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MYFARM™ INVESTMENTS

7 February, 2018

New Zealand Dairy News

PKE imports rise:

After New Zealand's palm kernel expeller (PKE) imports increased 49% in 2017 to 2.24mt. This was driven by increased reliance on supplementary feed to maintain production and offset the impact of dry weather conditions towards the end of the year. PKE imports for the year were also marginally ahead of 2015 comparables (2.22mt).

According to DCANZ data, national December milk collections fell 4.6% YOY (kgMS basis) but only declined 2.6% in volume terms with a 0.5% points difference between solids and volume in season-to-date collections.

Open Country revenue hits NZ$1bn:

Open Country's (OC) revenue grew 34% to NZ$1.1bn last year. However, profit fell as the high price of milk saw cost of sales rise faster. Milk payments rose 68% to NZ$852m. Meanwhile, inventories jumped to NZ$171.9m from NZ$106m and raw materials declined to NZ$26.6m from NZ$34m. Total inventory was NZ$205m on 30 September, up from NZ$146m a year prior. OC chairman Maurie Margrain said production of higher-value products such as cheese increased inventories.

Mataura sets August start:

Mataura Valley Milk will begin processing infant formula for the Chinese market at its McNab plant in August. Mataura general manager Bernard May said the dairy company plans to make highly functional and high value products to order. Suppliers will be able to share in the rewards of a business operating in the premium and super-premium nutritional markets.

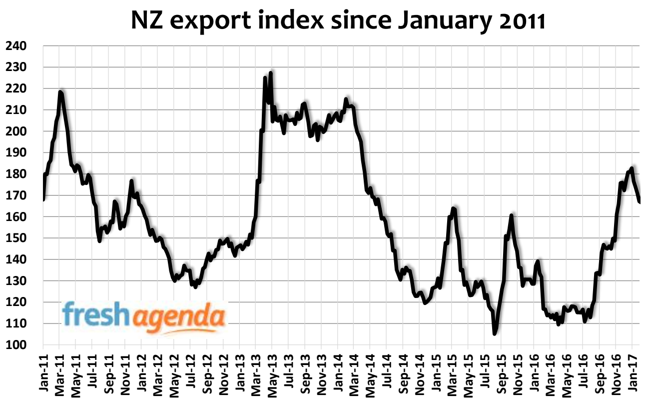
While May thinks Mataura's entry to market is positive, others worry about whether all plants in Southland can be filled. Dairy conversions in the region have slowed over the last three years and milk supply is forecast to be static. May said this meant higher value returns were essential. Mataura needs 500,000l of whole milk a day to produce its products. The general manager says the company is prepared to pay suppliers a very competitive milk price, with premiums and incentives to reward best on-farm practice.

Westland halts milk intake, farmers dump milk:

Damage from ex-tropical cyclone Fehi that swept across New Zealand, forced Westland milk to halt production at its Hokitika plant. The factory ran on limited power and was unable to process milk, diverting all collections to other dairy processors. Meanwhile, some farmers in the area were forced to dump milk because of power cuts and impassable roads. Flood damage to roads and felled trees made it impossible for tankers to get through to collection areas. A Westland milk spokesperson said

NZ Dairy Export Index

Index climbs – The NZ dairy export index rose due to stronger commodity prices. WMP spot price rose US$100/t to US$3,100/t. Butter climbed US$10/t to US$4,950/t and SMP lifted US$15/t to US$1,850/t. Cheddar prices added US$50/t to average $US3,600/t. The NZ$ steadied at **US$0.7324**, lifting the index by **3.51 points** to **158.39**.



***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.*

farmers had consent to dump milk for times of emergency. Despite the deluge, recent rainfall isn't expected to alleviate drought conditions.

