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8 August, 2018

New Zealand Dairy News

NIWA: Shaping like El Niño weather:

In its seasonal climate outlook for August to October, New Zealand's weather bureau NIWA predicts an advancing weak El Niño will mean a greater likelihood of warmer, drier conditions over the coming three months. The outlook is shaping as typical for the phenomenon, drier in the east, wetter on the west coast, especially on the South Island. Based on international models, NIWA predicts a 55% chance of El Niño developing during August to October with the likelihood of El Niño increasing beyond the NZ summer.

Survey: Better profits but still pessimistic:

Federated Farmers' July Farm Confidence Survey indicates while farmers have more positive perceptions of farm profitability, production and spending, nearly half of those surveyed expect general economic conditions to worsen over the next 12 months. Expectations for farm profitability over the next 12 months are up slightly, 30% anticipate improvement and 48% expect profits to remain stable. Dairy and arable farmers are more optimistic about profitability compared to the previous survey in January. The survey found 4-6 times more farms across dairy, meat & wool, arable and other are making a profit compared to a loss.

However, Federated Farmers' vice president Andrew Hoggard believes uncertainty around current government policies on key issues such as water regulation, climate change and industry relations has created farmer angst. The three greatest concerns for farmers remain regulation and compliance costs, concerns about pests, disease and biosecurity – most likely due to Mycoplasma bovis outbreaks – along with climate change policy and an ETS. The reading of confidence is the lowest level since 2012, with a five-fold increase in pessimism in the last 12 months.

A2 lifts stake in Synlait:

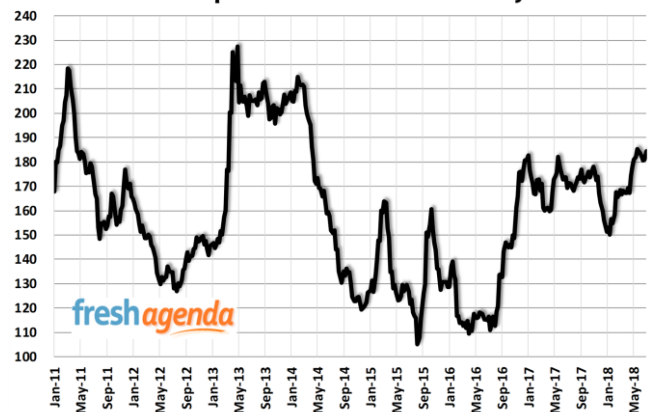
The a2 Milk Company will increase its share in Synlait, acquiring 8.3% of ordinary shares through a subsidiary at NZ\$10.90 per share, outlaying NZ\$161.8m. In July, a2 reaffirmed its infant formula and other nutritional products supply agreement with Synlait. a2 Milk managing director Jayne Hrdlicka said the investment in Synlait was consistent with the company's commitment to long-term supply arrangements with high quality partners such as Synlait and Fonterra. According to the a2 release, the company has no plans to increase its Synlait shareholding.

Meanwhile, Fonterra and a2 Milk have launched a jointly branded A1-free fresh milk to New Zealand consumers in the North Island, marking a new start in their relationship. a2 managing director Jayne Hrdlicka said the relationship offered advantages for both dairy companies, creating leverage for a2 into new markets while complementing Fonterra's already large portfolio. The

NZ Dairy Export Index

Index steady as she goes – This week, the NZ dairy export index climbed marginally due to a slight fall in the NZ\$ and steady to lower commodity values. Quotes for WMP averaged US\$2,975/t. SMP remained at an average price of US\$2,020/t and butter averaged US\$4,960/t. Cheddar averaged US\$3,700/t, down US\$100/t. The NZ dollar fell **0.5c** to **US\$0.6745**, lifting the index down by **0.6 of a point** to **170.78**.

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.

