AGRIGLOBE

The lastest agricultural news from New Zealand, Australia and around the globe.

MYFARM™ INVESTMENTS

- NZ PKE imports remain strong
- BoM: Warm and dry Aus autumn
- Another mixed GDT outcome
- US import prices ease
- Australian coarse grains to rise in 2018/19

7 March, 2018

New Zealand Dairy News

Pure Nutrition gets underway:

Blending and canning joint venture Pure Nutrition has started operations at Rolleston. The joint venture between Westland Milk Products and Chinese infant formula company Ausnutria will can milk powders and other nutritional products sourced from Westland for Ausnutria and other customers. The plant capacity is 30,000t of nutritional product per year at full capacity.

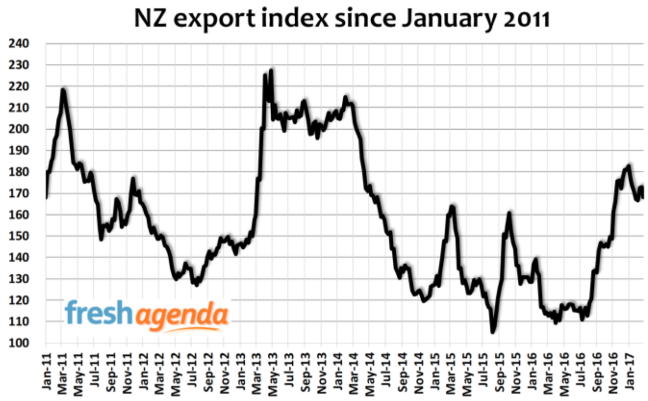
Pure Nutrition general manager Terry Wu said the plant had received certifications for export of non-infant formula from the Ministry of Primary Industries. The company's Chinese registration is pending and expected to be completed soon. Ausnutria invested NZ$4.5m with land owned by Westland valued at NZ$3m, accordingly Ausnutria has a 60% stake in the joint venture, with a 40% share for Westland. The companies have agreed to a five-year establishment phase, in which profits are reinvested into the business.

NZ PKE imports remain strong:

New Zealand's palm kernel expeller (PKE) imports increased 2% YOY in January to 198,599t. PKE imports were ahead 31% over the previous comparable 6-month period and 12% in the quarter to January. Fonterra will penalize its farmers for excessive PKE usage from June this year, which is likely to slow imports further in coming months.

NZ Dairy Export Index

Index edges up – The NZ dairy export index rose due to a weaker Kiwi dollar. Commodity values were unchanged; WMP sat at US$3,225/t and SMP remained at US$1,930/t. Butter stayed US$5,370/t, while cheddar recorded a price of US$3,700/t for a fourth consecutive week. The NZ$ fell just over 1c to **US$0.7236**, lifting the index by **2.32** to **168.59**.



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.

In 2017, PKE imports reached 2.24mt – up 49% on the prior year, reflecting increased reliance on supplementary feed to maintain production and offset the impact of dry weather conditions towards the end of the year.

Landcorp posts loss due to weather:

Government-owned corporate dairy farmer Landcorp posted a NZ$6m earnings loss for the second half of 2017, down from NZ$6.9m profit in the corresponding period in 2016. Landcorp said the impact of a wet spring followed by drought, resulted in increasing on-farm cost. Operating expenses increased by NZ$6.7m during the half. Milk revenue fell 8.5%, compared to the first six months of the year due to the weather-related fall in production.

Landcorp forecasts full-year earnings before interest, tax, depreciation amortisation and revaluations of NZ$33m to NZ$38m, down from the previous forecast of NZ$38m. In its statement, Landcorp said the revised forecast assumes "no further adverse weather conditions, no deterioration in foreign currency and current market prices to hold through the season".

Australian Dairy News

BoM: Warm and dry autumn:

In its latest Outlook, the Bureau of Meteorology (BoM) forecasts a warm and dry autumn. Lower layer soils moisture is much drier than usual in eastern Australia, meaning rainfall is absorbed rather than replenishing into water storages. Currently, the Murray-Darling Basin and South East Coast Victoria water storages are lower than the same time last year, while levels in Tasmania and South West of WA are higher than last February. Low or near median streamflows are expected in the south and east. Temperatures are forecast to be warmer than average for most of Australia during autumn.