Banks: Pay back time:

New Zealand's largest rural lender, the ANZ Bank expects the sector to come under increasing pressure in the next five to ten years – prompting the need for balance sheet repair now. "We do see there will be more capital needed to go into the industry's transition to better farming practices as regulations are clarified and investment made to support that over the five to 10 year period," said ANZ managing director commercial and agri, Mark Hiddleston. After a tough three years the conversation is changing, but according to specialist dairy accountant Nigel McWilliam, the pressure on cashflow is relentless.

Australian Dairy News

MG reports first-half profit:

Murray Goulburn (MG) released their half-year results with a normalised EBIT of $47.7m compared to $23.2m in the first half of the 2016/17 financial year. Revenue fell 5.1% to $1.1bn as milk intake fell 29.9% to 1.1bn litres for the half. The statutory net loss after tax of $27.5m includes $62.7m in non-cash adjustments to comply with accounting standards related to the announced Saputo transaction. Normalised profit after tax was $14.4m excluding non-cash tax adjustments. MG's net debt at 31 December 2017 stood at $474m, with a gearing ratio of 38.8%.

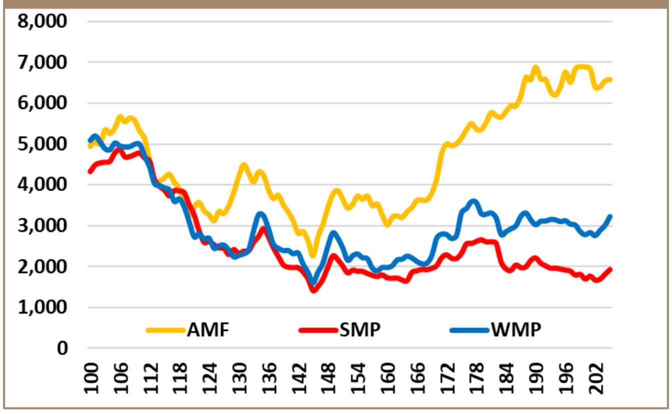
Subject to completion of the Saputo transaction, MG maintains its forecast milk price of $5.60kgMS, based on a $41.9m (post tax) deviation (worth about 29c/kgMS) from the Profit Sharing Mechanism utilised to maintain and underlying FMP of $5.20kgMS. For the purposes of the Profit Sharing Mechanism the Actual Weighted Average Southern Milk Region FMP for the 6 months to December was $4.92kgMS.

ACCC delay:

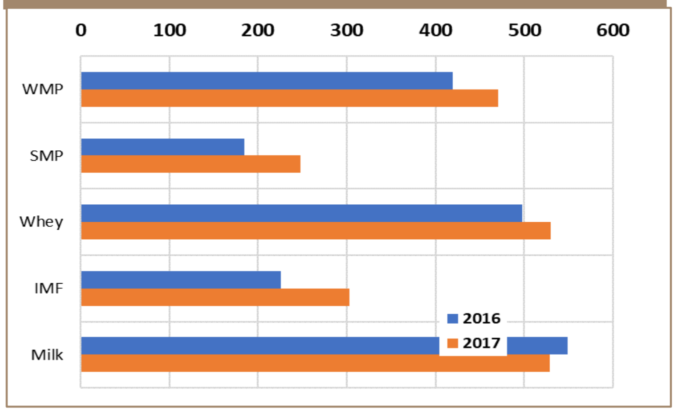
The Australian Competition and Consumer Commission (ACCC) has extended the provisional date for the outcome of its review of Saputo's acquisition of Murray Goulburn's (MG) operating assets. ACCC's decision is expected on 1 March 2018 instead of 15 February 2018. According to an announcement from MG, the delay in the regulatory process is not unusual due to the size of the transaction and the timing - over Christmas.

Meanwhile in a letter to its suppliers, MG said an Explanatory Memorandum will be sent to shareholders, including details of the extraordinary general meeting for voting on the proposed transaction. MG will start a round of supplier meetings after the distribution of the explanatory memorandum, giving shareholders the opportunity to ask questions regarding the memorandum and the cooperative's half-year results. The transaction is expected to be completed in the first half of 2018.

