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31 January, 2018

New Zealand Dairy News

Weather improving?:

After hot and dry conditions affected milk supply during December (particularly on the North Island), weather in January has improved with rainfall in many key dairy regions. Moreover, much-needed follow up rains are expected to hit New Zealand on Thursday this week as the remnants of ex-cyclone Fehi as it makes landfall, but it appears the impact will be much greater on the South Island while the North Island will largely miss out or get moderate rain. In fact, heavy rainfall is expected prior to and during landfall, especially in the southern part of the West Coast, where 12-hour rain accumulation is estimated to be around 200mm on Wednesday night and could go even higher into Thursday. Locally heavy rainfall over 30mm or even 50mm per hour is possible. Flooding and slips are likely.

With strong farmgate prices and use of supplementary feed where available, milk production could recover for the rest of the season, but it is still dry in some parts of the country according to NIWA. With lower farmer confidence, cow culling has increased considerably and was up nearly 32% through to week 12 of the 2017/18 beef season.

Synlait holds price:

Synlait maintained milk price forecast of NZ\$6.50kgMS for 2017/18. In a market update, the dairy company said the forecast depends on commodity prices continuing to firm for the rest of the season. Chief executive John Penno believes there may be a period of price stability over the coming months, but says global pricing remains unpredictable. Penno said a strengthening outlook for the global economy, rising general commodity prices and a reduced local milk production forecast have firmed.

Open Country to open 7th plant:

New Zealand's second largest dairy processor and exporter Open Country Dairy (OCD) seventh plant will start receiving milk in late August. The Horotiu, Waikato plant is company's seventh in 14 years. OCD chairman Lurie Margrain said the plant is about the same size as the dairy company's original plants at Whanganui, Awarua and Waharoa. Margrain said the plant will produce food ingredients, customised according to OCD's clients and market specifications. The Horotiu plant is on a consented site owned by OCD for several years, and has been built as existing plants reach capacity and export demand grows.

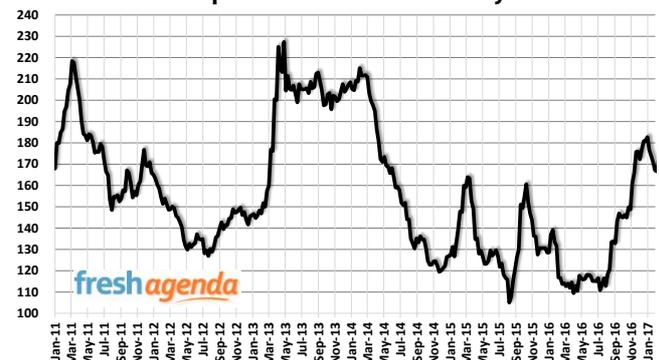
Solid sales of dairy farms in November:

Supply outstrips demand in an inconsistent and volatile rural property market according to the Real Estate Institute of New Zealand (REINZ). REINZ data shows sales were down 21% in the three months to 31 December 2017, compared to the same time period the year prior. However, dairy farm sales fared better, with 45.5% more dairy farms sold in 2017, compared to 2016.

NZ Dairy Export Index

Index drops –The NZ dairy export index fell slightly due to a stronger NZ\$. Spot quotes from Australasian exporters were steady. Butter remained at US\$4,940/t, while SMP sat at US\$1,835/t. WMP hovered at US\$3,000/t and cheddar at US\$3,550/t. The NZ\$ rose just under 1c to **US\$0.7348**, sending the index down by **1.68 points** to **154.89**.

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.

The median price per ha for all farms sold in the three months to December 2017, increased 5.4% to NZ\$29,266/ha, compared to NZ\$27,774/ha the year before. REINZ rural spokesman Brian Peacocke said sales figures for the December quarter were very much a reflection weather and prices impacting the sector.

Levy won't change much:

Climate change minister James Shaw has proposed making agriculture accountable for 5% of their emissions through the Emissions Trading Scheme (ETS). The tax would be collected by processors and amount to a carbon price of NZ\$22/t. The minister estimates it would cost the sector NZ\$44m per year, an average dairy farm would pay NZ\$1,500 per year. However, Dairy Companies Association chairman Malcolm Bailey said collecting tax on behalf of the government masked the level of emissions in individual farms and wouldn't encourage management practice changes. The government plans to invest any revenue collected back into the sectors.

