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4 April, 2018

New Zealand Dairy News

Fonterra milk intake continues to slide:

Fonterra's milk collection fell 4% in February compared to the same month last year. North Island intake was down 2.8%, while South Island intake fell 5.4% for the month. The South Island's season-to-date milk intake is 0.8% behind last season, while North Island milk intake is down 2.8% on the season comparable. Overall, season-to-date milk intake is 2% behind the prior season.

Difficult weather conditions that have hampered production for most of the season continue to impact pasture quality and hamper milk production.

A2 shares hit by Nestle launch:

After Nestle confirmed it will launch an A2 infant formula product, NZX-listed a2 Milk shares traded at NZ\$13.84 last Tuesday prior to the announcement, but closed last night at NZ\$12.47. According to Salt Funds' managing director Matt Goodson, a2 Milk's share price fell due to Nestle's announcement and fear of others waiting to launch similar products. An a2 spokesperson said the company was monitoring a number of companies operating in China, but it considers itself well positioned to benefit from overall category expansion. The company said a2 competitors should assist in building credibility and awareness for a1 protein-free products.

In a statement, the company said "A2 Milk is the only company engaged in the sourcing, processing and marketing of solely A1 protein-free dairy and nutritional products in global markets. This core principle contrasts significantly with likely new entrants who will need to consider how to communicate internally and externally the benefits of a new A1 protein-free variant whilst their traditional range of products continues to include A1".

Milk NZ plans listing:

Chinese-owned Milk New Zealand plans to list on the NZX within the next 3 to 5 years according to its managing director Terry Lee. The listing will benefit dairy farmers currently in dairy cooperatives by giving them different options for supply and ownership. Milk NZ manages 29 farms with 30,000 cows, producing 10mkg milksolids annually. The company exports UHT and fresh milk to China under the Theland brand. Milk NZ export products are manufactured by Miraka and distributed to 25 Chinese provinces and 4,700 stores. Lee says the company's main office will be in New Zealand, but it has ambitions to be a multinational premium food company. The managing director said the key to stable growth was restructuring the company's supplier and production relationships in New Zealand.

NZ Dairy Export Index

Index steady – This week, the NZ dairy export index fell marginally on a steady NZ\$. Commodity values were steady apart from WMP quotes, which lost US\$10/t to average US\$3,190/t. Cheddar was steady at US\$3,700/t, while SMP were unchanged at US\$1,930/t. Butter remained at US\$5,300/t. The NZ\$ slid to **US\$0.7232**, sending the index down by **0.23** to **167.15**.

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.

Australian Dairy News

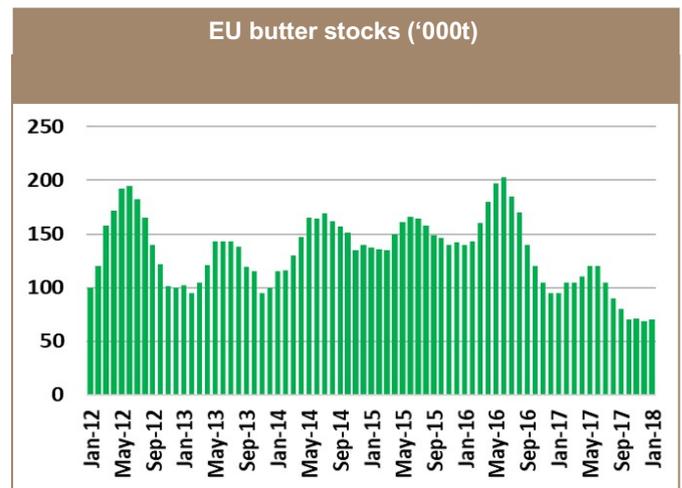
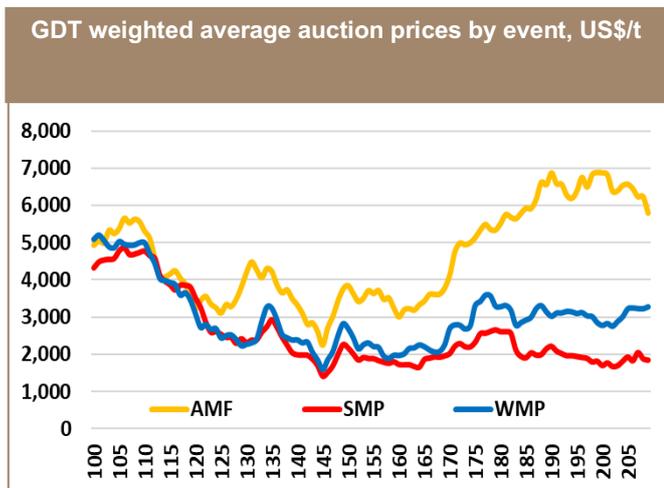
ACCC approves Saputo acquisition:

The Australian Competition and Consumer Commission (ACCC) will not oppose Saputo's purchase of Murray Goulburn's (MG) assets, which is going to a shareholder vote tomorrow, after accepting a court-enforceable undertaking that the Koroit plant will be sold. "We heard from and spoke with many farmers who expressed concerns with the ACCC intervening in this transaction in the short term because they wanted certainty and stability after a bumpy ride with Murray Goulburn. I want to assure them that our aim is to put in place and outcome that works in their best interests by promoting competition in the medium to longer term while minimising short term uncertainty," said ACCC chair Rod Sims.

