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20 December, 2017

## New Zealand Dairy News

### November milk supply up 3.4%:

Even as dry conditions took hold in November, milk supply has continued to grow. DCANZ reported November milk solids production was 3.4% higher than in the same month in 2016. On a solids-basis, production for the season to date (Jun-Nov) was 1.8% higher than the 2016/17 comparable, despite wet weather-affected output in August and September.

Strong supply growth during October and November reflected sharply warmer and drier weather conditions, but also weak prior-year comparables. Some dairying regions had rain last week, but local contacts expect summer milk production to be relatively weak unless pasture growth conditions improve with more sustained rainfall. Good supplies of supplements are holding up production... at this stage.

### OC lowers payout:

New Zealand's second-largest milk processor Open Country Dairy (OC) has dropped its forecast milk payout for milk supplied between December and February by NZ\$0.35kgMS and by NZ\$0.40kgMS for milk delivered in March to May next year.

The forecast payout for the season for both periods is NZ\$6.10kgMS – NZ\$6.40kgMS and there are no changes to farmers' advance rates. OC chief executive Steven Koekemoer said growing European milk supplies, meant OC had decided to take a prudent approach. Koekemoer said the latest GDT auctions showed buyers were less eager to purchase products, but the increase in WMP prices was a good sign.

### MPI halts culling:

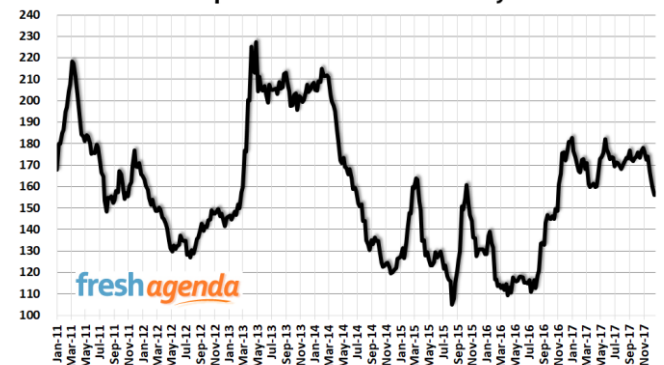
The Ministry for Primary Industries has halted culling of any more dairy herds infected with cattle disease *Mycoplasma bovi* following the latest outbreaks. The disease was contained to the South Island for five months, but recently spread to Hawke's Bay in the North. Three other properties are infected while a fourth farm in Ashburton is strongly suspected of being infected.

MPI response director Geoff Gwyn said there was an indication all the properties were linked to the initial source of the van Leeuwen group of farms in South Canterbury. He said eradication of cattle wasn't an immediate option as MPI investigators were still building a picture of stock movements onto and off infected farms. Gwyn said the release of the pathways report on the potential source of the disease had been delayed until the new year.

## NZ Dairy Export Index

**Index falls** –The NZ dairy export index fell a further 2.4% this week on mostly steady spot quotes from Australasian exporters. WMP was steady at US\$2,850/t and SMP sat at US\$1,790/t. Butter remained at US\$4,580/t, while cheddar shed US\$75/t to US\$3,700/t. The Kiwi dollar rose more than 1c to **US\$0.6990**, sending the index down **3.91 points to 156.04**.

