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11 April, 2018

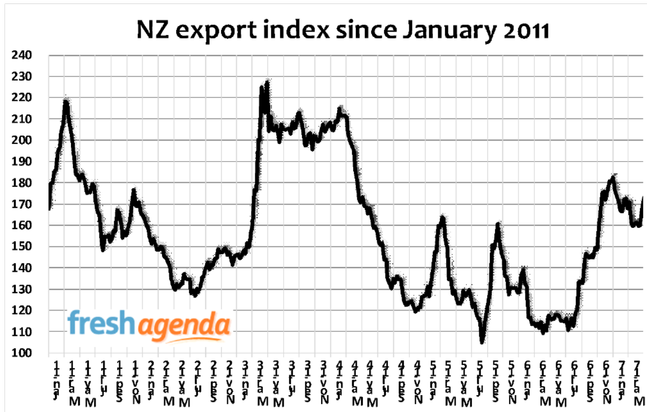
New Zealand Dairy News

Scope for Fonterra milk price hike:

Brokerage OMF says Fonterra has scope to lift its farmgate milk price this season as well as hike the payout next season. Fonterra lifted its 2017/18 forecast payout to NZ$6.55kgMS from the NZ$6.40kgMS projected in December. In releasing its New Zealand Dairy Report, OMF said forecast prices still lagged behind their estimate of NZ$6.76kgMS for the season and NZ$6.84kgMS for next season. According to the brokerage, market participants and analysts may have overestimated the cost of lactose to Fonterra, which is deducted from farmgate milk price revenue.

NZ Dairy Export Index

Index lifts – This week, the NZ dairy export index rose due to stronger commodity prices. Commodity prices were mixed with WMP rising US$55/t to US$3,245/t. SMP lost US$30/t to US$1,900/t, while butter rose US$200/t to US$5,500/t. Cheddar was unchanged at US$3,700/t. The NZ$ rose marginally to **US$0.7266**, lifting the index by **2.21** to **169.36**.



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.

GDT boss: NZX hitting critical mass:

Chairman of the Global Dairy Trade Oversight Board Bill Shields says some NZX derivatives that use GDT auction prices as a benchmark are starting to reach critical mass. Shields said the extension of trading hours for dairy derivatives starting July 2018 to reach traders in Asia and Europe was a clear sign that the market was going global.

NZX metrics indicate 15,627 futures lots traded in March, down 26% YOY, while total lot options rose 8.6% to 4,890. Meanwhile, open interest fell 26% to 37,453.

Synlait lifts Lactoferrin capacity:

Synlait is investing NZ$18m, doubling lactoferrin manufacturing capacity at its Dunsdanel plant, backed by an agreement with an unnamed customer. According to chief executive John Penno, the agreement marks a step forward for Synlait's growing lactoferrin business and delivers to its strategic commitments.

Lactoferrin is used in infant formula products and Synlait is one of a few producers who offer reliable access to significant quantities of infant nutrition-grade lactoferrin. Internal demand in Synlait's own infant formula manufacture is growing alongside a secure portfolio of reputable lactoferrin customers. The new facility is expected to be completed in October 2018.

BNZ tips 2% NZ milk growth:

BNZ economist Doug Steel expects New Zealand milk production to recover from this season's weather impacts. IN the latest Rural Wrap, Steel forecasts 2% growth in New Zealand milk production in 2018/19, although as always, the forecast is highly weather dependent. BNZ lifted its 2018/19 milk price forecast to NZ$6.10kgMS from $5.70kgMS. BNZ expects Fonterra's current season payout will be NZ$6.52kgMS, with a dividend of between 25 an 35c, this combined with an expected 2% fall in milk production will result in marginally higher milk revenue in 2017/18.

Report: Investment to peak by 2030:

The Climate Change Impact Report authored by Ernst & Young (EY) projects dairy sector investments to peak by 2030 as the need to meet greenhouse gas emission targets bite - milk producers and dairy exporters will be hit the hardest. The report draws on work done last year, producing a central scenario, where a smooth transition of agriculture into the emissions trading scheme in 2020, allows New Zealand to comfortably meet greenhouse gas emissions targets by 2030. In this scenario, dairy products will add no new gross value to the economy, but reduce their carbon intensity 40% by 2050.