Key elements of Saputo's undertaking: asset divestiture will include all necessary assets personnel and contracts to enable the Koroit purchaser to operate and compete; the sale must be completed within a prescribed timeframe and to an ACCC-approved purchaser; Saputo will supply a guaranteed volume of milk to the purchaser for a specified period; Saputo must allow/assist farmers who want to transfer their milk supply to the purchaser to do so.

Revised Australian Feb milk production:

Dairy Australia has revised its February milk output to a 3.5% increase YOY compared to the 2.4% rise reported last week. Milk output in NSW and Queensland were revised putting season-to-date production ahead 3.5%.



Global and Corporate Dairy News

GDT index eases again:

The GDT price index fell 0.6% at this week's auction, with mixed commodity prices on a smaller offering of 17,222t. WMP prices averaged US\$3,278/t, up 1.6% with all contracts higher. SMP fell 1.8% to average US\$1,849/t as contracts with June, July and August delivery fell.

Fats were mixed. Butter averaged US\$5,494/t, up 4% from the previous auction. All contracts lifted with May and June deliveries up 4.8% and 5.4%, respectively. In contrast, AMF prices dropped 7.1% to average US\$5,806/t. All contracts fell, with the largest fall recorded for June deliveries, down 8.9%. Cheddar averaged US\$3,679/t, up 1.9% from the prior event due to a jump in May contracts of 7.7%. Only contracts with May, June and July deliveries were offered at this auction.

EU butter stocks lower than ever:

According to the EC's Milk Market Observatory (MMO) Economic Board March meeting report, butter stocks at the end of January have never been lower at nearly 70,000t. The figures add support to historically high butter prices and likely reflect anticipated market under supply in the first half of the year, with slowing EU milk supply. Based on these stock levels, we estimate that domestic usage of butter fell 1.3% in the January quarter and was virtually flat over the past 12 months.

Cheese stocks were reported as normal relative to total disappearance, but are based on an arbitrary starting point of 200,000t in January 2012. Free SMP stocks were estimated as "normal to low" despite relatively large increases in EU production, reflecting increased exports and improved domestic usage at low market prices.

Rabo sees stronger Chinese demand:

In its latest Dairy Quarterly, Rabobank expects supply growth from the "Big 7" to moderate through 2018, as on-farm margin pressure builds slowing year-on-year gains. Rabo notes farmgate prices have retreated by as much as 15% in some regions since the start of 2018. However milk supply is still expected to outstrip import demand in the current quarter, keeping downward pressure on commodity prices.

China has been a key buyer so far in 2018, and Rabobank is expecting dairy consumption to expand 2% into 2019. The bank raised its forecast for 2018 dairy imports, which it now expects to increase 14% YOY in liquid milk equivalents, up from its previous forecast of 8% YOY in Q1. Faster growth is expected in liquid milk, cheese, butter and SMP imports than the mainstays of WMP and whey. Rabobank then expects a slowdown in imports in the first half of 2019 to 3.4% YOY.

Marginal growth in Japanese supply:

According to ALIC data, Japan's milk supply rose 0.5% during the first two months of 2018 to 1.19mt. Local production increased in YOY terms for the fifth consecutive month to February. Prior-year comparables are now becoming easier to beat as milk output fell 1.8% between March and September last year.

Meanwhile, with recovering supply, farmgate prices continued to ease but still tracked higher in YOY terms at the start of 2018. In January, producer payouts stood at JPY101.8/100kg – lower for the third consecutive month but up 1.5% YOY.

USDA creates FMMO for California:

USDA's Marketing Service announced its final decision to establish a federal milk marketing order (FMMO) for California. The new FMMO means adopting the same dairy product classification and pricing provisions used in the current federal order system. Currently, the Californian dairy industry is regulated by a California State Order administered and enforced by California Department of Food and Agriculture (CDFA). The USDA will conduct a referendum amongst Californian dairy producers. If approved by two-thirds of voting producers or producers of two-thirds of the milk represented, the order would take effect.

Beef and Lamb News

US imported prices fall:

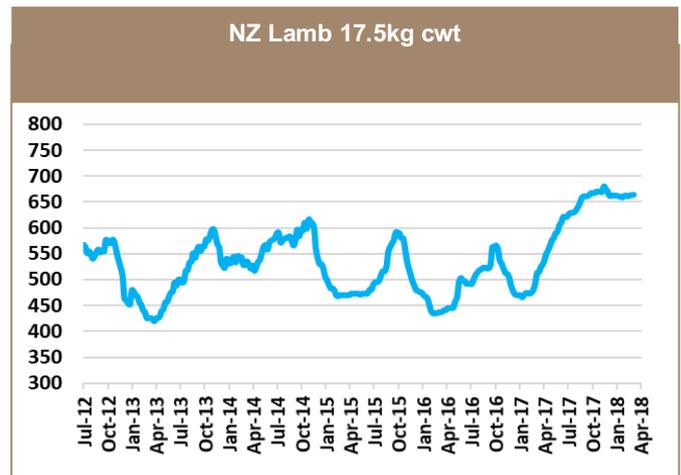
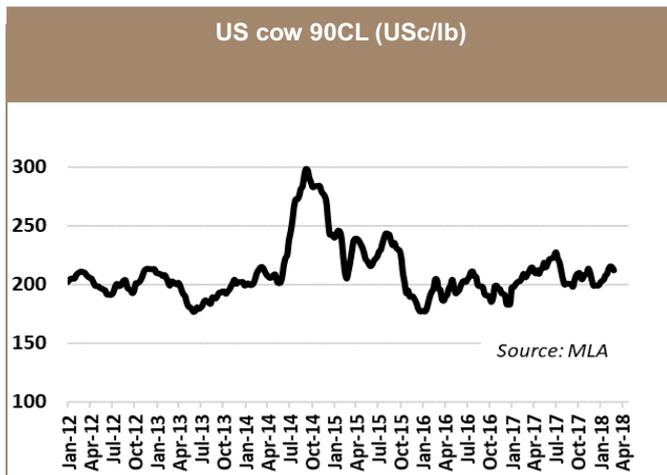
US imported beef prices fell marginally this week as the US90CL indicator closed at US\$2.09/lb, down 2.1% from the week prior. According to the Steiner Consulting Groups's weekly report, imported and domestic grinding beef trade are both slow for the time of year. Offers from overseas packers remain high, while domestic users are apprehensive about the outlook for prices in May and June. Meanwhile, futures prices deteriorated rapidly due to worries about oversupply in cattle, challenging available packing capacity.

Australian beef production lifts:

Meat and Livestock Australia (MLA) published numbers for Australian protein production in 2017, which shows growth in beef production and a fall in lamb output. Red meat dominates Australian protein production accounting for 63%, with beef being the largest contributor to increasing protein production, even as the national cattle herd continues its. Beef production lifted 1.4% YOY to 2.13mt cwt in 2017. In its cattle industry projections for 2018, MLA anticipates cattle supplies to remain tight with only a small rise forecast in production to 2.17mt cwt.

Drought curbs US cattle herd expansion:

The US beef herd expansion is slowing, with cattle inventory numbers expected to peak in 2019 or 2020. While total beef cows total 31.7m, breeding cattle inventories signal a decrease in the rate of expansion. Drought across Texas and Oklahoma panhandles and southwestern Kansas intensified during the winter. Drought and subsequent poor winter wheat grazing is pushing cattle to feedyards earlier than planned, leading to the largest feedyard inventories since 2012. Cattle industry consultant John Navlika of Sterling Marketing forecasts beef production will lift 6% compared to 2017.



Feed and Arable News

Australian farm sales down, values up:

The latest Benchmark Report by Landmark Harcourts shows the value of national farm sales increased 20% to \$20.3bn in the 12 months to November. Rural deals surged in value as competition increased for a smaller pool of listings. Landmark Harcourts general manager Mark Brooke said the rural market dynamic is undergoing changes and auction and sale records are being broken across the country as individual rural property value increases.

Half of national total trade in the year to November occurred in NSW, with transactions reaching \$8.9bn, up from \$7.9bn in 2016 as median values increased by 16.8% for farms bigger than 100ha and 9% for farms between 40ha and 100ha. Sales numbers fell from 22,000 to 18,311 for the period. Across the border in Victoria, total rural sales topped \$4.3bn, up from \$3.7bn. In Queensland, transactions almost doubled to \$3.2bn from \$1.8bn the year prior. South Australia recorded farm sales of \$1.5bn to November 2017, up from \$934m the year before. Both in Tasmania and WA deals rose to \$500m and \$1.8bn, respectively, while both states recorded falls in median prices

Japan bans Australian barley:

The Japanese Government has banned imports of Australian barley from ITOCHU Corporation after detecting pesticides five times the normal limit. In August last year, the pesticide azoxystrobin was detected in a shipment of Australian barley from the company, prompting a recall of cereal products containing barley as almost half of the 85t export was already used in food products. The Japanese Ministry of Agriculture, Forestry and Food has banned future shipments of barley from ITOCHU. The company is conducting its own investigation into what happened between harvesting and shipping. The Japanese government has given ITOCHU until 27 April to provide the results of investigation.

US winter wheat in worst shape for years:

USDA data indicates wheat crops are in their worst condition in 16 years. In its first winter wheat rating, USDA pegged 32% of the crop in "good" or "excellent" condition, representing a sharp decline from the pre-winter reading in November of 50% and the lowest since 2002, when a figure of 31% was recorded. The rating reflects the drought setback to crops in the southern Plains. Ratings were also lower year-on-year for major Midwest states growing soft red winter wheat due to too much rain and cold temperatures. The weather outlook is for cold temperatures and rain in the Midwest, which will keep soil temperatures below normal and maintain areas of wetness, making cropping conditions tough.