

- [NZ floods impacting outlook?](#)
- [Aus Exports marginally higher](#)
- [Another mixed GDT auction](#)
- [US imported beef dives](#)
- [Canadian farmland prices grow](#)

April 11, 2017

New Zealand Dairy News

Floods impacting outlook?:

Flooding in Bay of Plenty as a result of last week's Cyclone Debbie and the prospect of another in coming days will be affecting NZ milk supply. Dairy traders are expecting the wild weather that hit the North Island, especially Bay of Plenty last weekend to lead to lower dairy production. Financial markets director for brokerage firm, OMF, Nigel Brunel said fluctuating NZ production is driving the WMP market at the moment. Futures contracts for April through November lifted last week. Brunel said 50,000 cows or 20m kgMS are in the affected area and it will take months to clean up the damage and there will be an impact on grass growth.

New Maori factory planned:

A new Maori-owned factory is being planned for the Kaweru region modelled on Miraka. The new plant will produce milk powder using geothermal power owned by Putauaki Trust. The Putauaki Trust also owns dairy farms in the area, about 15 to 20 farms will supply the factory, with production to start in 2019. Maori leader Tiaki Hunia, chair of the Putauaki Trust is excited about the project. "We have seen what Miraka has done and we'd like to emulate this. The idea is... to utilise what we have -- clean natural resources with dairy farms locally."

Wetter and warmer April:

Heavy rainfall last week has pushed April rainfall forecasts above normal for most New Zealand regions, apart from Fiordland and Southland with near normal April rainfall forecast. Temperatures are expected to be unusually mild with well above average temperatures expected north of Taupo and above average temperatures for all other regions apart from the eastern South Island which should see close to normal April temperatures.

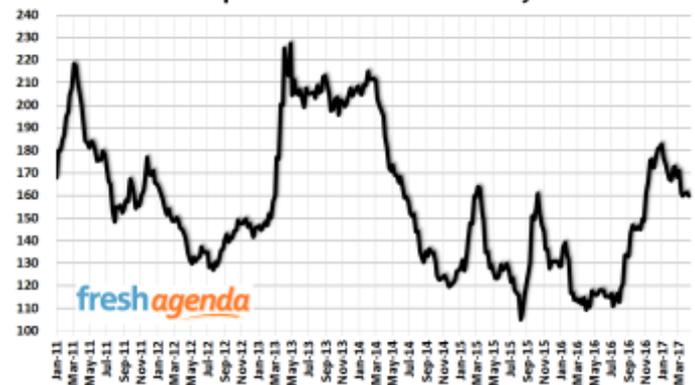
Fonterra goes to tech assurance:

Following losses in relation to Beingmate's fake infant formula scandals in China, Fonterra Cooperative has invested NZ\$20m on new technology which allows infant formula customers to track product contents. The new traceability system takes the shape of QR codes on its products, making it possible for customers to track the nutritional product components and find out more about the retailer selling the product. Fonterra's head of global consumer and foodservice division Lukas Paravicini said while changing regulations and the fake baby formula scandal made progress in China hard, it remains an important market for Fonterra.

NZ Dairy Export Index

Index down – Despite a weaker NZ\$, falling commodity values saw the index down 0.96% this week. Spot quotes from Australasian mostly trended down with WMP the week's exception, as the powder gained US\$10 to US\$ 2,900/t. SMP lost US\$90/t to US\$1,900/t and butter dropped US\$140/t to US\$4,860/t while cheddar lost US\$150/t to US\$3,400/t. The NZ dollar fell to **US\$0.6958**, shaving the index by **1.54 points** to **159.75**.

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.

Analyst: Dairy prices to track sideways:

ASB senior rural economist Nathan Penny expects dairy prices to track sideways before drifting higher later in the year based on the recent hectic period that has seen prices spike – either bottoming out or increasing significantly. At last week’s GDT event, SMP prices fell 0.8% while WMP increased 2.4%. Penny said strong US production, the early stages of an EU production recovery and high stocks were putting pressure on prices. WMP prices are expected to stay more or less the same as a lift in NZ production has already been priced in, however, Penny expects WMP prices will remain supported or even drift higher next season.