GDT weighted average auction prices by event, US$/t



China imports (tonnes)



Global and Corporate Dairy News

GDT prices jump 5.9%:

The GDT price index jumped 5.9% at this week's GDT auction as all commodity prices increased on a smaller offering of 22,197t. Supply concerns helped boost WMP prices 7.2% to average US$3,226/t, with all contracts higher - the largest increases were for March and April deliveries, up 9.1% and 9.2%, respectively. SMP averaged US$1,932/t, up 6.3% from the prior event. All contracts lifted, with a 19.1% increase recorded for the March contract.

Butter prices rose 7.8% to average US$5,277/t. All contracts gained, with deliveries in April and July up most 8.3% and 8.8%, respectively. AMF prices increased 0.5% to average US$6,581 with small rises for contracts in the near term, while June and July contracts rose 1.2% and 1.4%, respectively. Cheddar rose 7.3%, averaging US$3,739/t. The March contract recorded the greatest lift of 16.1%.

EU milk prices drop:

Higher production across EU is prompting major processors to reduce milk prices. Milcobel reduced its price with €2 to €33.01/100kg and Muller's decreased €1 to €37.76/100kg in December.

In January, Arla, FrieslandCampina, Royal A-ware and DMK announced price reductions of €4/100kg - €5/100kg. Both Arla and FrieslandCampina have announced further reductions in February milk price of €2 and €1.7, respectively, and it is expected there'll be another healthy drop announced by DMK. Dairy Crest announced a €2/100kg drop in payments for standard raw milk in February for its cheese plant at Davidstow.

US SMP output slows in 2017:

The USDA NASS Dairy Products report indicates SMP production fell 8.8% YOY in December and 4.3% over the full calendar year. NFDM output was up 4.4% in 2017, while combined SMP and NFDM production rose 2.3%. Butter production rose 0.6% in 2017, with output picking up significantly over Q4-17. Total cheese output rose 2.9% in 2017. This was broadly in line with the expansion in available "manufacturing milk", with a 3.5% growth in production of American cheese (Cheddar, Colby, Monterey Jack) and a 2.5% growth in other varieties such as Mozzarella.

After a slow start to the year, WPC production ended 2017 ahead 4.6%, with most of the growth coming from WPC 50-89.9%. Dry whey output increased 8.6% in 2017, but growth slowed over the last quarter as manufacturers adjusted product mix towards more profitable options.

China imports increased in 2017:

China's dairy imports rose 12.9% in 2017 to 2.58mt. Import value increased 37.4% to US$9.01bn. Milk powder imports increased 16.8% for the 12-month period to 222,889t – infant formula accounted for 35% of this growth, followed by SMP and WMP at 28% and 23% respectively.

Cheese imports rose 11.2% last year to 108,035t, while butter shipments rose 11.8% to 91,566t – this was despite record high global market prices. Average import prices of butter over the year rose 47% to average US$5,462/t.

Beef and Lamb News

US imported prices continues to lift:

Last week, US imported beef prices climbed higher again due to tight supplies from New Zealand in particular. The 90CL indicator closed at US$2.09/lbs CIF, up 0.7% on the prior week. Weather conditions have improved considerably in New Zealand, limiting supply availability. NZ packers are looking to fill orders from December and don't seem interested in US bids. Meanwhile, the US cattle inventory was the highest since 2009. Despite the high number of cattle and a 0.7% YOY increase since 1 January 2017, the herd inventory is slightly under expectations.

Australian cattle supply tight, slaughter to lift in 2018:

Cattle supplies are likely to remain tight in 2018 with only a small increase expected in adult slaughter as the herd rebuild continues. That's according to Meat & Livestock Australia's (MLA) 2018 Cattle Industry Projections. MLA said it was likely beef and cattle prices would come under pressure in 2018 as export competition intensifies and supply increases. However, the impact will partly depend on restocker activity and strength of the underlying demand for beef in Australia and overseas.

