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July 11, 2017

## New Zealand Dairy News

### Fonterra struggle to meet winter demand:

Demand for Fonterra's UHT dairy products is outstripping its winter milk supplies, risking loss of market share to Northern Hemisphere suppliers. This year Fonterra's winter milk contract was priced at NZ\$2.85kgMS for North Island farmers on top of the milk price for the last two weeks of May. For all of June, the premium was NZ\$3.50kgMS before dropping to NZ\$2.85kgMS for the first two weeks of July. For any milk supplied from North Island farmers without a contract, Fonterra would pay NZ\$0.50kgMS premium for the last two weeks of May, NZ\$1.20kgMS over June and NZ\$0.50kgMS for the first two weeks of July. Fonterra announced in March that it will be expanding its UHT factory to meet up with this demand from April next year. The coop may need to revise its incentives to ensure the risk for suppliers to change their systems is adequately rewarded.

### Hill: emissions comparison needs a wide view:

Fonterra senior executive Jeremy Hill has called for a more holistic approach to assessing the impact of dairy on greenhouse gas (GHG) emissions. In New Zealand, agriculture accounts for 49% of total GHG emissions, with dairy almost half of that. New Zealand has some of the highest national GHG emission contributions from agriculture and dairy in the world. New Zealand agricultural emissions are four times the 12% average for developed countries. In fact, GHG emissions from agriculture contribute to New Zealand having one of the highest per capita emissions in the world at 17.2t CO2 equivalent - 1.5 times the global average.

Before casting dairy as the Kiwi climate villain, Hill points out that approximately 90% of dairy emissions are associated with consumption of products in other countries. In fact, Hill characterizes New Zealand dairy as a climate hero, with improved productivity reducing GHG emissions per unit of production on average by 1% per year since 1990. As a result, even with relatively long supply chains, the consumption New Zealand milk in some export markets — particularly those with developing rather than mature dairy farming systems — can result in a much lower carbon footprint than if that milk had been produced locally.

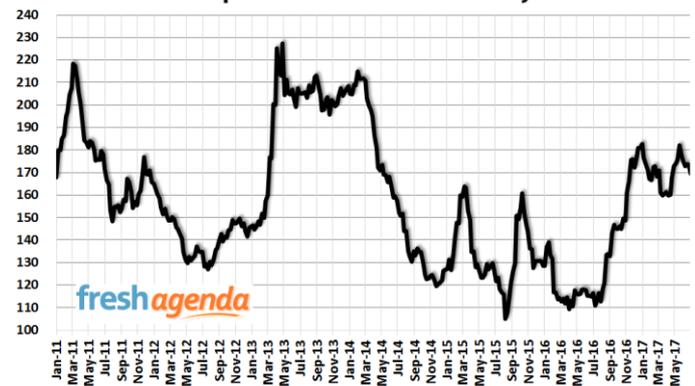
### Fonterra wants to improve waterways:

Fonterra has announced it will be taking more of a role in improving New Zealand's waterways by committing to work alongside regional councils, community groups and iwi to help restore 50 freshwater catchments. By putting together tailored environmental plans for each catchment, which could include Fonterra contributing to funding, expertise or people

## NZ Dairy Export Index

**Index edges up** – The NZ dairy export index rose 1.2% this week on a weaker NZ\$. Spot quotes from Australasian exporters were mixed; WMP lifted US\$50/t to US\$3,100/t, while SMP lost US\$50/t to US\$2,100/t. Cheddar shed US\$50/t to US\$3,925/t while butter maintained its status quo at US\$5,800/t. The NZ dollar lost over 0.5c to **US\$0.7266**, lifting the index by **1.99 points** to **171.4**.

### 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.

power to help improve water quality. Fonterra's Living Water partnership with the Department of Conservation launched in 2013 was aimed at achieving sustainable dairying in healthy freshwater ecosystems and according to chief executive Theo Spierings this initiative would amplify those results.