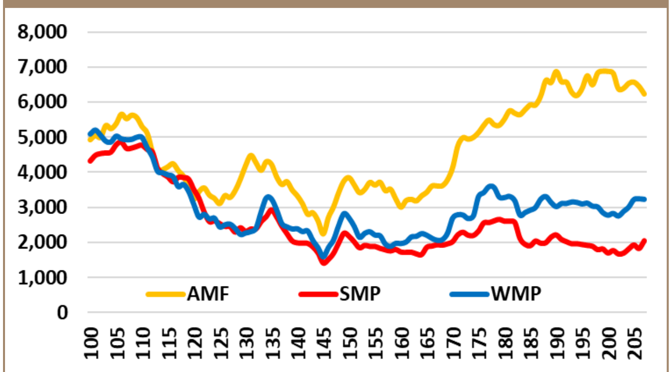
The weak La Nina pattern is breaking down. In the Tasman sea-surface temperatures are above average, which could bring moisture into east coast lows developing later in autumn or winter. However, BoM's outlook sees drier than average conditions for large parts of Australia with an average or later than average autumn break for parts of southern Australia.

MG vote set for 5 April:

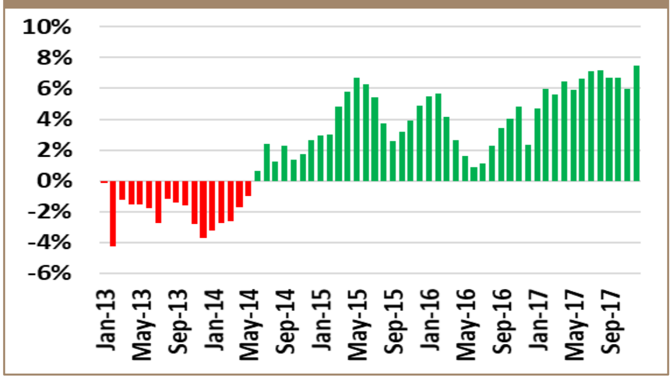
Murray Goulburn has advised shareholders that intends to issue and despatch its Explanatory Memorandum on 14 March to convene an Extraordinary General Meeting to be held in Melbourne on 5 April. The EGM is convened on the basis that the ACCC will accepts a divestment proposal from Saputo and clears the sale prior to the proposed date when shareholders can vote on an ordinary resolution to approve the Asset Sale. MG advised its shareholders that following completion of MG's reviewed 1H18 accounts and an updated management forecast for 2017/18, estimated net value per share/unit of the Asset Sale is now $1.15 to $1.20 (up from $1.10 to $1.15). The sale still needs approval from the Foreign Investment Review Board, and subject to that - and shareholder agreement - the transaction is expected to complete on 1 May 2018.

Last week the Australian Competition and Consumer Commission (ACCC) flagged concerns in its statement of issues that Saputo's acquisition of MG's Koroit plant in south-west Victoria would give it two-thirds of that region's processing capacity and lessen competition for milk supply. Competition concerns in other regions or in downstream dairy product markets are unlikely according to the ACCC. The ACCC invited further submissions in response to its statement and will announce its decision on 29 March. In response, Saputo has lodged a proposed undertaking with the ACCC in respect of a divestment plan for Koroit to address those concerns. MG advised suppliers and shareholders the proposed divestment doesn't affect the terms of the Asset Sale including Saputo's milk supply commitments.

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



YOY growth, Canada's milk output



Global and Corporate Dairy News

Another mixed GDT outcome:

The GDT price index fell 0.6% at this week's auction, with commodity prices mixed on a slightly larger offering of 21,180t. WMP prices averaged US$3,232/t, down 0.4% with a small increase for April deliveries and minor falls across all other contracts. SMP gained 12% to average US$2,051/t due to very large prices increases for April and June deliveries, up 44.8% and 10.8%, respectively – stretching the premium on Oceania-sourced product over EU and US competitors.