Two more M. Bovis cases:

Two more properties in Wimate and Southland have been *Mycoplasma bovis*, bringing the number to 20. The number of properties under restricted place notice, which effectively placed them in quarantine has risen to 35. There are now six farms confirmed with the bacterial cattle disease in Southland, 11 in the Waitaki/Waimate districts, two in Mid Canterbury and one in Hawke's Bay.

Australian Dairy News

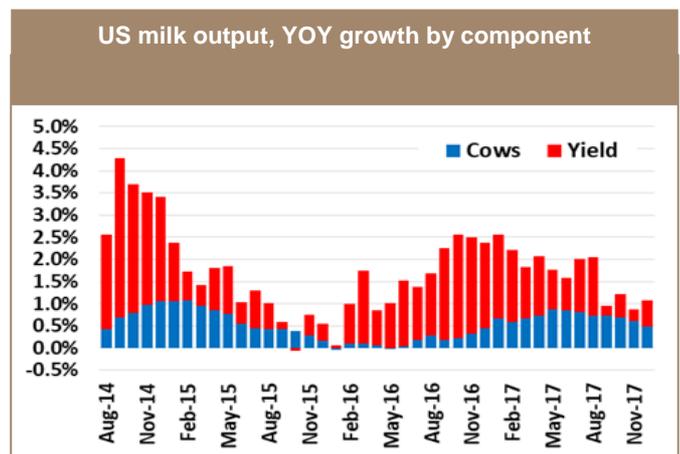
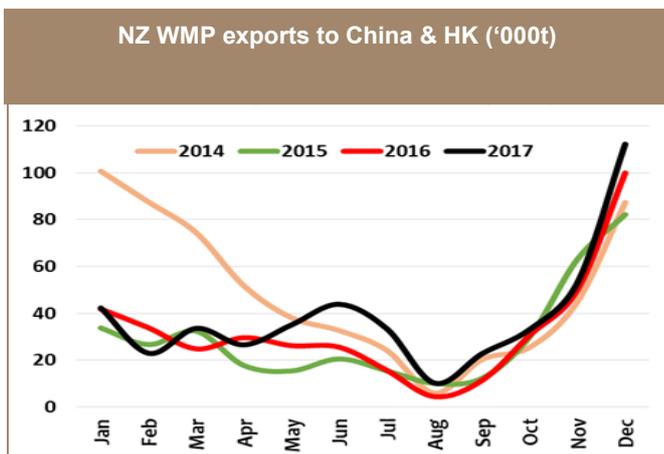
Wetter end to summer:

The Bureau of Meteorology's seasonal climate outlook for February to April indicates weak La Niña conditions will end during Autumn. February is forecast to be wetter than average for western and southern Australia, extending into southern Queensland. February to April daytime and night-time temperatures are likely to be cooler than average for parts of the western and southeastern mainland Australia, but warmer than average for Tasmania and northeast Australia. January's heatwave across the south east led to drying soils in many parts. Water storage levels in the the Murray Darling Basin and southern Victoria are lower than same time last year, while Tasmania and Western Australia's water storage levels are higher than last January. Warm water building up in the tropical Pacific may move east and break down La Niña patterns in the east. Warmer waters off Australia's north west coast can bring moisture into the atmosphere and across Australia. Near median to low streamflows are expected for Australia with low flows forecast in South Australia and Tasmania.

CMV continues downward slide:

Dairy analysts Freshagenda's commodity milk value (CMV) continues falling and now stands at A\$4.42kgMS. The CMV opened the season at A\$5.95kgMS and has tracked lower since, average A\$5.39kgMS for 2017/18.

The impact doesn't only reflect commodity prices, which have fallen 11% in weighted US dollar terms since the season opened. A strengthening Australian dollar has further eroded returns. The Australian dollar topped US\$0.80 this week, and gained 3.9% in January as forex markets responded to conflicting calls on the currency from the President Trump, and the US economy slows. While the US economy expanded by an estimated 2.6% in the final quarter of 2017, expectations were for 3% growth.



