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28 March, 2018

New Zealand Dairy News

Infected cattle to be culled:

To control the spread of the disease, the Ministry for Primary Industries (MPI) will start the culling of 22,332 head on all properties infected with *Mycoplasma bovis*. This follows scientific testing and tracing confirmed the disease was not endemic. "Everyone across New Zealand can understand how incredibly difficult it is for these farmers to lose their herds – many of these animals will be known individually. While we still have challenges ahead in managing this outbreak, these families can move forward with their farms and lives", said Agriculture and Biosecurity Minister Damien O'Connor.

Meanwhile, New Zealand Minister of Agriculture and Biosecurity Damien O'Connor Cattle says farmers moving cattle across Cook Strait aren't complying with legal obligations, implemented to stop *Mycoplasma bovis* from spreading north. The National Animal Identification and Tracing Scheme (Nait) Review report revealed that only 57% of farmers who record animal movements, do it within the required 48 hours. Furthermore, it showed overall farm-to-farm recording may be as low as 30%. By implementing Operation Cook Strait, the Ministry for Primary Industries will check farmers moving cattle from South to North at truck stops on the upper South Island. O'Connor said non-compliance will result in fines, which can be issued up to NZ\$10,000.

Culling rates climb:

During the first 21 weeks of the 2017/18 beef season (to 24 February), New Zealand's cow culling rose 18.2% on the prior season comparative, a difference of 39,195 head. Cow culling in the North Island increased 9.7% (15,581 head) over the period, while cow culling in the South Island was 43% higher (23,614 head).

PKE imports pick up:

During the first two months of 2018, New Zealand's palm kernel expeller (PKE) imports increased 35% relative to the same period last year to 490,195t – making it the highest total on record for the period. However, Fonterra penalties for excessive PKE usage from June this year is likely to slow imports in coming months.

In 2017, total NZ PKE imports reached 2.24mt – up 49% on the prior year, reflecting increased reliance on supplementary feed to maintain production and offset the impact of dry weather conditions towards the end of the year.

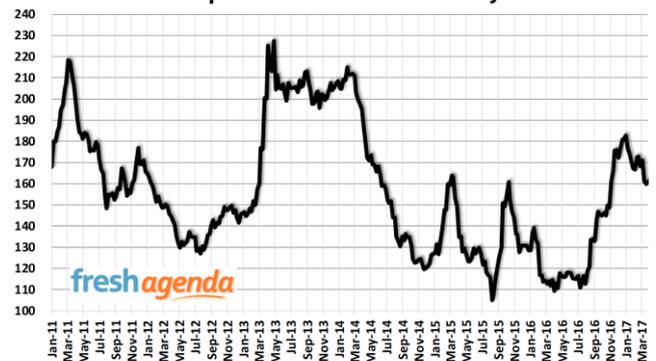
Fonterra appoints cleaners:

Fonterra has appointed a board working groups to provide "guidance and oversight" as the senior management team work to recover from its Beingmate investment. Fonterra chief executive Theo Spierings said recovering the value of the investment was

NZ Dairy Export Index

Index zigzags – This week, the NZ dairy export index lost some of what it gained the week prior on a stronger NZ\$. Commodity values were steady apart from cheddar quotes, which lost US\$50/t to average US\$3,700/t. WMP was steady at US\$3,200/t, while SMP were unchanged at US\$1,930/t and butter remained at US\$5,300/t. The NZ\$ rose to **US\$0.7233**, sending the index down by **0.73** to **167.38**.

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.

the number one priority for senior management at the moment. Fonterra is working with Beingmate founder and majority shareholder Xie Hong to influence the company's direction and push for urgent business transformation. Spierings said a number of opportunities existed to reverse the current performance.