### 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

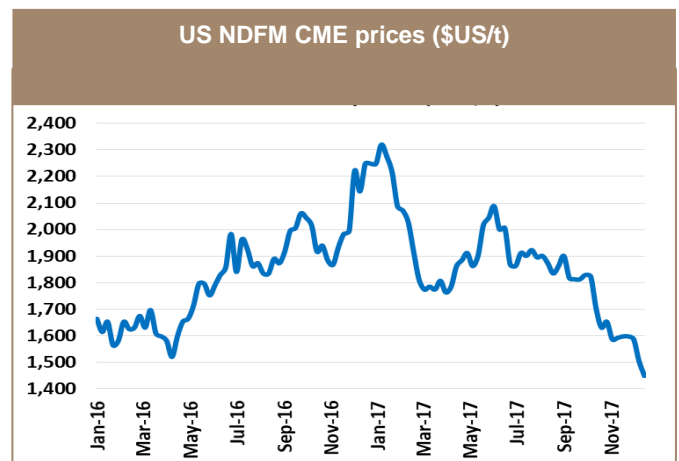
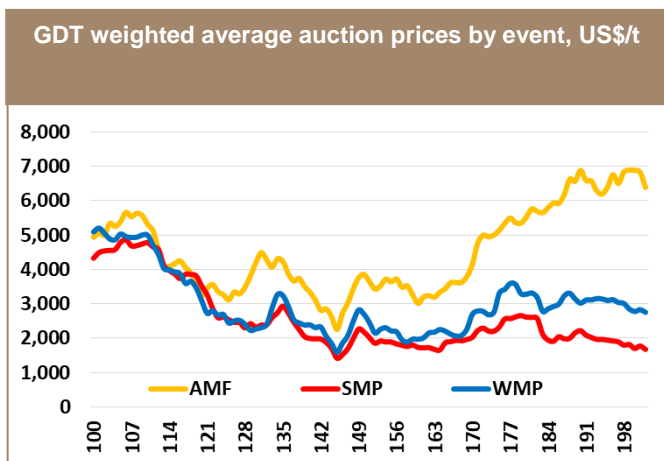
### Fonterra Australia revises milk price:

Fonterra Australia stepped up its average milk price by 10c to \$5.62kgMS, but revised down its closing milk price to between A\$5.62 to A\$5.70kgMS for the 2017/18 season. Fonterra previously announced 40c/kgMS payable on top of the revised farmgate milk price, bringing the total average cash paid to A\$6.02kgMS and the forecast closing range cash payable to A\$6.02 to A\$6.10kgMS. Fonterra Australia's managing director Rene Dedoncker said its business was growing as its product mix rebalances, enabling it to earn better returns from the market.

### Federal Courts approve ASIC/MG settlement:

The Federal Court of Australia has approved Murray Goulburn's agreement with corporations' law regulator ASIC. In mid-November, MG announced it had settled with ASIC following the investigation into the processors conduct over the period prior to its ASX announcement in April 2016 that it was lowering its milk price. The Federal Court has imposed the agreed penalty between MG and ASIC of \$650,000. In its statement, MG noted that "it was not alleged by ASIC that MG deliberately contravened its continuous disclosure obligations."

*Meanwhile*, News Limited's Weekly Times keeps stirring the confusion amongst MG stakeholders by talking up prospects of a rival deal to the MG Board-endorsed Saputo bid. The paper claims a potential new bid from a consortium will pay \$1.8bn for the MG business and assets (Saputo offered \$1.3bn), and guarantee an average of \$6.00kgMS to suppliers in milk prices in the current season, and a final payout of more than \$1 per unit after the company meets liabilities. The paper claims this will put pressure on the existing agreed bid, but will also extend the uncertainty for the suppliers and the business as the dairy market continues to weaken as 2018 gets underway.



## Global and Corporate Dairy News

### No Santa spirit in final GDT:

Buyers appear to have gone on early Christmas leave, and staying away from this week's GDT event, as the weight of expected product availability in early 2018 ensured prices continued to fall heavily. The event posted the worst overall result since March this year.

Falls occurred across the board. SMP fell 5.6% on average to US\$1,675/t, with the heaviest dip in C3 for March delivery, losing almost 8%. There was a little over a US\$100/t spread between spot and C5, with best prices later. WMP fell 2.6% to average US\$2,755/t, while C3 averages best at US\$18/t above that average.

Cheddar fell hardest – on small volumes – to average below US\$3,400/t, with the best price out in C5 at US\$100/t above the average. Butter continued to slide with small losses across contract periods as prices settled in a tight band around US\$4,500/t,

but AMF expectedly took a heavy hit to end with a US\$6,392/t average, but C5 prices down to a whisker over US\$6,000/t when EU supply is expected to be strongest.

