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August 8, 2017

New Zealand Dairy News

Westland raises payout:

Due to cost cutting of around NZ\$70m over the last ten months, Westland Milk has lifted its forecast milk payout range to NZ\$6.40kgMS – NZ\$6.80kgMS for the 2017/18 season following two years of weak payouts. According to chief executive Toni Brendish, Westland’s focus on improving efficiencies in the organisation has enabled the board to forecast a more competitive payout for the coming season.

Debt slug ahead:

The latest AgFirst financial survey for Waikato-Bay of Plenty dairy farmers shows that farmers’ debt will be a challenging issue until 2020. Survey compiler Phil Journeaux said the model farm used in the budget incurred an additional NZ\$1kgMS of term debt in 2015/16 to cover the low milk price that year. 80% of suppliers took up loans that had to be repaid once the payout exceeded NZ\$6kgMS. Journeaux said that the impact of compulsory loan repayments and heavy capital expenditure to meet compliance demands weighed heavily on farm budgets for this and will continue to do so next season. He questioned the sustainability of the farm working expenses which had been lowered to NZ\$3.77kgMS and said a more realistic figure was NZ\$4kgMS which included wear and tear on equipment. Casual wages are expected to fall back to normal levels while total feed expenditure will rise about 5% due to wet conditions and low feed levels.

Mataura on track:

According to Mataura Valley Milk manager Bernhard May, Southland farmers are showing interest in becoming shareholders and the company is on track to fill its milk supplier requirements. May is confident Mataura will contract the 25 – 30 suppliers needed by December. The company will manufacture infant milk formula mainly for export from its nutrition plant at McNab with production expected to begin in August next year and a full capacity of 30,000t of infant formula when the plant is at capacity. Mataura Valley Milk is a partnership between New Zealand and overseas investors.

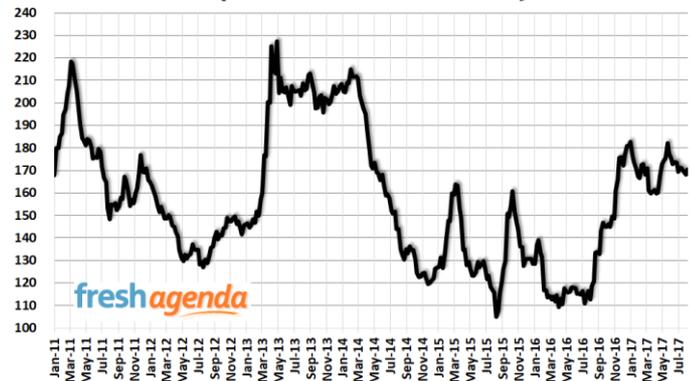
NZIER: sell it to the people:

The report The Benefits of Trade by the New Zealand Institute of Economic Research (NZIER) concludes that politicians and bureaucrats should focus more on the benefits to households’ living standards instead of focusing on boosting exports when talking about free trade. The report highlights that trade growth since the 1950s has lifted hundreds of millions of

NZ Dairy Export Index

Index slides again – The NZ dairy export index fell a further 0.7% this week due to a stronger NZ\$. Spot quotes from Australasian exporters were mixed; WMP remained at US\$3,100/t and cheddar rose US\$50/t to US\$4,050/t. SMP shed US\$25/t to US\$2,025/t while butter stayed at a record-high US\$6,050/t. The NZ dollar gained over 0.5c to **US\$0.7508**, shaving the index by **1.18 points** to **168.3**.

NZ export index since January 2011



Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted NZ export prices, movements in currency and the total milk usage in exports by the NZ industry. It was set at 100 on 1 January 2000.

people out of poverty and that NZ too has benefitted from liberal global trading with lower tariff and non-tariffs barriers helping kiwi farmers compete, increase exports, expansion and jobs. While other countries might have concerns, the report said NZ's flexible economy and its exposure to international competition since mid-1980s reforms had seen the structure of the economy adjust accordingly. In NZ, trade contributes to household buying power and benefitted poorer families who tend to spend more on imported goods and supports additional job growth.