More IMF capacity:

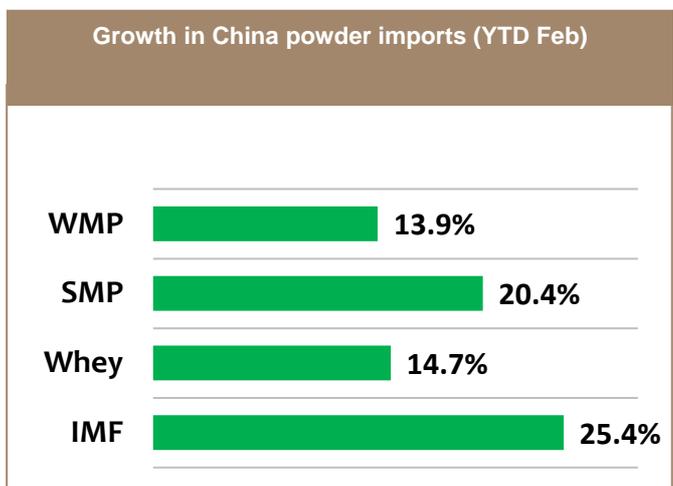
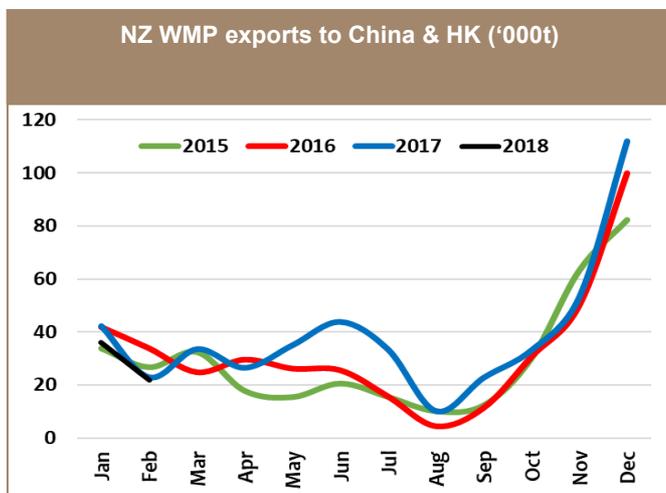
Winston Nutritional has invested almost NZ\$30m in its infant formula facility in South Auckland. The plant was taken over from Danone in 2016 and was extensively upgraded and commissioned in 2017. It now has 20,000t annual capacity. Winston's parent company Hai Feng has sold Hoeslandt formula in China that was manufactured in Europe and Australia – production will now shift to the Mt Wellington site.

Australian Dairy News

Milk growth slowing:

Dairy Australia reports February milk output lifted 2.4% YOY, marking the fifth consecutive monthly increase. This puts season-to-date production ahead 3.4%.

Milk production in the southern region rose 4.5% in line with increases for the season to date, while northern region output fell 1.4%. In Victoria, milk production rose 4.0% YOY in February with northern Victoria's milk output jumping 10.2% YOY and Gippsland's recorded an increase of 6.0% more than offsetting a 3.2% decrease in output in western Victoria. Milk production in NSW fell 5.5% YOY, while season-to-date production was 0.3% ahead of last season. Tasmania's February output lifted 3.1% YOY, bringing season-to-date production 6.0% ahead of the season prior. South Australia's milk output jumped 10.0% YOY, lifting season-to-date production 8.3%.



Global and Corporate Dairy News

Chinese imports drop in February:

Chinese dairy imports fell across all product categories in February with the exception of infant milk formula and butter oil. Weaker import demand likely reflects strong buying in 2017 and possibly recovering local milk supply.

WMP and SMP each fell 11% YOY to 47,975t and 18,106t respectively. Total whey imports were down 8.4% YOY to 37,057t, but with an 19% YOY drop in WPC80 volumes which accounted for 5.6% of the whey category. Cheese imports declined 43% YOY at 5,446t while fats posted mixed trends – butter was down 45% YOY and AMF rose 131% YOY. Infant formula imports were up 19% YOY to 18,515t. However, imports were up for the year to date after strong shipments in January.

NZ WMP exports rise:

New Zealand WMP exports increased for the third consecutive month in February, up 13% YOY to 118,984t. While shipments to China & HK fell 5.7% YOY, this was more than offset by stronger sales to MENA and South East Asia, which took advantage of a dip in prices through November and December to book shipments that showed up in these numbers.