### **Global trade was up 3.4% to October:**

Our latest Global Dairy Directions Trade Trends report indicates total trade for the ten months to October rose 1.55bn litres milk equivalent (ME) or 3.4%, led by stronger demand from China, but overall trade slowed in September and October against prior year comparatives. SMP trade surged 12% over the last six months with low prices, but activity slowed for the two consecutive months to October with weaker exports by the US particularly, but also by New Zealand.

WMP exports dropped 5% year to date, despite healthy demand from China – affected by low availability from New Zealand and the EU, while demand has been constrained by the large premium over low-priced fat substitutes. Cheese trade increased 3% in the past half year, but eased over the last two months with weaker shipments by the EU. Fats remained lightly traded, with historically high prices and chronic product shortages in the EU. Trade in infant formula products and fat-filled milk powders continued to be healthy – up 23% and 15% respectively in the quarter to October.

### **US milk growth slows:**

November milk production in the US was up just 1%, which was again slower than expected, with no change in cow numbers from October (but 53,000 more than a year ago) and a small gain in per-cow yield. South West states posted the best growth (Texas and Colorado gaining 6% over the comparative) but California, down 1.1%, was the weakest.

### **EU milk growth slowing?:**

Supply in key EU-28 dairy producers continued to expand in YOY terms, but has lately slowed. In week 48 (ending 3 December), German supply increased 4.2% YOY while French production rose 4.1% compared to the same week in 2016. UK deliveries increased 2.9% YOY during the first 9 days of December, following a 4.3% YOY expansion in November.

Eurostat figures for October are now completely available with the exception of Greece. We estimate total EU-28 October production to have increased 5% YOY. Netherlands is the only major supplier to have published November supply figures on Eurostat – output was ahead 1.9% versus the same month last year. With greater supply, Dutch spot raw milk prices fell 31.4% in the 13 December week to €18/100kg.

### **US NFDM prices dip to new all-time low:**

The mood in the US non-fat dry milk (NFDM) market remains negative – prices reached a new record-low this week at US\$1,425/t, after dipping to US\$1,449/t on the weekend. With this, NFDM prices fell for the third week in a row reflecting global market oversupply.

In the cheese market, there were diverging trends for blocks and barrels, with the barrels-blocks spread setting a record on Tuesday before somewhat easing by the end of the while remaining significantly higher than the long-term average. There are different theories on what caused barrels to rally. Some are based on increased export market orders and processing plant issues, but it appears that availability has now somewhat increased after supplies were reported tight last week.

## **Beef and Lamb News**

### **US imported beef prices steady:**

US imported lean grinding beef prices were steady last week, closing at US\$1.99/lbCIF, 8.7% ahead of the same week last year. Trading volumes were light as some overseas packers turned down lower US bids. Australian offerings remain tight as seasonal conditions and feed supplies improve, leaving prices from Australian packers firm. Dry conditions across New Zealand are driving a lift in beef supplies, resulting in a considerable amount of product booked for delivery in January and early February. Meanwhile, the Steiner Consulting Group forecasts US imports of Mexican beef for 2017 will be 26% greater than imports from NZ and 4% greater than imports from Australia.

### **EU-Mercosur trade deal stalls:**

Reuters have reported talks between the EU and the South American trade bloc Mercosur on trade between the two parties ended with no agreement. According to the news agency, a key issue is setting import levels for beef. Agricultural sectors in France, Ireland and seven other EU countries are against increasing imports, while other countries are excited that the

