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23 May, 2018

New Zealand Dairy News

Milk growth strong in April:

DCANZ data indicates New Zealand milk production rose 3.1% YOY in milksolids terms and 2.9% YOY in volume terms during April. This surprised many in the local industry, given the particularly strong prior-year comparable. However, weather and pasture growth conditions were favorable, with producers being able to milk cows for extended periods. Season to date (June-April) output was down 0.9% in milksolids terms and 0.1% down in volume.

Fonterra April milk collection data is not publicly available, but the co-op maintains a forecast of a 2% fall for 2017/18. With national May collections on average accounting for about 4.5% of total season supply, it is expected national output will fall for the third consecutive season in 2017/18 in milksolids terms, while volume will be near-flat reflecting relatively greater reliance on supplementary feeding.

Fonterra increases milk price, announce 2018/19 opening price:

Fonterra has increased its 2017/18 farmgate milk price by NZ\$0.20/kgMS to NZ\$6.75/kgMS due to higher global dairy prices. Its forecast milk collections have increased to 1,500m kgMS, up from 1,480m kgMS reported at half year. Fonterra's higher milk price, its payment to Danone and the impairment from its soured Beingmate investment means the company has revised its earnings forecast. Chairman John Wilson said its forecast normalised earnings per share guidance range is revised down to NZ\$0.25- NZ\$0.30 per share and forecast dividend was forecast down to NZ\$0.15 – NZ\$0.20 per share. Meanwhile, revenue for the first nine months of 2017/18 was up 7% to NZ\$14.8bn, while total volumes fell 5% to 16bn LMEs. Fonterra's gross margin fell from 18% to 16% compared to the same period last year.

In a separate announcement, the cooperative announced its opening forecast farmgate milk price of NZ\$7.00/kgMS for 2018/19 and forecast milk collections up 1.5% on the current season forecast to 1,525m kgMS.

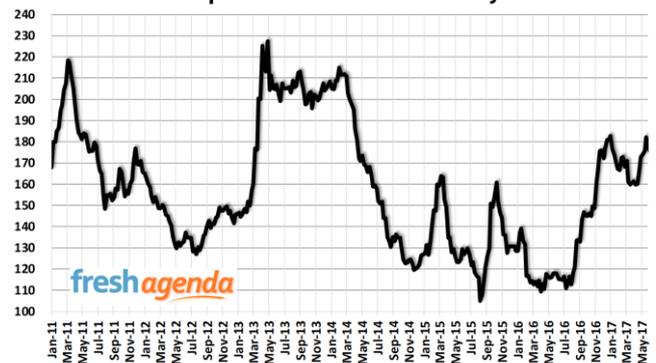
M. bovis affecting farm sales:

Newly released data from the Real Estate Institute of NZ (REINZ) indicates, 2.9% fewer dairy farms were sold in the year to April. The REINZ Dairy Farm Price Index fell 2.0% in the three months to April 2018 compared to the three months to March 2018. Compared to April 2017, the REINZ Dairy Farm Price Index was 5.2% lower. The REINZ Dairy Farm Price Index adjusts for differences in farm size and location compared to the median price per hectare, which does not adjust for these factors. According to rural spokesperson at REINZ Brian Peacocke values for land use are achieving strong results, except when it comes to dairy. Peacocke says the issue of Mycoplasma bovis has grown to be the dominant animal health concern throughout New Zealand, with "devastating financial and social consequences". Sales of dairy farms in Waikato and Taranaki have

NZ Dairy Export Index

Index climbs – This week, the NZ dairy export index lifted on a weaker NZ dollar and spot quotes from Australasian exporters which trended up. Quotes for butter rose US\$110/t to US\$5,775/t. SMP averaged US\$2,040/t, up US\$40/t on last week. WMP sat at US\$3,300/t, while cheddar climbed US\$125/t, averaging US\$4,050/t. The NZ dollar fell to **US\$0.6917**, sending the index up by **3.27** to **185.39**.

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.

continued, while concerns regarding M. bovis increased in Canterbury and Southland – the latter recording no dairy farm sales in the period.