Australian Dairy News

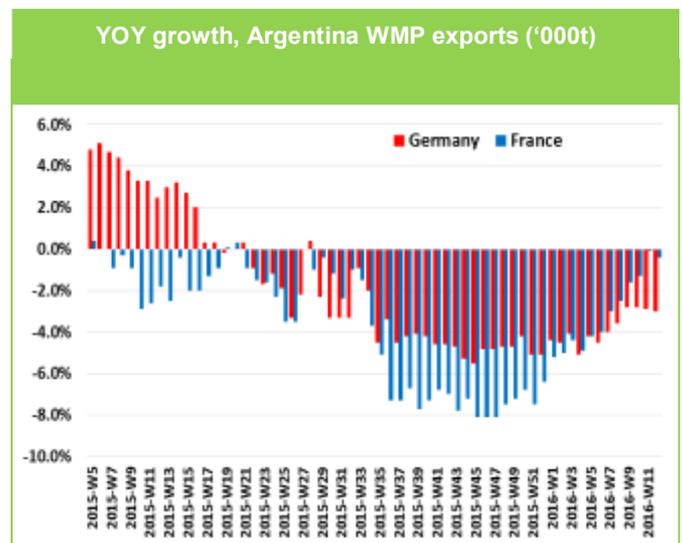
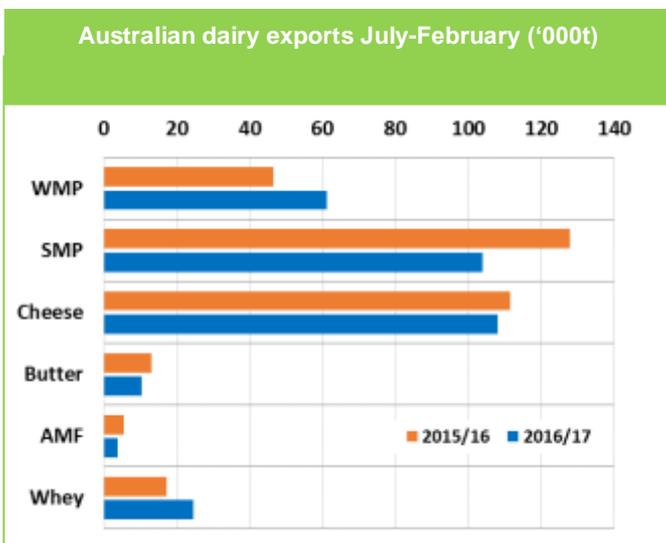
Exports marginally higher:

Dairy Australia reports total dairy exports for the first 8 months of 2016/17 increased to 526,443t, up just 0.2% on the same period in 2015/16, while value rose 0.3% to \$1.94bn.

There were mixed trends for powders with WMP exports up 32% while SMP exports dropped 19% for the period. Total cheese exports were down 3%, but with a 1.5% rise in cheddar and a 4.9% drop in other cheese varieties. Butter and butter oil shipments were drastically lower, down 21% and 33% on the comparative respectively. However, exports of whey and other dairy products rose in double-digits for period while mixtures were 3.7% ahead.

Drier and warmer days ahead:

Following last week’s Bureau of Meteorology (BoM) outlook for below-average April rainfall across southern Australia, many regions received a deluge in the past few days, particularly southern, central and mountain areas, while cropping regions largely missed out. Looking further ahead the BoM is tipping below average rainfall for the remainder of April through to June across southern Australia, but wetter for eastern NSW. The east coast and most of Tasmania are expected to experience average rainfall. Meanwhile, day and night time temperatures are likely to be above average for most of Australia. The BoM says the outlook is influenced by a warming of the tropical Pacific sea surface temperatures, and a cooler eastern Indian Ocean. Earlier this year, BoM moved its ENSO outlook to El Nino-watch.