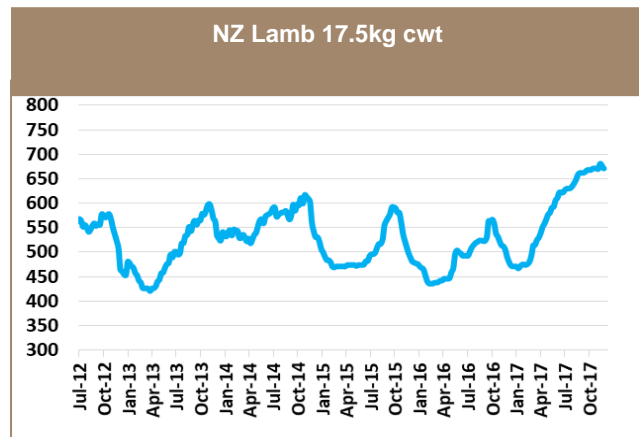
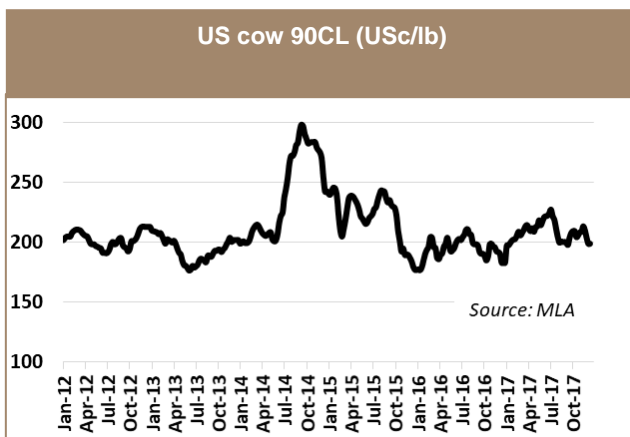
Commission offered a 70,000t tariff quota on Mercosur beef imports. Meanwhile, EU food safety inspectors have issued a negative report after a visit to Brazil revealed inadequate control systems for poultry and horse meat. Talks are expected to extend into 2018.

### Doubts over Indian buffalo trade:

The Indonesian Government's imports of frozen Indian buffalo meat to help stabilise beef prices in Indonesia haven't had the desired effect, and mixed messages are emerging about future plans for buffalo imports. In mid-November, Indonesia's Ministry of Agriculture decided not to issue any further recommendation letters for future Indian beef imports. However, recent media reports suggest an Indonesian government department reissued permits for the remaining 31,000t of the 100,000t quota set for 2017. It remains unclear whether or not new import permits will be issued in the future.

### Dry weather put pressure on NZ processors:

New Zealand processing plants are running at capacity due to dry weather across the country. All of Alliance Group's plants throughout the country are running at full capacity with extended hours. Silver Fern Farms and Affco are also expecting large processing volumes, with suppliers having a 1-2 week wait to get cattle and sheep processed. Large supplies are not unusual for this time of year, however, Silver Fern Farms' chief executive Dean Hamilton expects this month's cattle kill to be a record for December.



## Feed and Arable News

### EU farmers increase wheat sowings:

In its annual briefing on medium-term agricultural forecasts the European Commission estimates soft wheat seeding will expand from this year's 23.6m ha to 24.8m ha by 2030. The expansion is expected to drive EU soft wheat output to 160.7mt by 2030, up from the 142.5mt harvested this year. In the same period, soft wheat exports are expected to soar to 38.4mt, compared with 27mt expected by the commission in its latest short-term balance sheet outlook. EU's share of grains world exports is expected to rise to above 19% in 2030. Meanwhile, Russia is expected to extend its lead in world exports, having overtaken EU in 2016/17.

### Canadian canola prices higher, exports stronger:

The Canadian farm ministry AAFC upgraded its forecast for domestic canola prices by CA\$10/t to CA\$510-550/t. The increase in average canola prices comes despite a hike in the ministry's estimates for the canola harvest by 1.6mt to a record 21.3mt this year. AAFC also lifted its forecast for Canadian canola exports in 2017/18 by 500,000t to 11.5mt, up 4.4% YOY despite competition from world soybean, soyoil, supplies and increased palm oil production. The ministry flagged further revisions to export estimates, which is expected to lift.