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10 January, 2018

New Zealand Dairy News

Fonterra cuts milk forecast:

In its latest Global Dairy Update Fonterra dropped its 2017/18 milk collection forecast to 1,480m kgMS, down from its November forecast of 1,525m kgMS. The revised forecast is down about 4% on the 2016/17 season. Despite wet conditions in October and November, recent dry weather is still impacting soil moisture and pasture quality across the country. As a result of this, Fonterra has taken whole milk powder off the Global Dairy Trade platform. Fonterra last month decreased its season forecast payout to NZ\$5.70/kgMS.

Wet weather ahead:

A severe front brought widespread flooding on the western side of the Firth of Thames, leaving behind soaked properties filled with debris. Federated Farmers' Hauraki-Coromandel president Kevin Robinson said saltwater destroys pastures and farmers would have to wait for rain to wash away the salt before they can replant grass. He said there wasn't a lot of farmers in the region, but the impact was significant with farmers forced to sell their stock. Significant rainfall in the area isn't expected until next week.

In the South Island, Metservice has forecast rain with heavy falls possible for the next three days. Federated Farmers president Katie Milne said the forecast – if realised – would bring relief to many farmers. According to NIWA's latest soil moisture map, Grey Valley and Buller regions have more than 90mm deficit – the historic average for January was 0mm to 30mm. In the northern regions soil moisture levels of the West Coast was quite a worry.

PKE bottleneck:

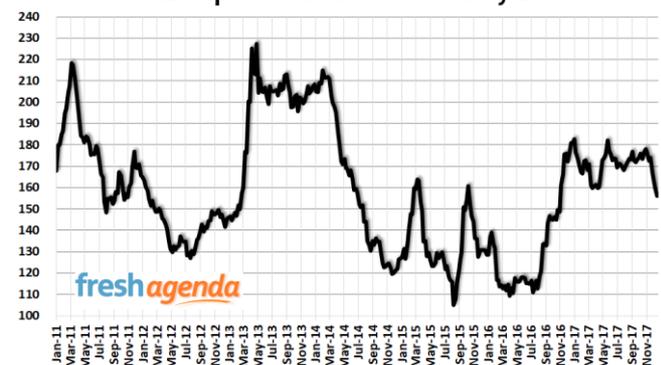
Drought-hit farmers in the Taranaki region are facing delays in accessing palm kernel (PKE). Processing delays are mainly affecting the Glencore facility. A Glencore spokesman acknowledged the issue, saying a sharp increase in demand prior to and during the festive season had been compounded by short weeks, unloading of inbound vessels and importers running low. He said the facility's screener was running 20 hours a day and expected the season to improve.

Taranaki Federated Farmers chair Janet Schultz said the situation was adding to farmer stress. "The farmers are under stress, they are trying to feed their cows. They can't get enough palm kernel to feed so therefore they are not going to be able to produce milk, therefore their cashflow is strapped and on it goes."

NZ Dairy Export Index

Index rises –The NZ dairy export index fell 1.0% in the first week of the year, as a stronger NZ dollar offset powder price gains. Spot quotes from Australasian exporters were mixed. WMP rose US\$125/t to US\$2,925/t and SMP increased US\$25/t to US\$1,750/t. Butter lost US\$30/t to US\$4,500/t. Cheddar remained steady at US\$3,650/t. The NZ\$ rose over 1c to **US\$0.7155**, sending the index down **1.56 points to 152.98**.

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

November milk lifts 4.3%:

Dairy Australia reports November milk production was up 4.3% YOY, the fifth consecutive monthly increase. This puts season to date production ahead 3.1%.