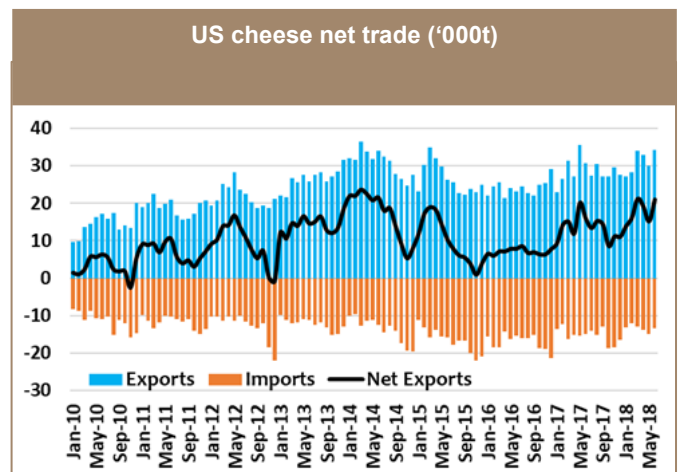
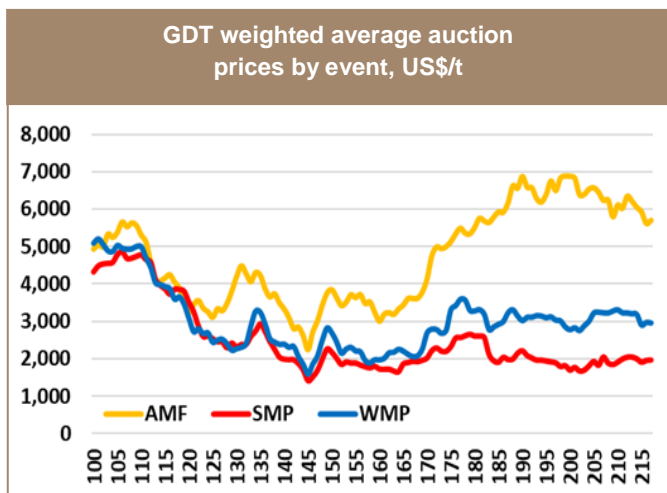
companies will build an a1-free milk pool to use for a2 milk products, starting with fresh milk but eventually moving into a mix of fresh milk, powders and infant nutrition. Fonterra Brands New Zealand acting sales director Grant Watson said the company's current range of milk offerings was consumer led, saying there was value in a jointly-branded a2 milk product.

Australian Dairy News

Wattle surges on China approval:

Australian dairy company Wattle Health has received approval from Chinese regulators to sell 1kg retail bags of its grass-fed milk powder for supermarkets, pharmacies and bricks and mortar. Wattle Health executive chairman Lazarus Karasavvidis said the approval was an important achievement for the company as consumption of milk powders is greater than for infant formula. He said the company is on target with its China market strategy and ongoing commitment to sell Australian-made product to Chinese consumers. Wattle Health's stock price soared to A\$1.56 after the announcement, but has since retreated, closing at A\$1.42 on Tuesday.

Meanwhile, the dairy company announced Corio Bay Dairy Group, its joint venture with Organic Dairy Farmers of Australia and Niche Dairy, has bought land in Geelong to build a dedicated spray drying plant for organic milk powder production. When completed in September next year, the plant will have an annual capacity to process 60m litres of organic milk.



Global and Corporate Dairy News

GDT index flat:

At GDT event 217, there was no change in the price index as powder contracts were flat while butter prices fell. Butter lost 3%, averaging US\$4,802/t, and recording falls across all contract periods. Butter for January delivery dropped 9.9%, averaging \$US4,545/t. Meanwhile, AMF averaged US\$5,709/t, up 1.4% as contracts with short-term delivery rose. Cheddar rose 1.9% to average US\$3,663/t with contracts all increasing, December deliveries lifted 2.5%. Powders were mixed with SMP prices increasing 0.7% to average US\$1,972/t. Most contract periods lifted, except for October deliveries which fell 4.7%. WMP averaged US\$2,958/t, shedding 0.5% with mixed contracts results. September deliveries rose 8.9%, with minor falls recorded for contracts 2, 3 and 5.

US exports surge in June:

US cheese exports increased 12% YOY in June to 34,276t. Sales to Mexico increased 43% to 12,218t – the second-highest month ever. Exports to Australian more than doubled, offsetting declines in shipments to South Korea and Japan which fell 7% and 4% respectively. Exports to China also fell, by 14% YOY. Exports of NFDMS/SMP increased 24% to 57,018t, driven by a 49% increase in South East Asian sales, while Mexico shipments rose 11% YOY. Butterfat sales increased 9% YOY to 3,814t.