NZIER said while New Zealanders wouldn't care about the additional tonnes of quota access the country would gain from an FTA, they would worry about whether or not their Netflix subscription rises or if their prescription costs jump.

Australian Dairy News

Milk production down 7% last season:

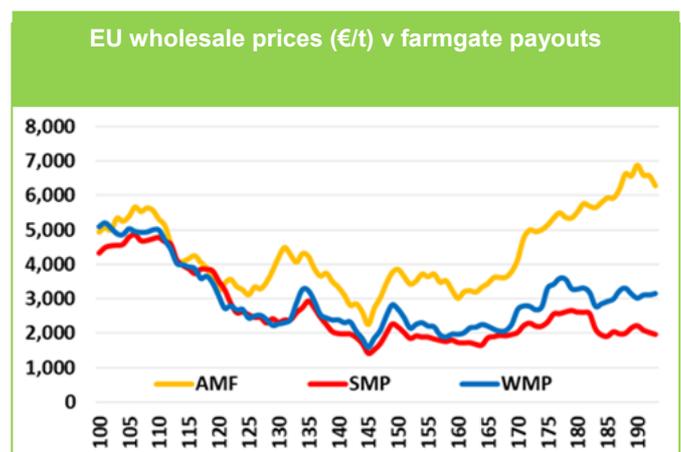
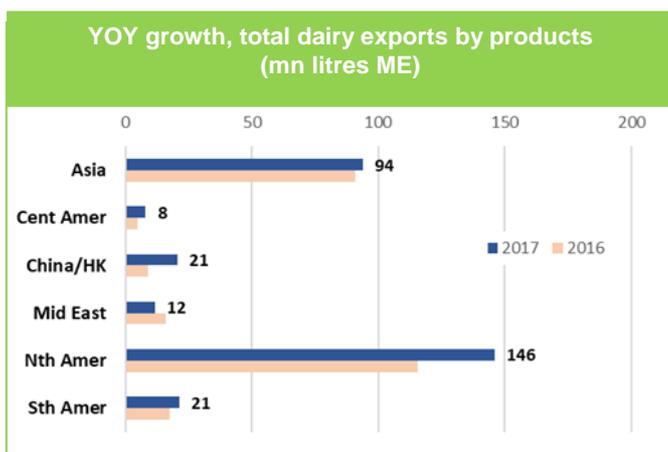
Australia's milk production ended the 2016/17 season with a small revival as milk production lifted 2.2% in June compared to the year before. The rise in June milk production saw national output down 6.9% for the season.

Milk production in the key southern regions lifted 2.9% in June compared to last year, with Victorian milk production rising 3.1%. In South Australia, milk production fell 7.6%, while Tasmania's production dropped 5.4% in June. The only surprise was that the southern increase wasn't stronger, given the sharp 9% fall in June 2016 in response to the drastic milk price step-downs by MG and Fonterra. This can be put down to the weak sentiment in Northern Victoria, where June 2017 milk output was on a par with that in 2016. That region produced 1.746bn litres in 2016/17, down a thumping 16.5% on the prior season.

Over the full season June milk production for the southern manufacturing regions slid 7.9% on the prior year. In the northern fresh milk regions, June milk production lifted 0.7% as milk production lifted 1.1% in NSW and fell 0.8% in Queensland. Season-to-date, milk production was down 3.5% in the north.

Lion's profit slips:

In its Q2 results for 2017, Japanese parent Kirin Group has reported lower sales and earnings from its Australian Dairy & Drinks division. Despite particularly strong sales in its specialty cheese and yogurt categories, the division was adversely affected by a shortage of oranges, causing dairy and drinks division sales to fall 1.1% compared to Q2 2016 to \$923m, while operating income for the unit fell 6.5% YOY to \$29m in Q2 2017. Kirin expects the LD&D division in the full financial year to achieve sales in line with the prior year, but to lift earnings 13% to \$82m.