Global and Corporate Dairy News

Another mixed GDT auction:

This week, the GDT Price Index rose 1.6%, on a smaller offering of 22,642t of product. WMP prices rose 2.4% to average US\$2,924/t with increases across all contracts apart from September delivery, which was down a marginal 0.2%. The smaller product release with some buyers covering short positions may have prompted the lift with pre-event futures

suggesting a flat result, but NZ milk is on the way up again. SMP prices continued recent form and fell a further 1.8% to average US\$1,913/t.

AMF climbed 2.4%, averaging US\$5,936/t, with later prices trending lower on expectations of improving product supply, but contract prices were inconsistent, as short-term prices were higher. There was more than a US\$500 difference between C4 and C5 prices. Butter surprisingly dived 3.2% to US\$4,751/t, and cheddar lost 3.5% to average US\$3,288/t.

US cheese, SMP exports higher:

The 2014 Farm Bill income-over-feed costs (IOFC) measure was at its lowest point during the last three months in February, USc23.3/kg, with a weaker all-milk price at USc40.8/kg and higher feed costs per the USDA's latest Agricultural Prices report.

As a result, subscribers to the Margin Protection Program (MPP) will not receive an indemnity payment as the milk margin calculated for February is greater than the highest insurance level of USc17.6/kg. Margins are still projected to improve over the coming months and will remain above the mean profitability levels needed to ensure additional growth in national milk supply.

EU supply continues to recover:

According to revised Eurostat figures, EU-28 milk production fell just 2.2% in January to 12,408m kg, after falling 2.8% in December and 3.6% in November. February Eurostat figures are currently incomplete, with only 33% of average production being reported for a total leap year-adjusted YOY growth of 0.2% - Poland's output was up 5.2% while production in the Netherlands and Ireland fell 0.1% and 4.5% respectively.

Meanwhile, more recent local data is pointing to improving trends for key producers. In week 12 (ending 26 March 2017), output in France fell 0.4% YOY and was down 0.9% over the past month. In the UK, cumulative March daily milk deliveries were 0.7% lower in YOY terms after falling 2.3% in February (leap-year adjusted). In Germany, YOY declines stabilized through the end of week 12 however, to average 2.9% over the last month.



Beef and Lamb News

US imported beef dives:

Last week, the 90 CL imported cow beef indicator fell after steady increases through March on limited supplies, closing at US\$2.115/lb, down 1.4% on the week prior, but still tracking 11.6% ahead of the same week last year. While limited spot availability out of Australia and New Zealand continue to be the main driver of the market, this week softer prices for domestic lean grinding beef, pulled import prices lower. In New Zealand slaughter for the week ending 11 March was down 29.9% YOY, but is anticipated to pick up in April. The Steiner Consulting Group forecasts exports to track 10-15% lower for the month. Australian beef exports to the US for March dropped 16% YOY.

China offer better access for US beef:

