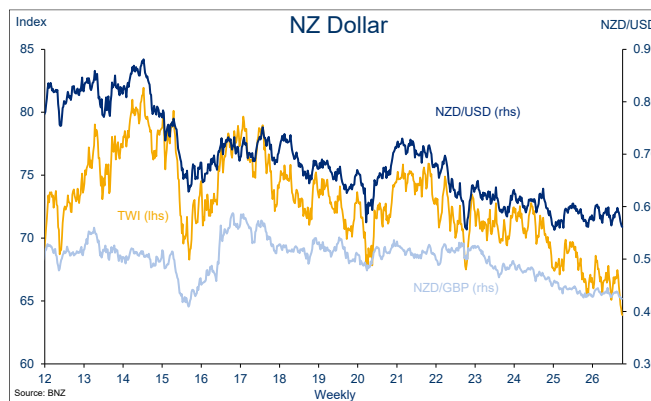
Key Macro Drivers for Commodity Producers

Interest Rates



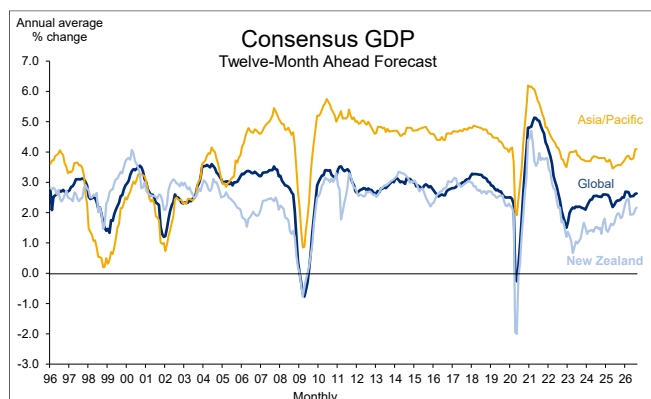
The RBNZ lifted its Official Cash rate (OCR) a further 25 basis points to 2.75% at its September meeting. Whilst the decision itself was widely expected, the dovish tone to communications was not. The Bank implied a pause at its late-October meeting before hiking resumes. But upward momentum in global interest rates, material weakening in the NZ dollar, and another spike in fuel prices have materially changed the outlook since then. Inflation is highly likely to stay elevated over coming quarters raising the risk that it becomes embedded. We forecast the Bank to continue nudging the OCR higher to contain inflation over the medium term, with 25 basis point increases expected at each meeting ahead until the OCR reaches a peak of 3.75% around March next year.

Foreign Exchange



The NZ dollar has been on a downward trajectory in recent weeks. Higher energy prices, strong US economic data and tighter global monetary policy have driven global rates to fresh multi-decade highs, placing downward pressure on the NZ dollar. The TWI is now 64, 4.3% lower than at the time of our last Rural Wrap. A benefit for exporter incomes at the cost of more expensive imports. In late September we lowered our NZ dollar forecasts, taking a more cautious view through to year-end and over 2027. We now expect the NZD/USD cross to remain below 0.60 through to the end of 2027 before moving higher in early 2028. The general election remains a key near-term risk for the NZ dollar, particularly if the outcome remains highly uncertain ahead of election day on 7 November.

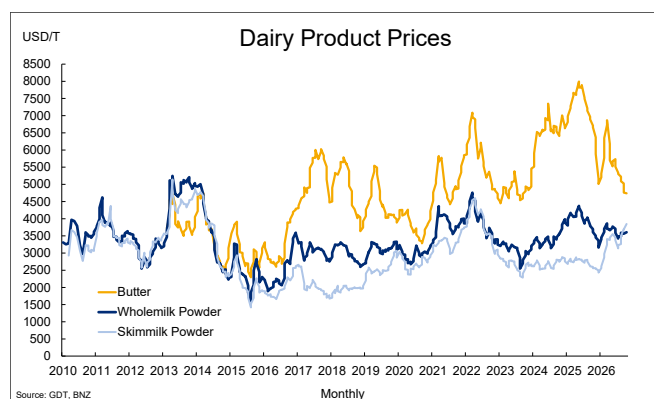
Global Growth



Global growth forecasts have held ground despite a resurgence in fuel prices, bolstered by ongoing AI-related investment. Soaring demand for computer technology has had a positive impact on Asian economies, particularly Southeast Asia, a key trading destination for New Zealand. New Zealand's trading partner economic growth is forecast to be 2.8% in 2026 and stay around this level through much of 2027. This provides a reasonable demand backdrop for NZ primary products. However, it is not without its risks. Inflationary pressure from elevated fuel prices, tightening global monetary conditions, and a potential slowdown in technology investment as computer prices soar remain key headwinds for global growth.