Global and Corporate Dairy News

US exports continued to build in June:

US cheese exports continue to take advantage of favourable US pricing against competitors (according to latest prices from spot quotes) and were 32% higher in June compared with the same month last year, taking the first half total 24%

above the comparative. Cheese exports represented 6.2% of total US production in the first half of 2017, ahead of the 5.1% a year earlier.

On the flip side, growth in trade of combined non-fat dried milk (NFDM) and SMP exports slowed and was only 7% above the same month last year, after being 20% in the first half of the year. Mexico continues to prop up US trade in milk powder. Including the 39% jump in trade in the latest month which represented close to half US exports for the month, sales to Mexico in H1-2017 were up 27% over H1-2016. Butter exports remain small, but rose almost 4-fold in year-on-year terms in the month, but were only 13% higher for the first half of 2017.

Improving milk flows in Europe:

The progressive updates to milk collection data posted by the European Commission through Eurostat suggests we'll see a stronger lift in June milk output than earlier expected, although the all-important German numbers remain in progress.

French milk intake was down 1.7% in June, continuing a long run of year-on-year declines, helped by hot-dry weather, but milk is gradually coming closer to the 2016 comparatives given the rapid contraction that was underway last year. Ireland lifted June deliveries more than 6% after growing strongly through peak milk in May which was more than 7% up. Poland had a strong month as well, above the same period in 2016 by close to 7%, but June 2016 collections dipped 2%.

The UK also stabilised in June, up 1.3% over June 2016, but the UK was in steep decline this time last year, falling by more than 7%, which lasted six months as weaker sentiment ate into farmer intentions as lower commodity prices flowed directly through to farmers.

GDT index dips:

The GDT Price Index dropped 1.6% at the latest event, on a much larger offering of 32,768t, compared to 26,688t at the previous auction in late July.

WMP rose 1.3% to average US\$3,155/t with increases across all contracts except for September delivery, reflecting a tighter supply situation, but with some short-term availability. Prices were up slightly across the peak of the NZ season and stronger for January delivery. SMP meanwhile averaged US\$1,966/t, down 2.9% with large dips for contracts with October and January delivery, falling 3.1% and 7.5%, respectively, weaker than the most recent spot price indicators from Europe.

The historically high fat prices met some resistance with butter averaging US\$5,747/t, down 4.3% on average but a big spread of prices from US\$6,405/t for Sept delivery, plummeting to US\$5,045/t in January; while AMF dropped 4.4% to average US\$6,289/t, with a slide of US\$6,747/t to US\$6,143/t over the contract periods. Cheddar shed 4.4% to average US\$3,932/t.



Beef and Lamb News

Prices for US imports continue downward spiral:

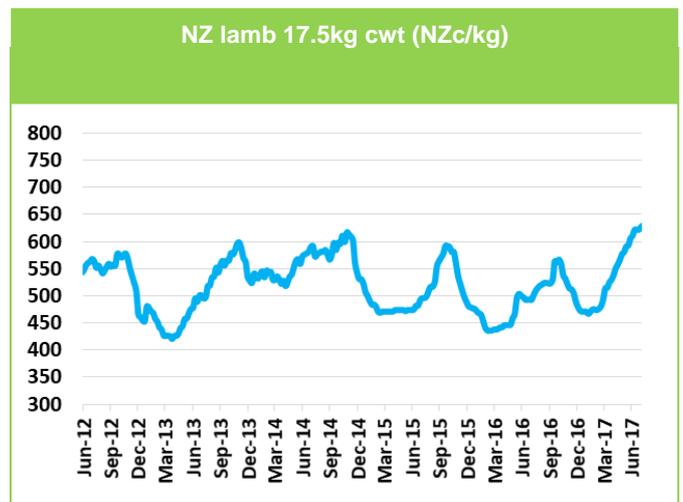
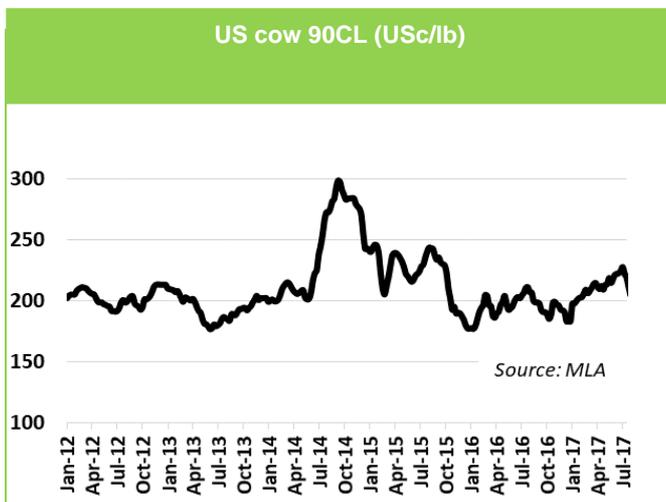
US beef import prices are continuing their free fall with the imported 90CL indicator down 3.5% last week, falling 1.1% behind the same week last year for the first time since October last year, closing at US\$2.05/lb CIF. Overseas packers lowered asking prices to generate bids from US end users who appeared reluctant to bid on product for September and October. The Steiner Consulting Group reported prices fell as much as US\$0.10 compared to the week before as domestic retail demand for ground beef was robust while traditional fast food chains are struggling with lower traffic.