Global and Corporate Dairy News

NZ exports rise in December:

Following four consecutive monthly falls, New Zealand's WMP exports rose 10.7% YOY in December, bringing 2017 shipments in 0.2% down on the prior year. This was despite a 19% growth in WMP to China & HK, as shipments to Africa and South America over 2017 fell 36% and 27% respectively.

SMP exports rose 18% YOY in December, following four consecutive monthly declines. Over 2017, SMP exports fell 9.5% - shipments to China & HK accounted for 33% of the total and increased 20% over the period. Cheese exports fell 3% in 2017 but were marginally ahead in December, with stronger shipments to China & HK (up 6% YOY). Butter exports ended 2017 down 10% but rose 18% in December – the first monthly increase since June.

EU ministers approve intervention changes:

The widely-expected approval of the EU Commission's plan to avoid use of the conventional intervention policy from March to September 2018 occurred in the Ministerial Council meeting this week. The Council of EU agriculture ministers decided to temporarily abandon its practice of paying a set price for skimmed milk powder (SMP) going into intervention. The EU will no longer buy SMP at the fixed price of €1,698/t when the scheme opens for annual season on 1 March, and set the quantitative limitation for buying-in skimmed milk powder at a fixed price at zero tonnes for 2018, as proposed by EU Commissioner Phil Hogan.

US milk up 1.1% in December:

USDA's NASS reports US milk output rose 1.1% YOY in December, putting calendar year supply 1.7% ahead of 2016. Average yield per cow was up 0.6% YOY in December, while cow numbers increased 0.5% YOY – the lowest increase for 2017. This brought the number of milking cows in December to 9.4m nationally, 47,000 more than in December 2016 and 3,000 up on the prior month. After falling in September and October, the dairy herd expanded for the two consecutive months to December – this was despite reported farm exits - particularly in the west.

California's December output fell 0.3% YOY - and in each month during 2017 - but this was more than offset by increased supply in other key regions. Combined supply in desert states increased for the 19th consecutive month in December. Production in Texas rose 8.1% YOY in December, while output in New Mexico was ahead 3.1% YOY.

Milk output in the Upper Midwest was ahead for 45th consecutive month, but growth slowed in November and December. December production in the Northeast, Pacific Northwest and Southeast was below prior-year levels.

Canada's surge continues:

According to Statistics Canada, milk output was up 6.4% in the first eleven months of 2017. November output increased 7% YOY. Between January and November, fluid milk use fell 0.7% relative to the same period in 2016 to 2.55m litres and accounted for 31% of total milk supply.

With increased local milk production and falling fluid use, Canada's export availability has sharply increased. For the January to November period, SMP exports rose 203% to 65,483t but have fallen in each month since August. Over the same 11-month period, whey exports rose 41% to 62,110t while cheese exports were down 1.3% at 11,867t.

Beef and Lamb News

US imported prices lift:

Last week, US imported beef prices increased again due to low supplies, higher asking prices from overseas packers and a falling US dollar. The 90CL indicator closed at US\$2.075/lbs CIF, up 1.7% on the week before. Trading conditions are difficult, according to market participants, as large supplies of US fed cattle, dry conditions in Australia and weak dairy prices in New Zealand prompting a bearish "wait and see" approach from buyers before covering March and April requirements. If larger New Zealand cow slaughterings fail to materialise, there could be a temporary upward pressure on prices, at least through to March. In their weekly report, the Steiner Consulting Group noted some nervousness in the market, as it speculated there are many short positions that will eventually have to be covered.