Key Commodities

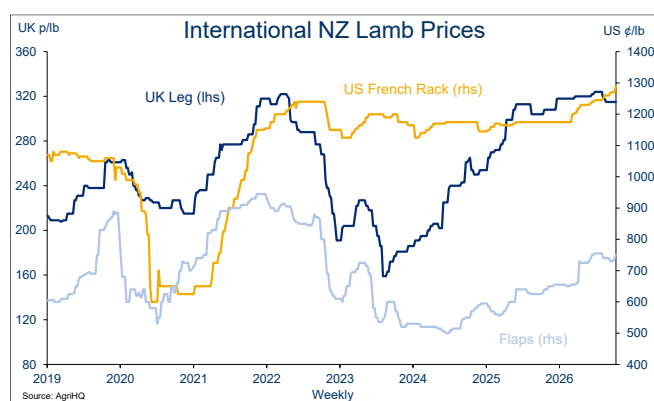
Dairy



Global dairy prices have pushed higher, on net, driven by sharp gains in skimmilk powder prices. A softer NZ dollar has added to prices in local currency terms. It hasn't been one way traffic with milkfat prices trending lower. With our recently lowered NZ dollar forecasts and higher than expected skimmilk powder prices we lift our 2026/27 milk price forecast up to \$10.00. This assumes some further mild increases in average GDT pricing over the remainder of the season. It remains to be seen how much an El Nino weather pattern dents Southern Hemisphere production this season.

	Current	Month ago	Year ago	Next 12 months
Whole milk powder (US \$/t)	3590	3580	3700	↑

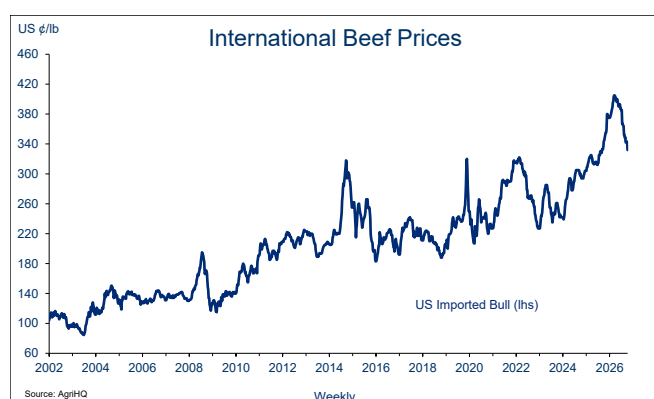
Lamb



NZ lamb prices have benefited from tight supply, buoyant demand, and a subdued NZ dollar. Average prices in the season ended September were up 27% on the previous season, reaching their highest inflation adjusted level since at least the early 1990s. Some headwinds are in play like higher US tariffs on NZ lamb exports as well as an ongoing US investigation into its lamb imports. The El Nino weather pattern presents a downside price risk. We forecast 2026/27 season average lamb prices to ease from the previous season's record. That said, beyond this season's weather risk, market conditions look supportive of prices remaining above average on an inflation adjusted basis.

	Current	Month ago	Year ago	Next 12 months
Lamb leg (UK p/lb)	315	315	304	↓

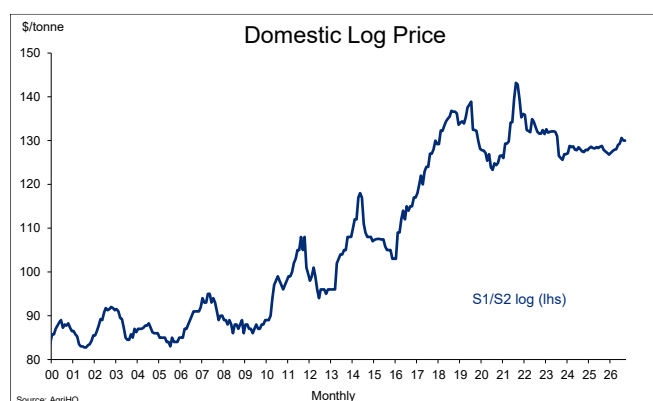
Beef



US imported beef prices have retreated from recent highs. More product from Brazil and Australia (as they ran into import quota limits in China), a bit more US domestic supply, and more beef entering the US with reduced tariffs seem to have taken the top off prices. This is expected to put some downward pressure on NZ pricing. The El Nino weather pattern presents some downside price risk too. Conversely, a lower NZ dollar will offer price support as will positive momentum in NZ exports to China, the UK, and Europe if it continues. We forecast 2026/27 season average NZ beef prices to retreat from the previous season's record but remain above average on an inflation adjusted basis.