New rules for organic?:

The New Zealand Government has launched a consultation process, inviting producers and consumers to have a say on whether the country needs a single set of rules for organic production. New Zealand agriculture minister Damien O'Connor said a single set of rules may boost consumer confidence in organic products. New Zealand and Australia are the only two countries out of the world's top 25 organic markets that haven't developed mandatory domestic organic standards. By developing national standards, O'Connor hopes to grow market access for NZ organic by placing it on equal footing with other countries that already have organic standards. The discussion paper addresses issues such as whether a national organic standard should be voluntary or mandatory and how the MPI should check that relevant business meet the standard. Submissions close in June.

Severe weather headed for New Zealand:

New Zealand's MetService issued severe thunderstorm watch for Taranaki, Horowhenua, Kapiti, Wellington and the Marlborough Sounds. Accompanied by heavy rain, hail, strong northwest wind gusts and possibly a small tornado, the thunderstorms are expected to cause structural damage. Rainfalls of 100mm – 150mm are expected in places in Fiordland and Canterbury Lakes and Rivers.

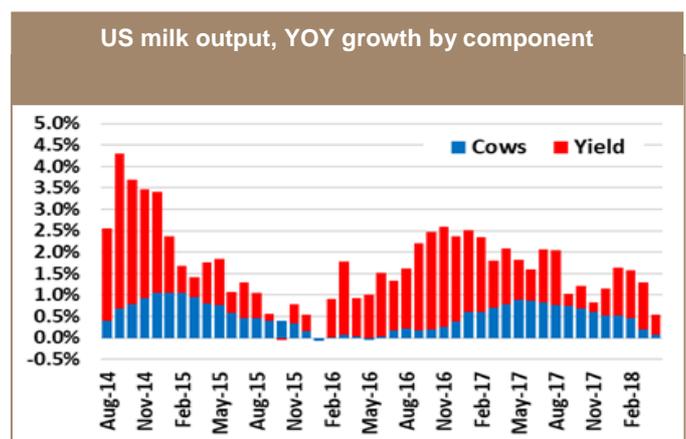
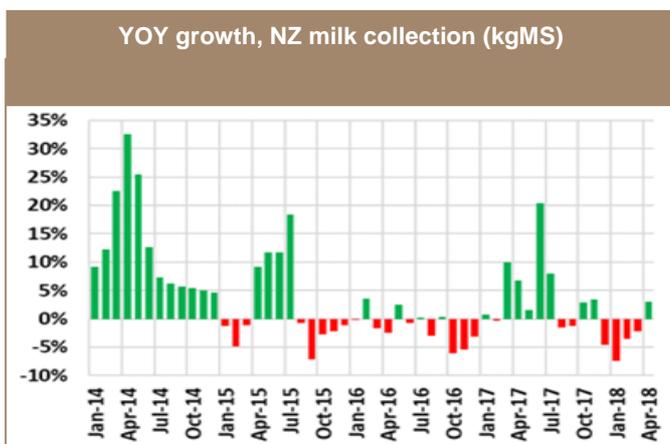
Kiwi scientists tackle allergen gene:

AgResearch scientists have demonstrated they can safely eliminate a major allergen like beta-lactoglobulin (BLG) from cow's milk. According to AgResearch senior scientist Dr Gotz Laible, a change was made in the genome that mimics a naturally occurring mutation, wiping out production of BLG and avoiding introduction of new allergens. More work is required to address other allergens which may affect consumers.

Australian Dairy News

Dry winter in the west, wetter in Tassie:

In its Winter 2018 Outlook, the Australian Bureau of Meteorology (BoM) says the big climate drivers remain neutral with no active El Nino or La Nina patterns and an inactive Indian Ocean Dipole. For much of Australia, BoM predicts an equal chance of a wetter or drier winter. May to July streamflow outlooks indicate that low to near median flows are likely for most of the country with localised high flows in Queensland after heavy rainfalls in March. Temperatures are likely to be warmer than average in southern Australia, while minimum temperatures may be cooler than average in Queensland.



Global and Corporate Dairy News

China's milk to grow 1%:

According to a new USDA Foreign Agricultural Service (FAS) GAIN report, China's milk production will increase 1% in 2018 to 39bn kg. All the growth is expected to come from improvements in average yield per cow, while the dairy herd is forecast to

remain unchanged from the prior year at 7,200m head. With low farmgate prices and stricter environmental regulations, small and medium-sized operations are expected to continue exiting the industry.