Under a second ‘shock’ scenario, agriculture enters the ETS with only two to five years to adapt, a swift forced change would reduce output from dairy, crops, meat products, other animal products and raw milk by 13.75% between 2025 and 2050. The report found a NZ$30bn GDP loss between now and 2050 under the ‘shock’ scenario, and warns the impact would be felt unevenly across the economy, with the bulk borne by agriculture.

Australian Dairy News

Further action against MG:

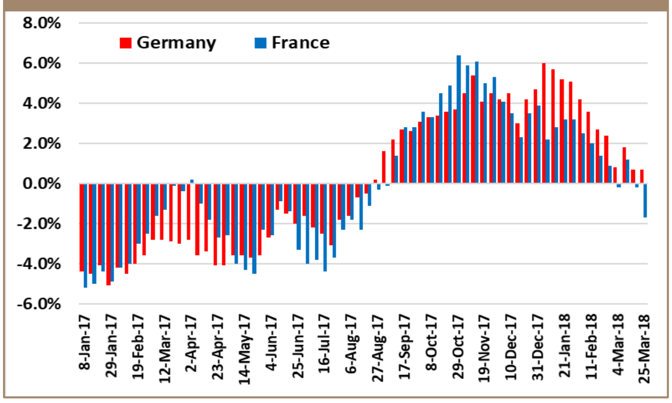
Law firm Slater and Gordon has formally opened registrations for its class action lawsuit against Murray Goulburn (MG). Slater and Gordon alleges MG misled investors with a 2016 profit forecast that could never be achieved as well as breaching its continuous disclosure obligations by failing to announce a second profit downgrade prior to 27 April that year.

Slater and Gordon senior associate Andrew Paull said analysis of both ASIC and ACCC investigations strengthened the law firm’s initial findings that suggested MG misled the market. Slater and Gordon says it identified significant inconsistencies between MG’s statements and the information available to the company’s management internally. Registrations for the class action remains open to MG shareholders until 18 May with the suit expected to be filed shortly after.

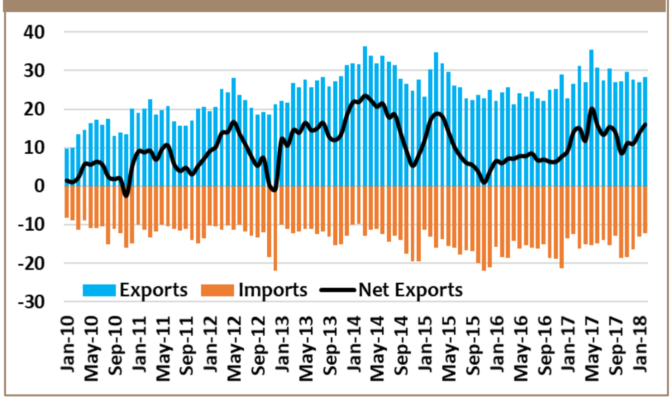
Wattle Health invests $63m in organic:

Infant formula group Wattle Health is injecting A$63m into a joint venture entity with Organic Dairy Farmers of Australia (ODFA). Wattle intends to raise up to A$65m to build and operate a A$55m milk spray drying plant in North Geelong. Wattle will hold a 45% stake in the joint venture, to be known as Corio Bay Dairy Group, while ODFA holds 55% and Niche Dairy 5%. The plant will be able to process 200,000l of fresh organic milk per day.

YOY growth, weekly milk production



US cheese net trade



Global and Corporate Dairy News

Record month for US exports:

On a daily average basis, US dairy exports reached an all-time high in February. On a total milk solids basis, US exports were equivalent to 17.2% of national milk supply for the month, the highest since October 2016. Imports were equivalent to only 3.1% of output. Aggregate volume shipments of commodity products were up 14% for the year to date at 343,108t, while total value rose 2% to US$869m.