	Current	Month ago	Year ago	Next 12 months
Imported bull (US \$/lb)	332	342	345	↓

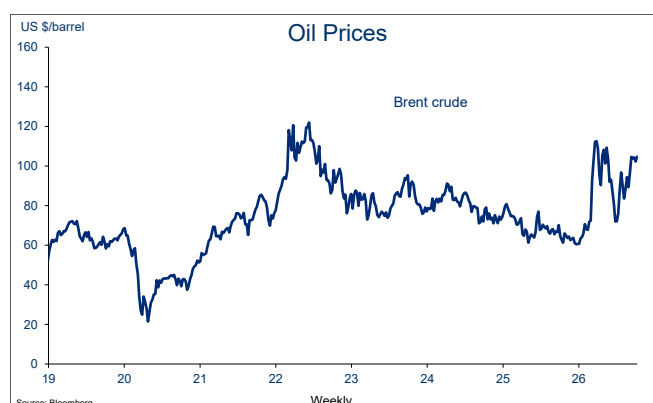
Forestry



Elevated fuel and transport costs remain a headwind for the industry. Export log prices have pushed above year earlier levels, supported by a weaker NZ dollar. Meanwhile, domestic log prices have been relatively stable over the last year, moving between \$127-\$131/tonne. Recent data shows that a rising number of building consents being issued is starting to translate into actual construction work. Residential and non-residential building work lifted 4.8% and 3.3% on a volume basis in the second quarter of the year, the highest growth rate for each measure in some time albeit off a low base.

	Current	Month ago	Year ago	Next 12 months
S1/S2 log price (NZ \$/t)	130	130	128	→

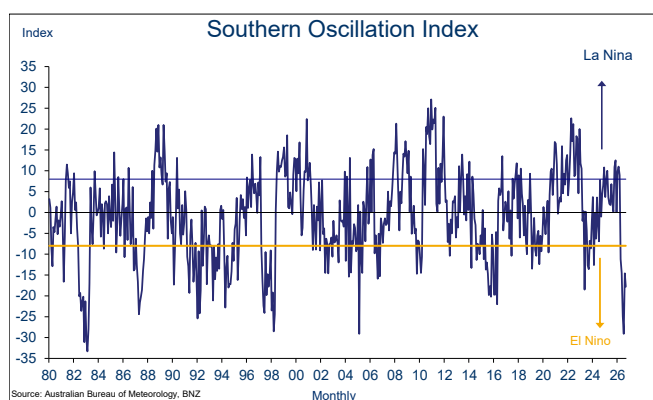
Oil



Oil price volatility continues to follow news flow from the Middle East. Renewed tensions and damage to key infrastructure sparked another spike in fuel prices from early September. Since our last update in mid-August Brent crude oil rose from US\$90/bbl to US\$108/bbl by mid-September and has been recently hovering around US\$105/bbl. Domestically, prices at the pump have lifted 15-20% over the same period. Oil futures pricing indicates a gradual decline in fuel prices in the coming months, but this seems contingent on Middle East tensions moderating.

	Current	Month ago	Year ago	Next 12 months
Brent crude (US \$/b)	105	105	63	↓

Weather



El Nino remains front of mind for the current growing season. The Southern Oscillation Index, an indicator of this phenomenon, remains at levels firmly indicating El Nino. New Zealand is expected to experience dryer conditions in the east from stronger winds and more rain in the west and south. It is also worth keeping an eye on cyclone activity. Earth Sciences New Zealand (ESNZ) is predicting elevated cyclone activity for parts of the Pacific. Impacts are expected to be higher near the international date line; however, are expected to occur across the region. ESNZ has noted that while New Zealand's risk for the coming cyclone season remains normal, north-west regions facing the Tasman Sea have a higher chance of experiencing a decaying storm than eastern regions.