Advantage Aus and NZ beef farmers with CPTPP:

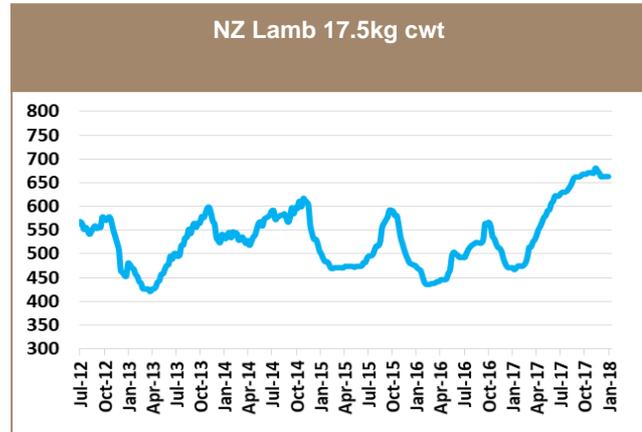
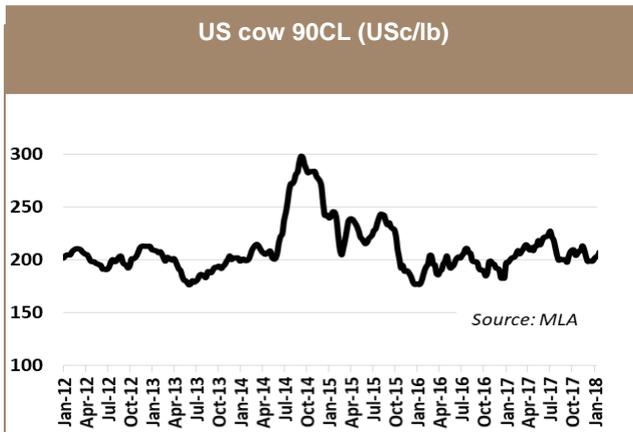
Beef farmers on both sides of the Tasman are singing the praises of the newly minted CPTPP deal, which is set to bring down tariffs, speed up export processes and improve market access to new and existing export markets. New Zealand beef farmers gain an advantage in the lucrative market for top quality beef in Japan with the agreement. Since 2015, a free trade agreement between Australian and Japan saw tariffs drop from 38.5% to 27.2%, while tariffs rose to 50% for New Zealand in August last year. Australian farmers will likewise benefit from a reduction in tariffs and trade barriers.

NZ sheep farmers feeling the heat:

The heatwave across New Zealand's South Island has forced farmers to make to some tough decisions on destocking and replanting failed feed crops and pastures. In Otago and Southland drought conditions have been classified as a medium-scale adverse event. Pastures in the regions have died and recently sown crops haven't germinated or struck. Despite intense rainfall forecast Wednesday and Thursday, there are concerns soil may be too dry to absorb the moisture, potentially causing surface flooding. Meat processors in the affected regions are working to capacity as stock is sold off, according to Federated Farmers Otago province president Phill Hunt of Wanaka.

Australian sheep slaughter lifts in Nov:

Sheep slaughter jumped 28% YOY to 858,000 head in November, largely due to poor seasonal conditions over winter and at the start of spring which had seen a surge in processing. Sheep production increased in November, up 25% YOY to 21,870t cwt with average sheep carcase weights close to historical highs at 25.4kg. Meanwhile, national lamb slaughter was 3% lower YOY at 2.14m head. Lamb production was 6% lower compared to November last year, albeit off a high base. The national average lamb carcase weight was lower in November, averaging 22.1kg.



Feed and Arable News

USDA: Drought dents US winter wheat crop:

According to data from USDA, the condition of the hard red winter wheat crop has dropped as farmers in the Great Plains struggle with dry conditions. Dry conditions are expected to extend to February in the central and southern Plains. 14% of the winter wheat crop in Kansas is rated as in good or excellent conditions, the lowest end-of-January rating since 2008. Observers are concerned over the "shockingly low" ratings, but agree that the extent of the damage won't be clear until later in the season.

Australian wheat farmers benefit from CPTPP:

Australian wheat farmers stand to gain a huge advantage over their US counterparts in the lucrative Japanese wheat market after the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) was finalised. The agreement still needs to be signed and ratified, however, Rabobank senior grains and oilseeds analyst Cheryl Kalisch Gordon said the original TPP allowed an additional 192,000t of wheat into Japan from Australia, Canada and the US, increasing to 253,000t over 9 years. This advantage now goes to Australia and Canada alone.