Fats retreated at this GDT event. Butter averaged US$5,280/t, down 1%. Most contracts were down, apart from June deliveries where prices edged up 0.2%. AMF prices slid 3.3% to average US$6,245/t with falls for all contract periods. Cheddar averaged US$3,759/t, up 2.0% from the prior event on mixed contracts. April and May contracts were up 4.7% and 7.4%, respectively.

Canada's milk surge continues:

According to Statistics Canada, leap year-adjusted milk output was up 6.4% in 2017 and picked-up over the second half of the year. December output increased 7.5% YOY – the highest monthly expansion during the past 12 months. Between January and December, fluid milk use fell 0.7% compared to 2016 to 2.8m litres and accounted for 31% of total milk supply.

We estimate that "manufacturing" milk increased 10% over 2017. Creamery butter production rose 35% in 2017, while cheddar output was up 5% to 408,269t and 780,845t respectively. SMP ending stocks were 53,981t, down 18,888t from the end of January 2017 as exports rose more than 200%.

Cold weather curbs EU milk growth:

European weather has been unusually cold, with blizzards expected in Italy, and parts of Germany well-below freezing temperatures. The most recent weekly data indicates milk supply remains healthy but is slowing – in week 7 (ending 18 February 2018) German production rose 2.7%, while French output increased 1.4% relative to the same week in 2017. This is the slowest expansion for both countries since late Q3-17. UK milk production increased 0.5% YOY in the first 24 days of February – this followed a 1.2% YOY expansion in supply during January.

Meanwhile, according the EU Milk Market Observatory (MMO) annual summary, milk collection rose 1.8% in 2017. Production of drinking milk fell 0.7% over 2017 and represented 19% of milk deliveries. With the availability of "manufacturing" milk rising 2.4% in 2017, manufacturers increased cheese production by 2% to 9.17mt. WMP output also increased - up 2.8% to 680,000t. Lower SMP output and increased production of cream for direct consumption, reduced butter supply by 0.4% in 2017.

US milk prices fell in January:

USDA's Agricultural Prices report indicates the all-milk price was US$0.37/litre in January. This was 6.4% lower than the prior month and 14.8% below the prior-year comparable. Income-over-feed costs (IOFC) also fell – down 13% between December and January. The outlook is for an improved farm profitability however – IOFC is projected to bottom in April before recovering in the period to October.

Meanwhile, during the first seven weeks of 2018, cow culling rose 3% relative to the same period in 2017 to 452,300 head. This reflects significantly reduced profitability, with most producers operating below cost of production.

Russia postpones Belarus ban:

Russia has postponed its ban on dairy imports from Belarus until 15 March. Russian Agriculture safety authority Rosselkhoznador says that temporary restrictions on a number on products such as milk, pasturised cream, sterilized and ultra-pateurised milk and cream, milk powder, cream powder, whey and other products from Belarus are the result of vetinary and sanitary violations.

According to Greenmark Dairy's weekly market update, it's rumoured Russia's strong lobby of farmers and processors, are urging the government to stop imports of dairy products from Belarus as they can't compete. Russian farm gate prices are currently around €36/100kg, while Belarus' farm gate price are €24.91/100kg.

Beef and Lamb News

US import prices ease:

US imported beef prices eased last week with the US90CL indicator closing at US$2.12/lb, down 1.2% from the week prior. Limited trading between overseas suppliers and US importers are challenging, with secure replacement product at a desirable price proving hard to find. Improved moisture conditions in New Zealand are expected to keep slaughterings low through until the end of March. This combined with strong demand for Australian product has limited beef available for the US market . US end users will likely have to wait for increased offerings and subsequent lower prices for product with May and June delivery.

NZ must respond to alternatives:

New Zealand's red meat sector must respond to the threat posed by alternative proteins with a clear strategy, according to a new report commissioned by Beef + Lamb New Zealand. The report found large-scale production of burger patties and mince could be a reality within five years. Environment and sustainability concerns, the use of animals in food production and the place of meat in the diet were some of the factors driving interest in meat alternatives. However, the report found there was untapped demand for naturally raised, hormone and antibiotic-free red meat – and consumers are prepared to pay a premium for it.