Quarterly Forecasts

Forecasts as at 14 October 2026

Key Economic Forecasts

Quarterly % change unless otherwise specified

	Forecasts									
	Jun-25	Sept-25	Dec-25	Mar-26	Jun-26	Sept-26	Dec-26	Mar-27	Jun-27	Sept-27
GDP (production s.a.)	-0.6	0.9	0.5	0.9	0.2	0.5	0.4	0.6	0.7	0.7
Retail trade (real s.a.)	0.7	2.0	0.8	1.0	-0.5	0.9	0.2	0.6	0.7	0.8
Current account (ann, % GDP)	-3.6	-3.1	-3.0	-3.0	-3.2	-3.6	-4.3	-4.6	-4.5	-4.4
CPI (q/q)	0.5	1.0	0.6	0.9	1.5	0.7	1.1	0.5	0.4	0.6
Employment	-0.2	0.0	0.5	0.2	0.5	0.4	0.5	0.5	0.6	0.7
Unemployment rate %	5.2	5.3	5.4	5.4	5.6	5.6	5.5	5.4	5.3	5.2
Pr. avg hourly earnings (ann %)	4.6	4.1	3.5	3.5	3.0	3.1	3.2	3.8	3.2	3.2
Trading partner GDP (ann %)	3.4	3.2	3.3	3.6	3.2	2.9	2.8	2.8	2.8	2.9
CPI (y/y)	2.7	3.0	3.1	3.1	4.1	3.8	4.3	3.9	2.8	2.7
GDP (production s.a., y/y)	-0.9	1.2	1.6	1.7	2.6	2.2	2.1	1.7	2.2	2.4

Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Government Stock				Swaps			US Rates		Spread
	Cash	90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR	US 10 yr	NZ-US
		Bank Bills						3 month		Ten year
2025 Jun	3.33	3.38	3.85	4.55	3.19	3.57	4.10	4.30	4.35	0.19
Sep	3.08	3.09	3.67	4.42	2.99	3.40	3.95	4.20	4.25	0.17
Dec	2.33	2.51	3.54	4.27	2.71	3.26	3.85	3.80	4.10	0.18
2026 Mar	2.25	2.50	3.96	4.52	3.12	3.71	4.15	3.65	4.20	0.33
Jun	2.25	2.62	4.11	4.61	3.48	3.89	4.25	3.65	4.40	0.19
Sep	2.58	2.98	4.24	4.77	3.72	4.08	4.45	3.85	4.75	0.02
Forecasts										
Dec	3.25	3.75	4.40	4.95	4.00	4.25	4.65	4.15	4.90	0.05
2027 Mar	3.75	4.00	4.30	4.90	3.95	4.20	4.65	4.15	4.80	0.10
Jun	3.75	4.00	4.20	4.90	3.90	4.15	4.70	4.15	4.75	0.15
Sep	3.75	4.00	4.15	4.85	3.85	4.10	4.65	4.15	4.65	0.20
Dec	3.75	4.00	4.15	4.90	3.80	4.10	4.70	4.15	4.65	0.25
2028 Mar	3.75	3.85	4.10	4.85	3.75	4.05	4.65	3.90	4.60	0.25

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.56	0.70	1.12	1.32	158
Forecasts					
Dec-26	0.58	0.71	1.15	1.33	155
Mar-27	0.58	0.70	1.15	1.32	153
Jun-27	0.58	0.69	1.15	1.31	151
Sept-27	0.59	0.68	1.15	1.31	150
Dec-27	0.59	0.67	1.15	1.31	149
Mar-28	0.60	0.68	1.14	1.30	148
Jun-28	0.61	0.69	1.14	1.30	147

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.56	0.80	0.50	0.42	88.6	63.9
Forecasts						
Dec-26	0.58	0.81	0.50	0.43	89.1	64.9
Mar-27	0.58	0.82	0.50	0.44	88.0	64.8
Jun-27	0.58	0.84	0.50	0.44	87.6	65.3
Sept-27	0.59	0.87	0.51	0.45	88.5	66.8
Dec-27	0.59	0.88	0.51	0.45	87.9	67.0
Mar-28	0.60	0.88	0.53	0.46	88.8	68.0
Jun-28	0.61	0.88	0.54	0.47	89.7	69.0