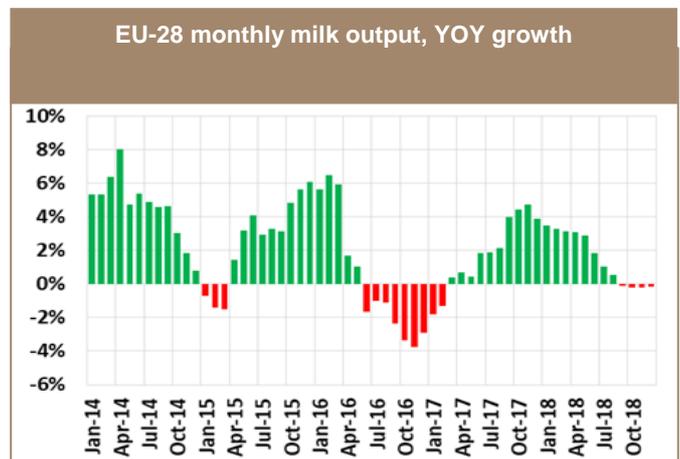
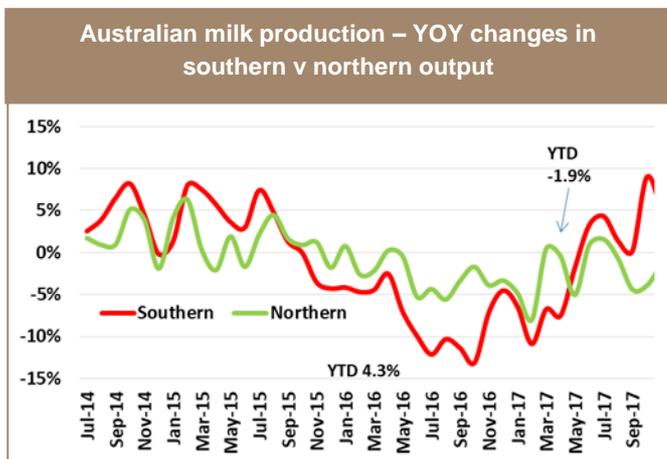
Milk production in the northern region fell 1.5% for the month, but was offset by a 5.5% increase in southern region milk production. South Australian input continues to lift, up 9.4% YOY in November and 7% year-to-date. Tasmanian production increased 10.4% YOY for the month. Victoria's milk production rose 4.4% YOY, with northern Victoria's output up 10.1% YOY, while Gippsland and western Victoria recorded increases of 2.7% and 1.4% respectively. Production in Queensland fell -0.6% YOY, while WA and NSW output fell 1.2% and 1.8%, respectively.

Fonterra sues Bega over brand strategy:

Fonterra is seeking an injunction from the Victorian Supreme Court to restrain Bega from using the Bega trademark on "unauthorised products". Since 1983, an agreement between the parties granted Fonterra the "sole and exclusive licence" for the Bega brand within Australia, including all natural and processed cheddar cheese products". However, Fonterra alleges that Bega's actions in rebranding its new grocery portfolio which includes Bega Mac and Cheese and Bega The Good Nut has led to "an erosion of the commercial

Bega placement approved:

Bega shareholders have approved the company's institutional placement component of last year's \$160m capital raising, giving it further scope to expand. Bega reports 84.3% of proxy votes were in favour of the \$122.5m placement, which was followed by a \$37.5m share purchase plan. The approval enables Bega to undertake further share placements to fund any identified growth opportunities. Last year, the dairy company expanded its portfolio with the acquisition of different brands including Vegemite and taking control of Queensland nut grower Peanut Company of Australia..



Global and Corporate Dairy News

NZ exports continue to slide:

New Zealand dairy exports declined again across the four main product categories in November. WMP shipments fell 9.4% YOY to 137,912t – with year to date shipments 1.5% lower compared to the same period in 2016. The decline in WMP exports was despite a 10% rise in shipments to China and Hong Kong, as exports to North Africa were significantly lower.

November SMP exports also fell 7.9% YOY to 44,542t, bringing year to date shipments down 12.6%. Despite patchy growth since the start of the year, New Zealand SMP exports to China and Hong Kong were still 13% ahead for the calendar year to November – this was driven by relatively weak comparables and a historically large gap between the prices of SMP and WMP.