Domestic demand is projected to grow in 2018, with consumers perceiving dairy products as healthy foods especially yogurt. With falling local production, the USDA expects WMP imports to increase 6.4% in 2018 to 500,000t – this is still 25% below the historic high of 671,000t reached in 2014.

US milk growth slowing:

US milk production rose 0.6% YOY in April – the slowest expansion since January 2016. Average yield per cow was up 0.5% YOY while the herd expanded 0.1% from the same month last year. Cow numbers actually fell by 2,000 head from March to 9,400m head, the second consecutive monthly drop, which reflects a significant increase in slaughtering this year.

California's supply rose for the fourth consecutive month in YOY terms, but only 0.4% - this compares to a growth of 2.7% in March and 3.5% in February. Combined expansion in the Desert states remained above 4% for the 19th month in a row. In the key Upper Midwest region, production fell for the first time since March 2014 – down 0.5% YOY. Supply in the Northeast and Southeast also continued to track lower, while output in the Pacific Northwest was up 2.7% YOY.

EC unloads 41,958t of aged SMP:

The 20th SMP tender under Regulation No (EU) 2016/2080 resulted in the European Commission (EC) selling 41,958t of 27 month-old SMP at a minimum price of €1,155/t. There were bids in the €500-€1,277/t range with 124,360t offered.

The SMP stockpile now stands at nearly 300,000t, with 76,573t of product sold by the EC through the tendering process so far. The next tender is scheduled for 19 June with 144,847t of available product – 33,114t of French SMP, 23,945t Irish, 22,094t Lithuanian, 20,028t Belgian and 15,497t German. Belgian and German product jointly accounted for 73% of total sales during the most recent tender on 15 May.

With recent large tender sales of SMP displaced some food-grade product, but opinions among observers were divided on whether or not the process is bullish or bearish. For the time being, EEX SMP futures are not moving much and remain below €1,600/t through to November 2018.

Has peace broken out in trade war?:

The US and China have agreed to drop tariff threats while they work on a wider trade agreement. Last week, negotiators from the two countries set up a framework for addressing imbalances in the future. US treasury secretary Steven Mnuchin said China had agreed to buy more US goods to reduce the trade deficit but wouldn't disclose an amount. Chinese vice-premier Liu Yandong said developments would result in enhanced cooperation in areas such as energy, agricultural and high-tech products. The framework includes structural changes to the Chinese economy to enable fair competition for US companies, but Liu said this would take time to implement.

Restriction on foreign ownership, pressuring foreign companies into transferring technology, unfair terms on US companies and Chinese cyber-attacks were some of the issues leading to talks of tariffs on imports earlier this year.

Beef and Lamb News

US 90CL import price steady:

US imported beef prices trended lower this week despite limited grinding beef supplies. However, the weaker Australian dollar saw overseas packers selling some lean and extra lean product to US end-users at lower prices. The imported US90CL beef indicator was unchanged at US\$2.00/lb CIF, down 8.5% on the same week a year ago. According to the Steiner Consulting Group's weekly report, New Zealand slaughter is near its annual peak, bolstering offerings in the near term. However, market participants are noting New Zealand offers will fall off sharply by late June and July. Meanwhile, more Australian fat trims are going into Asian markets instead of the US.

Results of McCarthy review for Australian live exports:

The McCarthy Review into live sheep exports has recommended a major reduction in animals on ships bound for the Middle East during the hot months of the year. The review follows footage emerging of 2,500 sheep dying from heat stress during a trip to the Middle East last year. According to agriculture minister David Littleproud, one of the recommendations in the review is a