TWI Weights

16.2% 17.8% 9.2% 4.0% 4.7%

Source for all tables: Stats NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts as at 14 October 2026	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2024	2025	2026	2027	2028	2023	2024	2025	2026	2027
GDP - annual average % change										
Private Consumption	1.3	0.1	1.3	1.1	2.3	1.1	0.3	1.0	1.1	1.9
Government Consumption	1.1	-1.4	3.7	0.3	1.0	0.1	-1.0	2.4	2.0	0.3
Total Investment	-1.2	-5.0	0.2	5.5	3.7	-0.4	-4.9	-1.2	4.6	4.2
Stocks - ppts cont'n to growth	-1.4	0.4	0.3	0.1	0.1	-1.2	0.4	-0.1	0.4	0.0
GNE	-0.9	-1.0	1.9	1.8	2.4	-0.8	-0.9	0.7	2.3	2.1
Exports	8.4	3.0	4.1	6.9	3.4	12.0	3.6	4.3	6.6	3.8
Imports	-1.5	0.7	6.3	3.9	2.6	-0.8	1.1	3.7	6.1	2.2
Real Expenditure GDP	1.5	-0.5	1.3	2.5	2.6	2.2	-0.2	0.7	2.6	2.4
GDP (production)	1.8	-0.9	0.9	2.1	2.6	2.2	-0.3	0.3	2.1	2.3
<i>GDP - annual % change (q/q)</i>	<i>1.5</i>	<i>-0.7</i>	<i>1.7</i>	<i>1.7</i>	<i>3.0</i>	<i>1.4</i>	<i>-1.6</i>	<i>1.6</i>	<i>2.1</i>	<i>2.8</i>
Output Gap (ann avg, % dev)	1.2	-0.5	-1.0	-0.5	0.0	1.4	-0.1	-1.1	-0.4	-0.2
Nominal Expenditure GDP - \$bn	417	432	452	474	499	413	428	446	468	493
Prices and Employment -annual % change										
CPI	4.0	2.5	3.1	3.9	2.3	4.7	2.2	3.1	4.3	2.3
Employment	1.0	-0.9	0.5	1.9	2.8	2.6	-1.3	0.2	1.6	2.6
Unemployment Rate %	4.4	5.2	5.4	5.4	5.0	4.0	5.1	5.4	5.5	5.1
Wages - ave. hr. ord. time earnings (private sector)	4.8	3.8	3.5	3.8	3.2	6.6	4.0	3.5	3.2	3.2
Productivity (ann av %)	-0.6	0.1	1.3	0.7	0.1	-0.7	0.1	1.2	1.0	0.1
Unit Labour Costs (ann av %)	6.6	4.4	2.4	2.4	3.1	7.1	4.7	2.9	2.0	3.1
House Prices (stratified, mth)	2.7	-0.7	0.2	-1.8	3.3	0.7	-0.8	-0.3	-1.0	2.0
External Balance										
Current Account - \$bn	-23.3	-19.0	-13.7	-21.9	-16.9	-24.8	-20.9	-13.5	-20.2	-18.9
Current Account - % of GDP	-5.6	-4.4	-3.0	-4.6	-3.4	-6.0	-4.9	-3.0	-4.3	-3.8
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.1	-2.1	-1.9	-1.4	-0.2					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	41.7	41.8	40.9	43.7	43.9					
Bond Programme - \$bn (Treasury forecasts)	39.3	42.6	35.0	30.0	28.0					
Bond Programme - % of GDP	9.4	9.9	7.8	6.3	5.6					
Financial Variables ⁽¹⁾										
NZD/USD	0.61	0.57	0.58	0.58	0.60	0.62	0.57	0.58	0.58	0.59
USD/JPY	150	149	159	153	148	144	154	156	155	149
EUR/USD	1.09	1.08	1.16	1.15	1.14	1.09	1.05	1.17	1.15	1.15
NZD/AUD	0.93	0.91	0.83	0.82	0.88	0.93	0.91	0.87	0.81	0.88
NZD/GBP	0.48	0.44	0.44	0.44	0.46	0.49	0.45	0.43	0.43	0.45
NZD/EUR	0.56	0.53	0.51	0.50	0.53	0.57	0.55	0.49	0.50	0.51
NZD/YEN	91.1	85.4	92.8	88.0	88.8	89.5	88.4	90.3	89.1	87.9
TWI	71.2	67.9	66.8	64.8	68.0	72.0	68.5	66.8	64.9	67.0
Overnight Cash Rate (end qtr)	5.50	3.75	2.25	3.75	3.75	5.50	4.25	2.25	3.25	3.75
90-day Bank Bill Rate	5.64	3.60	2.50	4.00	3.85	5.63	4.26	2.49	3.75	4.00
5-year Govt Bond	4.60	4.00	4.10	4.30	4.10	4.50	3.90	3.90	4.40	4.15
10-year Govt Bond	4.60	4.50	4.65	4.90	4.85	4.65	4.45	4.50	4.95	4.90
2-year Swap	4.91	3.35	3.32	3.95	3.75	4.93	3.53	2.98	4.00	3.80
5-year Swap	4.40	3.65	3.87	4.20	4.05	4.43	3.63	3.61	4.25	4.10
US 10-year Bonds	4.20	4.25	4.25	4.80	4.60	4.00	4.40	4.15	4.90	4.65
NZ-US 10-year Spread	0.40	0.25	0.40	0.10	0.25	0.65	0.05	0.35	0.05	0.25
⁽¹⁾ Average for the last month in the quarter										

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

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