At 28,150t, February cheese exports were the highest in eight months and rose 7% YOY. Weaker shipments to Mexico (-7% YOY) were more than offset by stronger exports to China, Japan, Central America and MENA. February SMP exports were the second-highest ever at 66,750t – up 28% YOY, reflecting strong growth in shipments to SE Asia, Japan, Peru and MENA, while exports to Mexico were the highest in nine months.

For the year to date, butterfat exports were up 23% at only 4,487t and remained behind the 2016 comparable. Whey product exports rose 12% between January and February – most of the growth came from dry whey – which was up 29% to 39,235t.

Australian exports on the rise:

Australian shipments for the eight months to February rose 5% in volume compared to the same period last season, while higher unit prices increased value 14.1% to A$2.21bn. Milk shipments rose 20% to 144,883t, reflecting increased exports to Asian markets led by China & HK. Cheese shipments were up 2.3% for the season-to-date as processors directed extra manufacturing milk to this stream through to the end of 2017. Cheddar shipments were virtually flat for the period however, while exports of other cheese varieties rose 3.4%. Butter and butter oil shipments were significantly lower, reflecting limited availability, and down 36% and 19% respectively on the comparative. SMP shipments fell just 0.5% despite much lower domestic production. WMP shipments were down 5.8% on the comparative. Between July and February, total whey shipments were down 12% to 21,620t.

Bad weather impacts EU supply:

After increasing 3.9% YOY in January, EU milk production in key producing countries is slowing. The most recent data to week 12 (ending 25 March 2018) indicates German production rose 0.7% YOY while French output fell 1.7% relative to the same week in 2017. These trends reflect a relatively cold start to March that hasn't been offset by higher temperatures mid-month. UK milk production fell 1.2% YOY in March – this followed a 1.2% YOY expansion in supply during February.

US manufacturing surges:

US cheese output rose 4% in the February quarter according to the USDA. American cheese (Cheddar, Colby, Monterey Jack) output grew 4.3%, while output of other varieties such as Mozzarella grew 3.8%. SMP production was down 12% in the February quarter, however NFDM production was up 7.3%, meaning joint SMP/NFDM output still rose 2.5% for the same period. WPC production remained robust – output of WPC 50-90% rose 12.7% and WPC 25-49.9% production was up 3.8% for the quarter.

Butter production rose 3.7% in the past three months. Despite strong growth in local supplies, CME spot prices have been on the rise and currently stand at US$5,115/t, as the local market starts to reflect rising international prices for fat and potentially increased export orders.

EU butter moves higher:

European butter prices continue to rise after Easter. Demand for product is surpisingly robust, even at elevated market prices. Meanwhile, supply is tighteninng due to cold weather in key EU milk producing countries. This ensures inventories will remain at historically low levels. On the EEX dairy derivatives market, butter contracts for April-December delivery on average lifted more than 15% during the past couple of weeks. NZX butter futures are now at a significant discount to EEX (22-32%) and trade is in a very narrow US$5,385-5,590/t range for delivery through to the end of 2018.

Beef and Lamb News

US imported prices slide:

US imported beef prices fell this week as the US90CL indicator closed at US$2.05/lb, down 2.4% from the week prior. According to the Steiner Consulting Groups's weekly report, markets are gripped by fears of a trade war between US and China and the potential for slower growth and weaker demand. US importers sat on the sidelines, as end users were apprehensive in the face of meat market uncertainty and sharply lower fed cattle prices. In March, Australian beef shipments to the US were 10% lower than the prior year comparable, with expectations that exports to the US will decline further this year. Meanwhile, New Zealand supplies are expected to increase slightly in May and June as seasonal cow slaughter lifts.

NZ beef and lamb exports to hit NZ$3bn:

Beef + Lamb New Zealand's (B+LNZ) Mid-Season Update bumps up forecast profit for sheep and beef farmers for the 2017/18 season ending September. Lamb exports are expected to surpass the NZ$3bn mark for the first time and beef exports should reach NZ$3.2bn, down 1.1% from the previous season. B+LNZ revised its farm profit forecast before tax up to NZ$126,300 for all classes of sheep and beef farms, up 39% on 2016/17 performance. B+LNZ Economic Service chief economist Andrew Burtt said the fast start to the season increased lamb, sheep and cattle numbers processed YOY, leaving fewer stock available for January to September processing.