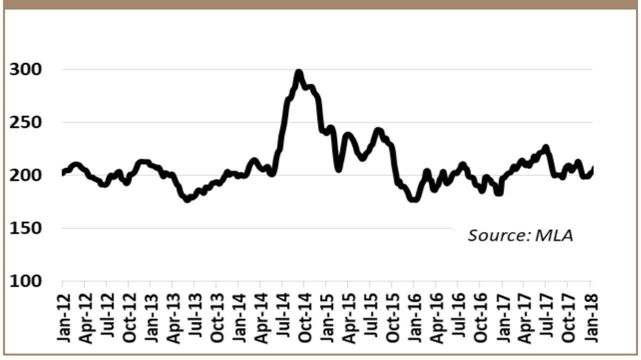
EU farm group fights Mercosur trade deal:

European farming lobby group Copa-Cogeca are working to stop the EU-Mercosur trade deal, worried that it will flood EU with cheap food imports from Latin America. Farmers fear increased beef and other imports, claiming that lower production standards could put their businesses at risk. Coga-Cogeca secretary-general Pekka Pesonen said a Joint Research Centre report indicated a potential trade deal could cost the EU agricultural sector over €7bn. Pesonen says 75% of beef imported into the EU is from Mercosur countries. Though Commissioner Hogan previously promised beef would be “off the menu” in trade negotiations, it is thought pressure from countries including Germany, Italy and Spain, who want the deal concluded, may have forced a change in position.

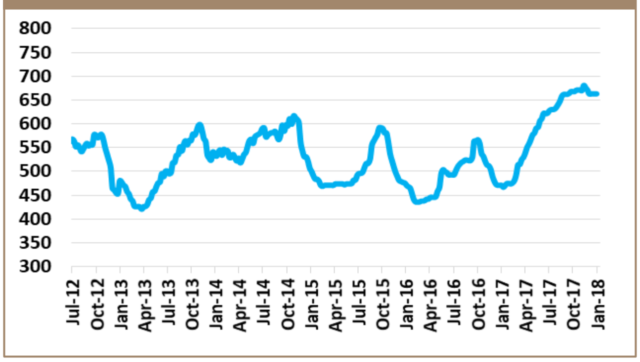
Brazilian live export ban overturned:

The Federal Justice of Sao Paulo has overturned an injunction banning live exports from Brazil. The injunction was put on a specific export of 27,000 head of cattle to Turkey to prevent exports of live animals “until the destination country adopts slaughter practices in line with Brazil’s”. Brazil’s Agriculture minister Blairo Maggi said the the court had found all of the government’s export permits “fully complied with the laws.” USDA estimates Brazil will export 430,000 head of cattle in 2018, a small proportion of the 38m slaughtered in the country.

US cow 90CL (USc/lb)



NZ Lamb 17.5kg cwt



Feed and Arable News

ADM in merger talks with Bunge:

Archer-Daniels-Midland (ADM) is in advanced talks to acquire commodity trader Bunge according *to The Australian Financial Review*. The companies have a combined market value of US$11.5bn. The rumoured deal would further consolidate the global agricultural trade industry, under pressure from years of bumper crops and falling trading profits. It is expected an ADM-Bunge merger would face significant antitrust hurdles in the US and even in China and Brazil. Both Bunge and ADM declined to comment.

Australian grains harvest hit by poor weather:

Extreme dry, late frosts and record rains have damaged crops all over Australia with Graincorp recording a drop of nearly 70% on last year’s crop in Queensland and northern NSW. According to Graincorp’s general manager Peter Johnston, a very dry late winter and spring impacted production. In Victoria, rains damaged both volume and quality of grain. But despite the rain, grain handlers in Victoria are back to average loads for the season. In Western Australia, grain handler CBH says the harvest turned around with late rains allowing the crop to recover. Meanwhilw, grain exporters report that high domestic prices and a strong Australian dollar are making it difficult to compete internationally.