Total SMP exports were up only 0.2% YOY to 29,360t in February, despite weaker shipments to China & HK and ASEAN – down 17.8% YOY and 1.6% YOY respectively. We estimate that over the past 12 months, NZ's SMP exports to China & HK rose 22.7% while this region accounted for a third of NZ's total shipments.

Cheese and butter exports both declined in February – down 11% and 2% YOY respectively. During the past quarter, cheese exports fell 7% to 89,733t while butter shipments were up 1% to 78,559t.

EU milk supply recovers:

With higher temperatures, milk supply in key European producers has started to recover. In week 10 (ending 11 March), German and French supply was up 1.8% YOY and 1.2% YOY respectively. In the UK, deliveries fell 1.8% in the first 17 days of March, but trends improved in the latest week available.

With increased supply, wholesale prices are generally lower. Fresh SMP is trading between €1,200 and €1,250/t following the latest tender. Butter is stable at €4,800/t. Gouda is softer at €2,500-2,650/t, but lower prices are prompting higher export orders, so the market may be near the bottom. Cheddar price is reportedly stable and mozzarella stronger.

On the EEX dairy derivatives market, butter for April-July deliveries is trading below €4,800/t. EEX SMP trades are below €1,300/t for March to May delivery but rise to €1,475/t by the end of the year.

US inventories weigh heavily:

Cheese and butter stocks in are heavy and increased at an above-average rate in February. The USDA's latest Cold Storage report reveals American cheese stocks increased 9,514t between January and February to 345,975t, 12.3% above the 5-year average and 2.4% higher in YOY terms.

Other-than-American cheese (including Mozzarella) stocks rose 6,547t between January and February – this was 14% higher in YOY terms and 27.7% above the 5-year average, reflecting a weakening foodservice sector. February butter stocks were 2.6% higher in YOY terms and 26.5% above the 5-year average. The US is still the cheapest butter supply region on the world market – CME prices are weakening and currently stand at US\$4,806/t.

Canada's milk surge continues:

Canadian milk production increased for the 44th consecutive month in January – up 5.4% YOY. This was however the slowest YOY expansion rate since January 2017, bringing leap year-adjusted supply over the past 12 months 6.4% ahead on the comparable. Over the same period, fluid milk use fell 0.6% to account for 31% of total supply, while available manufacturing milk increased 10%.

Beef and Lamb News

US imported prices edge higher:

US imported beef prices lifted marginally this week as the US90CL indicator closed at US\$2.135/lb, edging up 0.5% from the week prior. Australian and New Zealand offerings remain firm, leading to slow trade during the week. Import prices reflect broader US market trends, according to Steiner Consulting's weekly report. Despite good movement to regular suppliers and few requests to delay deliveries. End users are reluctant to bid on forward business due to the sharp decline in domestic fed cattle futures, implying lower beef prices in late May, June and July. Also, New Zealand cow slaughter is expected to increase sharply in April and early May, bolstering lean grinding supplies and pushing prices lower.

Dry weather flattens Alliance lamb slaughter:

Dry summer conditions in the South Island of New Zealand is reflected in the seasonal flow of lamb stock into Alliance Group processing plants. According to livestock and shareholder services general manager Heather Stacy, volumes going into the cooperative's processing plants were flat. Stacy predicted the season would see a steadier drop off than the usual peak and