MLA to invest in eating quality measurement:

Meat & Livestock Australia (MLA) is investing A\$28m in testing the capacity of CT scanning to objectively measure eating quality traits in red meat. The investment involves three specific projects that will look into utilising baggage CT scanning to generate an increased amount of objective measurement data, aviation CT scanning and converting CT scanners currently used in the horse raising industry to help determine eating quality measurement of beef and lamb carcasses. The research aims to provide a more thorough and balanced feedback throughout the supply-chain.

Australian cattle price-gap grows:

The driest autumn and winter on record has sent the Western Young Cattle Indicator (WYCI) below that of its Eastern States counterpart (EYCI) in the last two weeks. However, despite being at a premium for much of the first half of the year, the WYCI currently sits at A\$5.592/kg, a A\$0.1451 discount to the EYCI, sitting at A\$5.74/kg. Restockers have purchased less than 10% of young cattle in WA during July, and feeder buyers who usually account for majority of sales have halved the proportion of the young cattle yarding they purchase, also contributing to the greater number of pastoral cattle being consigned as a result of the drier conditions further north of the state.



Feed/Arable News

France lifts wheat harvest estimates:

The French farm ministry has lifted its estimates for its wheat and rapeseed harvests and outlined the potential for a good corn yield too – provided crops receive follow-up rains to timely precipitation in June and July. The nearly completed soft wheat harvest was lifted by 567,000t to 36.78mt, bringing it 34% above last year’s crop, which was damaged by rain. The rapeseed harvest was upgraded 557,000t to 5.22mt, bringing production above last year’s 4.74mt.

Argentine wheat hit by rain:

The USDA’s Buenos Aires bureau have pegged Argentine near-completed wheat seedings at 5.20m ha for 2017/18, below its estimates of 5.60m ha, but up 300,000 ha YOY. The downgrade comes as many fields in the south west and south east of Buenos Aires province has been flooding by excess rain which has affected soils and/or roads. Thanks to the weaker sowings, Argentine wheat production is expected to come in at 16.65mt, below the forecast 17.5mt. The USDA’s prospects for Argentine 2017/18 corn sowings rose 300,000ha to 5.20m ha, due to an increase in sowings of 5-10%.

JBS does a deal with banks:

Australian minister for agriculture and water Barnaby Joyce has announced the establishment of a crop research hub with a A\$3m Grains Research and Development Corporation grant as well as A\$1.5m from Murdoch University and A\$250,000 from Curtin University. The funds will go towards the construction of a greenhouse to be used for pathogen studies and an irrigated crop plot at Murdoch University and Curtin University. The research at the crop hub will focus on improving crop productivity and disease resistance.