Overall, exports were 16.4% of June milk production on a solids basis, while imports were equivalent to 3.1% of output. USDEC noted June was the eighth consecutive month of growth in exports, "despite tariff headwinds". The buying is ahead of the July imposition of Chinese and Mexican retaliatory tariffs.

China digs in for a long trade war:

China is prepared for a "protracted war" and doesn't fear sacrificing short-term economic interests, according to a state news service editorial. The exchange of threats and taunts between the US and China follows the release late on Friday in Beijing of a new tariff list (which would tax an additional \$US60bn a year of imports) that will be implemented if the US imposes duties on US\$200bn of Chinese imports. On the list are lactose (to be levied an additional 10%) and infant formula (which will be levied an additional 10% or 25%, depending how described) according to the Chinese government announcement. US lactose exports have surged so far in 2018, up 21% over the prior year to more than 210,000t. China is a significant portion of that market – shipments of 65,219t were made in the first half of 2018, which is close to double the prior year. The US shipped just 7,350t of infant formula to China in the past year.

Germany slowing:

The resilience of German milk production is now being tested by heatwave conditions. The latest weekly data reported by ZMB indicates the gain over the prior year in late July had slowed to 2.1%. Weather conditions are expected to worsen heat stress, and result in smaller numbers – especially in milk solids – in coming weeks. Culling in Germany has picked up with the outlook for limited feed supplies in coming months - 21.3% more cows were sent to slaughter in the last week of July compared to the same week last year.

Brazil imports more in July:

According to the Secretariat of Foreign Trade (Secex), Brazil imported 119m litres milk equivalent in July, an increase of 43.2% on the previous month, but just 1% higher YOY. The greater volume of imports increased Brazil's dairy trade deficit to 113m litres in July compared to a 76m litre milk equivalent deficit in June. The July increase was mostly due to a 61% increase in SMP and WMP imports to 9,300t, with a large increase in shipments from Uruguay. Butter and butteroil imports increased 70% but were still minimal at 740t. Cheese imports increased 4% from June to reach 2,800t in July.

Weaker Australian exports in June:

Australia's June export volume fell 4.6% (excluding milk), but there were some interesting trends. Cheese shipments were 15% up on June 2017, but this only brought the half year-to-date trade back to being level with last year. Ingredients trade in powders and fats was well down in June, but for the half year WMP sales are still 18% above 2017. Infant formula exports continue to grow strongly – 56% up for the month and 30% ahead for the first half of 2018. Meanwhile imports of cheese have slowed in the first half of 2018, as local production has increased. Cheese imports were down 8% in the first six months of 2018, while imports of fats were up 14% on the comparative.

Beef and Lamb News

US lamb slaughter down:

In the US, lamb slaughter seasonally declined in June and July. In the four weeks to 14 July, US domestic lamb and sheep slaughter averaged 34,700 head/week, down 1.9% lower than a year ago and 10% lower than the five year average. Cold storage stocks were almost 20% higher YOY at the end of May. Meanwhile, prices for domestic lambs and lamb are also falling, down 15.8% compared to year-ago levels. However, prices are expected to increase into the fall, but will likely remain under year ago levels.

European beef prices weaken:

In Europe, ongoing drought has increased turn-off and cattle slaughterings, with prices sliding as a result of soaring supplies. In Ireland, kills have been 35,000 head or in recent weeks, compared to 30-32,000 in the same weeks in 2017. Irish R3 steer prices were reported at €3.82/kg in the last week of July, 28c/kg behind Britain but only marginally behind Spain and Italy. In France and Germany prices were 10c-11c/kg lower. Cow prices have dropped across Europe as cow slaughterings increased. In France, O3 cows were making €3.31/kg in the last week of July, while Ireland and Germany are returning €2.99/kg and €2.95/kg for O3 cows.