Cheese exports fell for the fourth consecutive month in YOY terms – down 16.3% in November, bringing the year to date cumulative total down 3.8% despite an 8% growth in shipments to China & HK. Low export availability and record high prices earlier in 2017, clipped year to date butter and AMF shipments by 13% and 18% respectively.

US exports strong in November:

USDEC reports November dairy exports were the highest in more than a year – the result of record high whey shipments, strong cheese and milk powder exports, and improved sales of butterfat. On a total milk solids basis, US exports were equivalent to 16.1% of national milk supply in November, the highest share since October 2016.

During the first 11 months of 2017, total dairy export volumes rose 5% to 1.75mt while total value increased 15% to US\$5.01bn. For the year to date. Cheese exports were ahead 22% to 313,764t. Despite being highest since May at 55,044t, November NFD/SMP exports were still 1% lower in YOY terms as well as for the year to date period (547,602t).

World market expected to weaken:

Freshagenda's Q4-17 Global Dairy Directions (GDD) outlook examines the impact of glut of EU milk, building upon existing surpluses and stockpiles and the added complexity of the unraveling "butter crisis". Product mix will be important – while the spring flush usually bolsters SMP and butter availability, relative returns from product streams has altered significantly. Cheese markets are at greatest risk – and the US and Oceania markets won't be immune from the expected slide in values.

The other big variable – although not as important on a global scale – is the rapid drying out of New Zealand which has again prompted savage cuts to forecast milk production. But will it? The rain events in recent days may provide the relief needed to save shoulder milk production.

Mixed trends in Aus exports:

Australian export trends were mixed for the January to November period. SMP exports fell 1.4% for the period, with increased exports to China & HK not offsetting falling shipments to Asia and the Middle East. WMP exports fell sharply for the year to date – down 24%, mostly driven by weaker shipments into Asia.

Butter and butter oil shipments were drastically lower, down 48% and 45% respectively on the comparative – reflecting limited supplies. Between January and November, total whey shipments were down 23% to 30,631t. Cheese exports were ahead 2.2% - weaker exports to North America were more than offset by stronger shipments to Asia.

Friesland lowers milk price:

Dutch dairy company FrieslandCampina has lowered its guaranteed raw milk price for January 2018 to €37.5/l, down from €41.5/l in December. In a statement, the processor said it expects milk prices of the reference companies will drop in January as increasing supply weighs on dairy product values.

US cheese, butter stocks decline in November:

USDA's Cold Storage report reveals American cheese stocks fell 3,279t between October and November, but remain historically high. November American cheese stocks were reported at 332,562t, 12% above the 5-year average and 2.8% higher in YOY terms. Other-than-American cheese (including Mozzarella) stocks fell just 927t between October and November – this was still 11.9% higher in YOY terms and 27.8% above the 5-year average, reflecting a weakening foodservice sector. Natural cheese stocks were at record highs in November.

Butter stocks were lower in YOY terms for the eighth consecutive month in November at 72,041t – this was still 22.1% above the 5-year average.

Beef and Lamb News

Year of the lamb tipped:

Lamb markets are strengthening just as beef prices wane in Australia. The lamb market hasn't skipped a beat over the festive season and is now in record price territory of almost 700c/kg carcass weight, with farmers reaping the rewards. In contrast, the national average price for heavy steers is barely clinging to 5000c/kg carcass weight after peaking at 600c/kg in 2016. This isn't

the greatest price spread that has occurred in recent years, and prices for weaner are still historically strong. But it reflects producer sentiment as the hype switches from cattle to sheep.