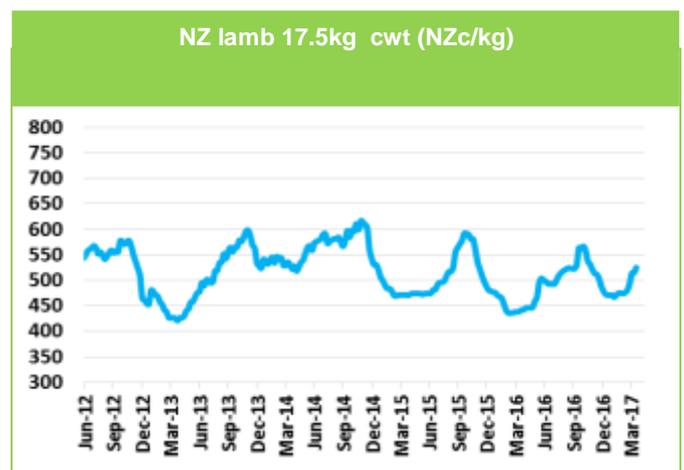
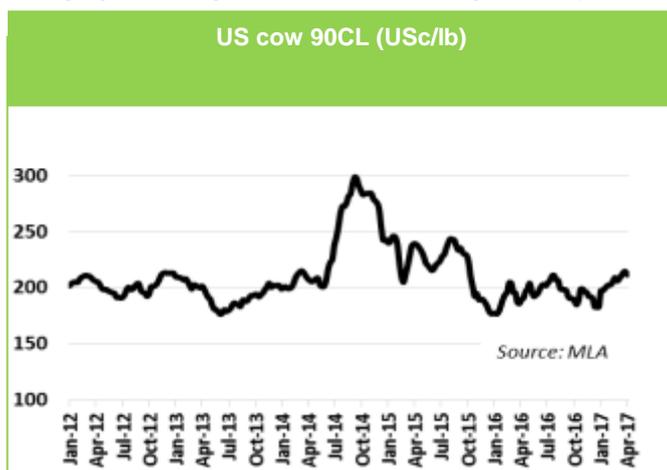
China is offering the Trump administration improved access for beef exports, an effort to avert a trade war between the two major economies. During Barack Obama’s administration, Chinese and US negotiators held several rounds of talks about a Bilateral Investment Treaty, which would remove some of the rising barriers to doing business in China experienced by US financial services companies as well as end a ban on US beef imports that has been in place since 2003. However, a comprehensive Sino-US investment treaty is still a distant prospect, both sides are hoping to achieve several smaller trade deals following a two-day meeting between US President Trump and Chinese President Xi.

Australian beef exports lag:

Australia exported 90,734t swt of beef in March, down 6% YOY due to ongoing supply constraints. However, shipments to Japan recorded the highest monthly volume since July 2013, up 18% YOY to 28,246t swt, and will benefit further from a tariff reduction under the Japan Australia Economic Partnership Agreement (JAEPA). Beef exports to China lifted 8% YOY to 10,623t swt in March. Other major markets were affected by supply constraints in the Australian market; exports to Korea declined 25% YOY to 12,160t, while volumes to the EU fell 29% YOY to 1,602t swt.

Aussie lamb prices set to skyrocket:

According to Meat and Livestock Australia (MLA) lamb prices in Australia will skyrocket this year as farmers keep more sheep on farm to build their herds this season. MLA is tipping the 2017 lamb slaughter will be 21.7m head, 2.7m lower than last year while mutton slaughter is projected to fall to its second lowest level on record at 5.8m head. Currently lamb, mutton and wool prices are all breaking or scraping record high levels with trade lambs between 18 and 22 kilograms averaging 614Ac/kg cwt, up from 557Ac/kg cwt the year before.



Feed/Arable News

Canadian farmland prices grow:

Canadian farmland prices posted gains in 2016 supported by a boost from a weak Canadian dollar and low interest rates. Canada’s biggest agricultural lender Farm Credit Canada said farmland prices rose an average 7.9% in 2016, unlike neighbouring US where farmland prices fell, down 1% in the Mid-West and 6% down in the southern Plains. According to FCC chief agricultural economist JP Gervais, strong demand for Canadian crops both domestically and abroad helped sustain increases in farmland values while surging farmgate values supported Canadian producers’ returns.

Saudi Arabia to become large corn importer:

A switch from barley in animal feed is set to spur a rise in Saudi Arabian wheat imports according to the USDA’s Riyadh bureau. Increased demand for processed feed due to its price competitiveness is the main reason for the decline in projected domestic feed barley. Demand for feed wheat comes at a time when imports of milling wheat are already spurred by population growth and domestic production is sidelined by measures aimed at water conservation. The USDA’s Riyadh bureau’s forecast sees overall wheat imports rise by 200,000t to a record 3.7mt while the bureau pegs corn imports at a record 4.30mt in 2017/18, a rise of 400,000t.