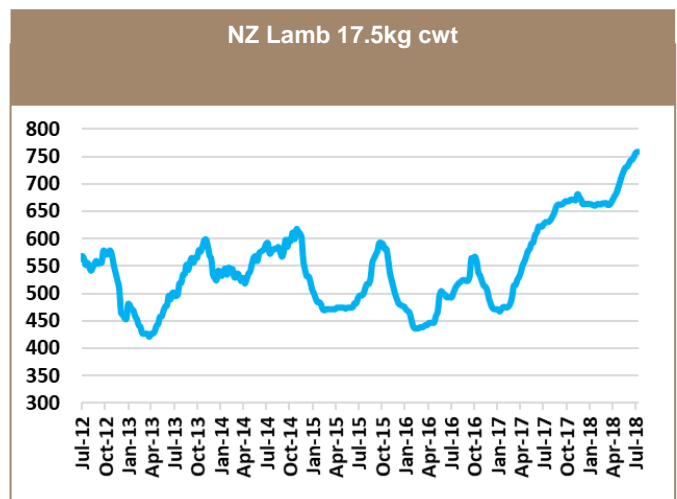
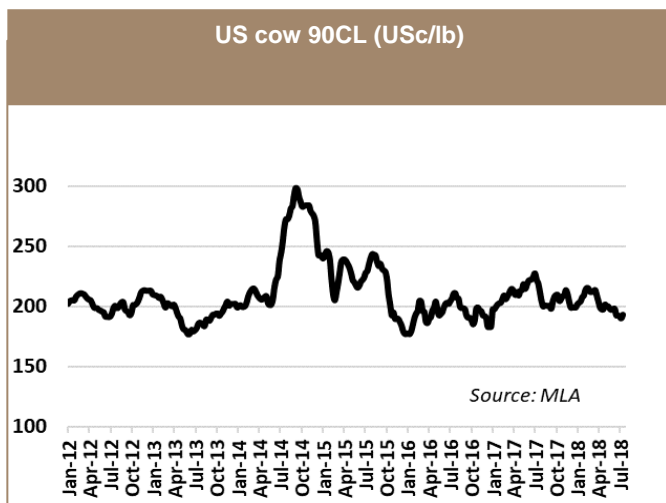
Kiwi beef herd grows:

New Zealand's beef cattle herd continues to grow, increasing 1.9% over the past year to 3.7m beef cattle, according to the Annual Stock Number Survey conducted by Beef + Lamb New Zealand's Economic Service. The largest contributor to the

increase was a lift in weaner cattle in Marlborough-Canterbury, driven by younger cattle retained by beef breeders. Otago-Southland's breeding cow herd increased 2.3% to 0.15m head, up due to a 3.5% increase in Otago. Positive returns from beef are encouraging farmers to increase the size of their breeding herds according to the report from Beef + Lamb. Meanwhile, the decline in the Kiwi sheep flock has been slowed by a lift in hoggets.

Australian beef exports surge:

Australian beef exports rose in July due to drought-driven herd reductions, surging to 105,157t, the highest monthly volumes since December 2015. July exports increased 4% on June shipments and were 13% higher than July last year. In the first seven months of 2018, exports reached almost 642,000t, a sharp 13% rise year-on-year. Exports to Japan increased 11% year-to-date while US exports were a little higher in July compared to June, but almost identical to this time last year. Shipments to South Korea rose 15% YOY in July. Meat & Livestock Australia (MLA) has lifted its forecast for 2018 adult slaughter to 7.8m head, 9% higher than year before due to ongoing drought, combined with a surge in female slaughter.



Feed and Arable News

PGG Wrightson agrees sale:

New Zealand agricultural supply business PGG Wrightson (PGW) is selling its seed division to Danish-based agribusiness, DLF Seeds for NZ\$421m, pending Overseas Investment Office (OIO) and shareholder approval. The deal follows a strategic review of the NZ-based company which will see PGW and PGW Seeds enter into a long-term distribution agreement for seed and grain. PGW will grant a brand licence to PGW Seeds for the continued use of the PGW Seeds brand. DLF Seeds chief executive Truels Damsgaard said the deal presents an opportunity for value creation by combining leading forage seed players in the Northern and Southern Hemisphere.

US & Aus farmland values surge – for different reasons:

Average farmland values in the US have increased 1.9% on 2017 to US\$3,140 an acre according to USDA. When broken down by state, the gains vary. In Missouri, values increased 10% to US\$3,700 per acre, which includes the Corn Belt region – the US's most expensive ag land. Values declined 2.7% to US\$1,800 per acre in Kansas, while land values in major wheat growing states declined. Land values in states dominated by pasture rose.

Meanwhile, in Australia, land values are also being pushed higher as graziers buy up pockets of grass in the north of Queensland due to ongoing drought in the state. According to valuers Herron Todd White, land value has increased between 10% - 15% compared to last year due to high demand for grassed land.