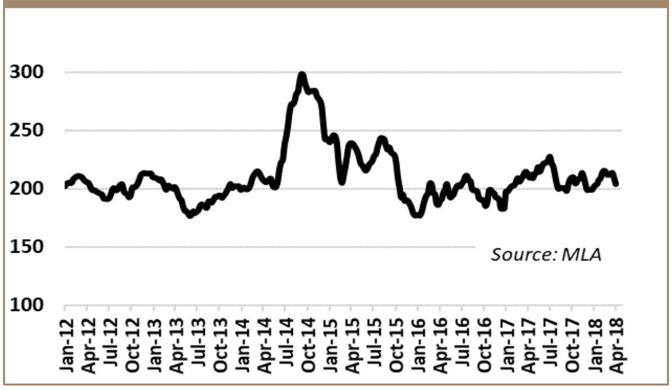
AACo under review:

The Australian Agricultural Company's (AACo) preliminary results for 2017/18 show its Livingstone abattoir near Darwin has cost the processor between A$60-A$65m over the past 12 months. Livingstone beef is expected to contribute an operating EBITDA loss of A$18-A$22m, compared to A$12.5m the year prior. As a result, AACo has hired Deloitte to undertake a "strategic review process" to assess all available options. CEO Hugh Killen said the review would examine a broad range of alternatives, including a sale of the abattoir. According to Killen a number of external factors contributed to AACo's troubles, including increased competition, a high A$, higher input prices and an elevated cattle price environment for Livingstone Beef. A detailed update of the review will be announced on 23 May.

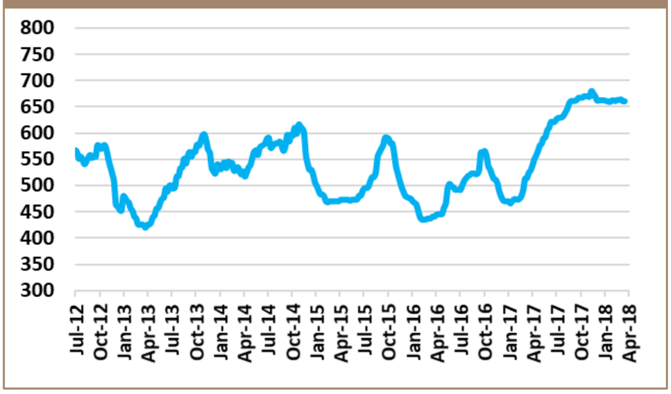
Marfrig acquires US beef business:

Brazil's Marfrig has acquired 51% of US-based National Beef, effectively making it the world's second largest beef producer. Marfrig Global Foods purchased 51% of the membership interests in National Beef Packing Company for US$969m, funded through a loan from Rabobank. According to the Brazilian meat packer, the acquisition will consolidate its strong position in the US beef industry and lift exports to new markets in Asia, such as Japan and South Korea.

US cow 90CL (USc/lb)



NZ Lamb 17.5kg cwt



Feed and Arable News

Bayer/Monsanto deal approved in the US:

The US Department of Justice has approved Bayer's acquisition of Monsanto Co in a US$62.5bn deal, after Bayer agreed to sell additional seed and treatment assets to BASF SE and make concessions related to digital agriculture. European Union antitrust regulators approved the deal in March after the companies agreed to sell a number of assets to BASF. The takeover effectively creates a company with a share of more than a quarter of the world's seed and pesticides market. Despite regulatory approval being granted, advocacy groups are still concerned about the control the company will hold over farmers' data, genetics, biotechnology traits and the associated agrichemical industry.

South American drought's trickledown effect:

After a severe lack of rainfall during the summer of 2017/18, parts of Argentina and Uruguay are suffering their worst drought in decades. The dry summer has damaged grain yields and quality, affecting final prices and affected pasture growth. In Uruguay, economic losses are expected to exceed US$500m. According to broker Aon Benfield, total losses are near US$3.9bn. Lack of corn and soymeal for animal feed as result of the drought, is affecting both affecting other agiricultural industries in Argentina. Argentina's soybean harvest is expected to be near the record-low harvest in 2009.