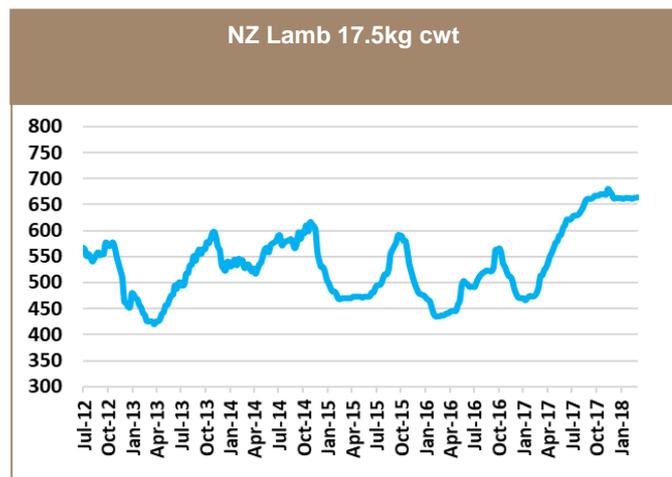
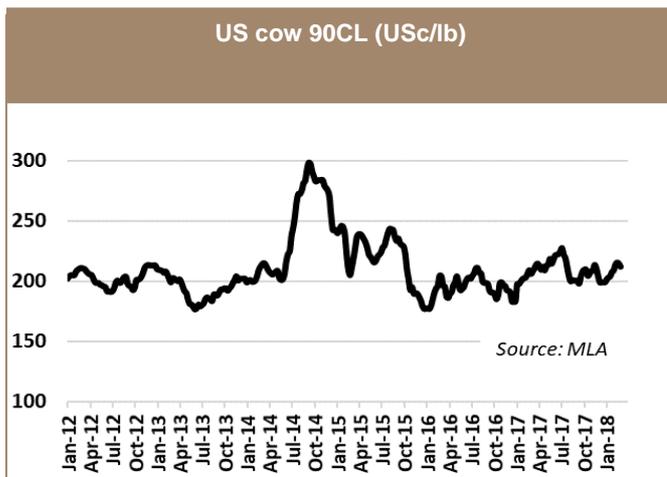
trough. Recent grass growth in the south means farmers are holding onto stock longer to manage grass. Prices remain firm with strong demand for sheepmeat from overseas markets. Stacy said it was important for Alliance to maintain sustainable returns. Alliance is offering a minimum price of NZ\$6.60/kg cwt to May.

US beef up production:

In the latest USDA National Agricultural Statistics Service, US output of beef was up 5.2% YOY in January and February. It was the biggest beef production for those two months since 2008. However, despite production lifting, frozen beef stocks were below year-ago levels in February, dropping 8.4% YOY – the lowest since 2014. Meanwhile, cattle inventories continue to rise, with cattle and calves on feed totalling 11.7m on 1 March, up 9% YOY. Placements in feedlots also rose in February, 7% above year-ago numbers. According to anecdotal reports, red meat and beef especially, continues to move briskly through the US marketing chain.

NZ M. bovis culls to be exported:

The recent detection of *Mycoplasma bovis* in New Zealand led to higher cattle cull, with the meat from 22,300 cattle to be likely for exports. According to Meat Industry Association chief executive Tim Ritchie, the cull will not affect domestic meat prices. The Ministry of Health released a risk assessment of *M. bovis* and human health and the potential for people to be infected through contact with livestock, saying it poses no risk for meat or dairy products. The disease is present in most countries in the world with no countries reporting health concerns.



Feed and Arable News

IGC: EU barley output to rise:

The International Grains Council forecasts world barley output to rise in 2018/19 by 2.4mt YOY totaling 147.7mt. Growth prospects were helped by a largely benign winter in many major growers of winter barley, notably in the former Soviet Union and in the European Union. The recent cold snap across Europe is expected to slow sowings of spring crop. In France, 33% of spring seedings have been completed, compared to 77% of sowings in the same period last year. In Russia, spring sowing was completed on 150,000ha of land, down from 636,000ha last year. In Europe, temperatures have lifted meaning spring sowings are underway, while conditions are still cold in Russia.

India leaves wheat tariffs at 20%:

The Indian Government has indicated it will not lift its tariffs on wheat from 20%, due to low domestic production. According to an industry insider, the key factor in the decision to drop the increased tariffs is a fall in estimated domestic production. Previously a 100mt crop was forecast, but estimates were pulled back to 93-95mt, leaving India's wheat stocks-to-use at an historical low. Australian wheat farmers stand to benefit as Indian millers prefer Australian wheat to blend with lower-protein wheat from cheaper origins like Ukraine. Australia's reduced surplus from last year's harvest has built a premium into exports.