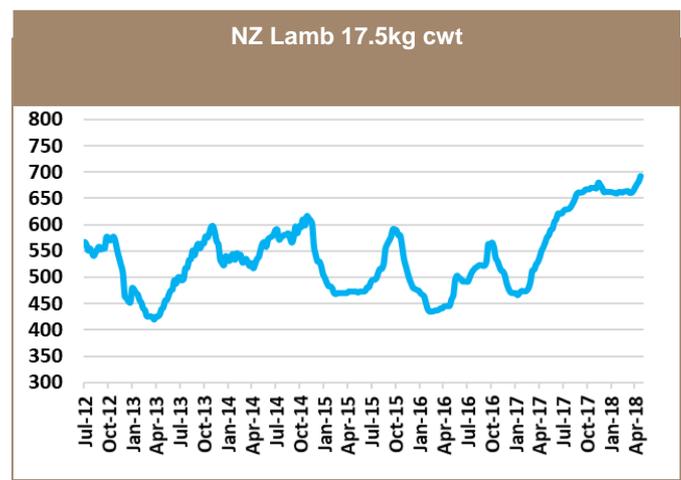
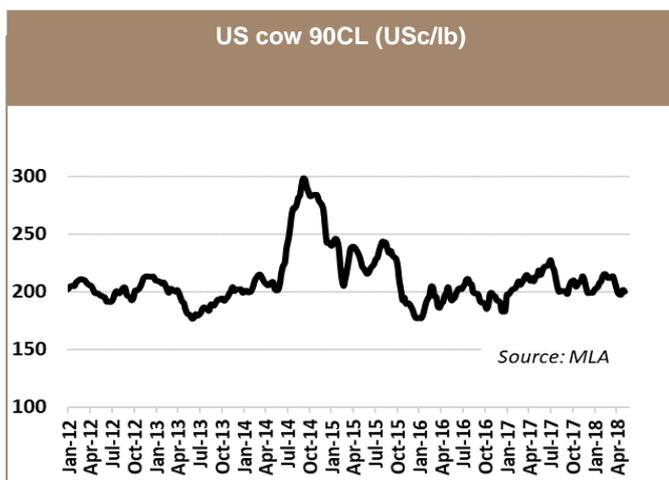
seismic shift in the stocking density model, which will see space for sheep increase by up to 39%. The number of sheep deaths to trigger a review from the independent regulator would change if new recommendations are followed and companies would face larger fines. Exporters have accepted the report, while welfare groups want further action.

AACo shutter meatworks in Darwin:

Australian Agricultural Company (AACo) is shutting its loss-making A\$90m meatworks in Darwin following a strategic review of the company's operations. Chief executive Hugh Killen said the company took decisive action to stem losses to ensure the company is on equal footing to realise its potential for growth. AACo's latest full-year financial results recorded a net loss of A\$102.6m for the year ended 31 March, down from a A\$71.6m net profit the year before. Operating earnings were A\$13.6m, compared to A\$45m the year prior. Killen said the company would focus on keeping a robust balance sheet and debt coverage over the next 12 months.

Forced US cattle cull affect NZ returns:

Rabobank's US senior animal protein analyst Don Close says forced slaughter of US cattle due to drought could affect returns for New Zealand farmers. Beef slaughter rates are up 10.5% YOY and could rise to 15%. Close says the US is New Zealand's most lucrative market worth NZ\$1.27bn to the year ended March with 44% of beef sold to the US, compared to a 20% share sold to China. The analyst noted that forced herd liquidation as well as recessionary pressure in the US economy would directly affect New Zealand producers.



Feed and Arable News

Global soybean production to set record:

In estimates for the new 2018/19 season for corn and soybean, Italian consulting firm CLAL forecast corn production to lift 1.9% YOY to 1,056.07m t, while soybean production will reach a record high of 354.54m t, up 5.3%. Drought in the US means corn and soybean crops are projected down from last year with a lower forecast area and yield. However, corn production is expected to lift in China and Brazil, while Argentina's soybean production is expected to lift 43.6% YOY due to drought recovery. Corn exports are projected to lift 4.6% from the current season, while soybean exports are forecast to lift 7%, compared to 2017/18.

Australian grains under pressure:

The lack of a convincing autumn break is expected to alter the shape of the 2018/19 grain production in Australia. Large areas of central and southern NSW as well as the Mallee areas of South Australia and Victoria are under their normal cumulative rainfall for this time of year. And the latest Bureau of Meteorology winter forecast shows that Australia is in for a drier winter across the nation except for in Tasmania. Prices for grains are being sold at premiums to the major demand points in Geelong and Melbourne, with prices expected to be influenced by domestic feed demand.