Lamb slaughter to rise:

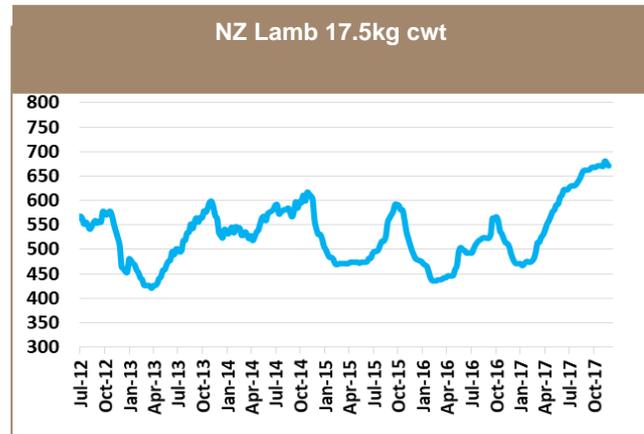
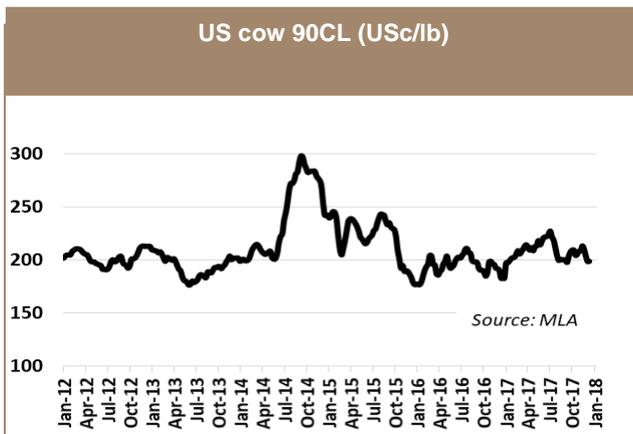
The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) peg Australian lamb slaughter to be 3% higher in 2017/18. The higher slaughter numbers are a result of growth in the flock, driven by lower lamb turnoff last year. The Bureau forecast the national sheep flock to finish 2017/18 at 72.6m head, 3% higher than June 2017 and a four year high.

Australian beef and veal exports exceed 1mt:

Despite falling below the previous year's exports, Australian beef and veal exports climbed over the 1mt mark for calendar year 2017, for only for the fifth time in history. In December, total exports reached 1,014,911 tonnes, just 3,190t short of 2016, but still 21% behind the drought years of 2014 and 2015, where turn-off set records. Australia's three largest export markets – the US, Japan and Korea took 193,000t less beef in 2017 than they did in 2015. Beef exports to the US dropped 3.3% in 2017 compared to the year before and South Korean exports fell a full 17%. Meanwhile Japanese exports jumped 10%.

Rabobank: US production to rise, exports up by 7%:

In its latest beef quarterly, Rabobank projects US beef production to rise for a third year running, which will result in increased exports. Meanwhile, Brazilian export volumes are also expected to rise around 5%, after jumping 5.3% from January to October last year. In Brazil, 11 beef plants are in the final stages of gaining accreditation to access Chinese markets. China is expected to ramp up imports by 20% in 2018 after rising 15% in the first nine months of 2017.



Feed and Arable News

Positive signs for 2018 wheat market:

Mercado sees some positive signs for the wheat market as 2018 opens, with the wheat futures market gaining since Boxing Day. The market is pricing in weather risk to the US crop, after a series of cold weather events which are likely to have caused damage, as snow cover was inadequate. This follows USDA crop progress reports indicating most states are showing substantial year and year reductions in the good to excellent category, the snap cold weather events are likely to result in further downgrades.

New crop hay snapped up:

Savvy buyers have snapped up supplies of new crop hay, with grower who committed early in the season achieving between \$188 and \$205/t for top grades of oaten hay delivered to exporters. This has freed up storage capacity for old crop hay, which has been a challenge for the industry. Shredded hay is selling at a \$30 to \$40/t premium to equivalent hay stored outdoors, the discount is likely to increase as summer rains permeate bales.