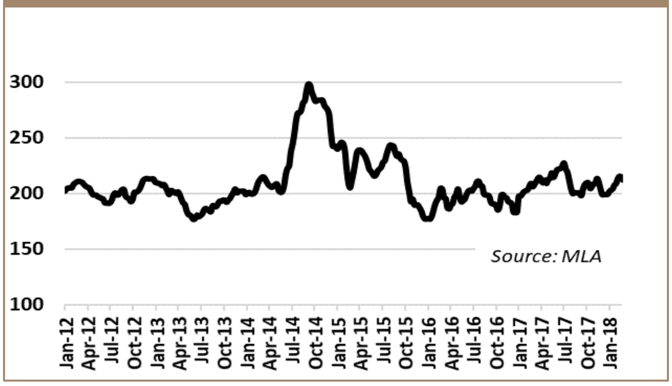
ABARES: Aus lamb, sheep to rise:

Agricultural researcher ABARES forecasts saleyard sheep and lamb prices and auction wool values to rise. Saleyard prices are are expected to increase by about 3% to average A$6.45/kg for lamb and 4.3% to A$4.59/kg for mutton in 2018/19. Prices are driven up by healthy Chinese demand, a lower Australian dollar and strong restocker buying. Lamb prices are expected to decline in the medium term, but remain 9% higher than the A$5.27/kg averaged over the five years to 2017/18. Growth in US and Middle East demand for Australian sheep meat is forecast to slow in the medium term consumer preferences change.

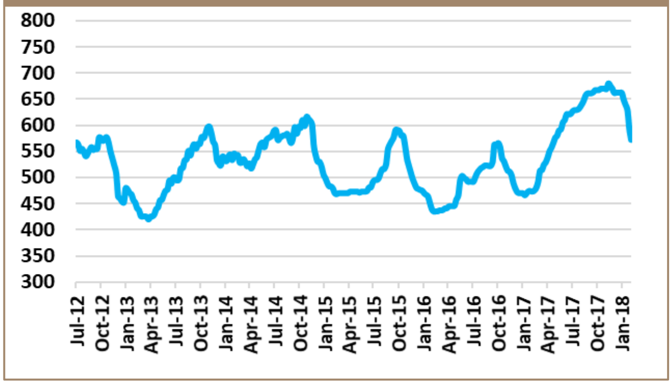
CPC on the block:

Australia's largest privately-owned cattle company Consolidated Pastoral Company (CPC) is for sale at an estimated price of A$1bn. CPC runs nearly 400,000 head of cattle across 16 stations, spanning 5.5m ha and two Indonesian feedlots. According to Northern Territory Cattlemen's Association president Tom Stockwell, the sale will generate interest from around the world from "people that are trying to get into the beef and live cattle supply game". The vendors are European equity firm Terra Firma, who advertised the business for sale "as a whole or in parts".

US cow 90CL (USc/lb)



NZ Lamb 17.5kg cwt



Feed and Arable News

Australian coarse grains to rise in 2018/19:

On the back of lower world wheat prices, Australian commodities bureau ABARES is forecasting domestic crop plantings in 2018/19 to favour coarse grains over wheat. Wheat plantings are forecast to be 12.18m ha - a three-year low, representing a decline of 61,000ha YOY. Coarse grains gowth is forecast at a four-year high to 5.58m ha. Australia's canola crop is forecast at 4.01m t, the third largest crop on record, allowing exports of 3.12mt, driven by low grain and falling pulse prices, which provides economic incentives to increase canola production.

Russian wheat rally to slowdown:

Russina agriculture consultants SovEcon forecasts a slowdown in Russian wheat price rises following a price increase of 9.7% for wheat export prices so far in 2018. The prices are at their highest since late 2014. SovEcon reported a 6.5% rise week-on-week to 209.5/t in export prices from last week. Prices of Russian wheat exports are higher due to the US drought, which according to the company may continue to support prices. However, SovEcon doesn't expect the price rally for Russian wheat exports to continue.