## Australian Dairy News

### Australian exports continue to track lower:

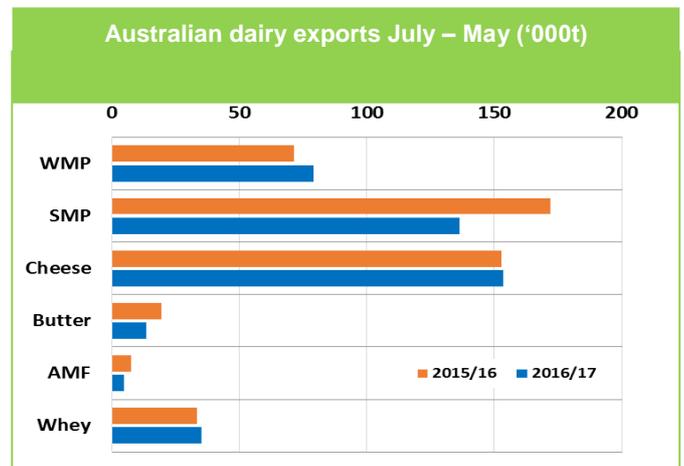
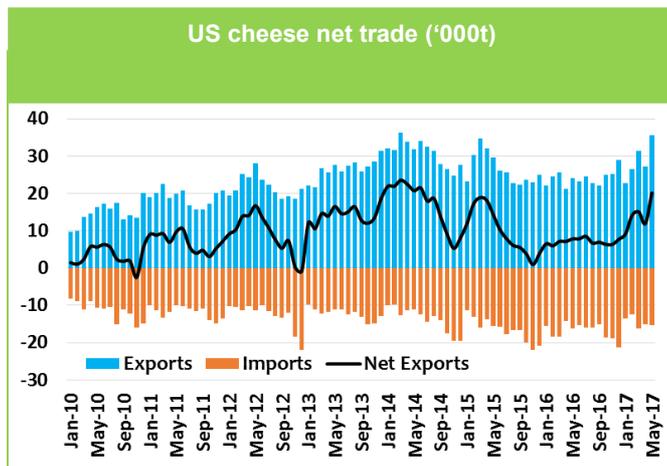
Australian exports for the 11 months to May 2017 were down 3.1% in volume on the same period in 2015/16, while value declined 0.6% to A\$2.72bn.

There were mixed trends for powders – WMP exports up 11% while SMP shipments were down 21%, given the unattractive prices. Milk was directed to maintaining cheese exports, which were up 1%, with a 4.5% rise in cheddar and a 1.2% drop in other cheese varieties. Butter and butter oil shipments were drastically lower, down 30% and 37% respectively on the comparative.

### Bellamy's Chinese export license revoked:

Shares in infant formula maker Bellamy's were halted on Friday, following news that Chinese authorities suspended the export license of its newly-acquired subsidiary Camperdown Powder Pty Ltd. Bellamy's bought a 90% indirect stake in Camperdown for \$28.5m, believing it would guarantee access to the Chinese market and form a key part of its turnaround strategy. The acquisition was settled just three days prior to the licence suspension. Bloomberg reports Chinese regulators suspended the license that procedures used to produce milk products exported to China were different to those for local consumption and the packaging was different from Australian products. Bellamy's shares were halted at \$6.74, having fallen from a high of \$14.68 last year.

Meanwhile last week, the Australian Securities and Investments Commission (ASIC) released a combined notice of appointment and first meeting of creditors of company under administration for Camperdown Dairy, appointing Craig Shepard and Jarrod Villani of Korda Mentha as joint administrator.



## Global and Corporate Dairy News

### US exports continue to rise:

US cheese dairy were up 22% YTD (Jan-May) to 142,448t, with May the second highest volume month on record. Among major destination regions, cheese exports to Asia were up 27% YTD and shipments to North America rose 14%. Cheese shipments to Mexico were ahead 12% YTD at 44,642t. According to local sources, US cheese exports will grow, given favourable price differentials against European cheddar.

NFDM/SMP YTD shipments rose 22% to 263,298t, adjusting for misclassification of shipments to Mexico. Total whey exports increased 18% YTD to 216,700t, with double-digit gains across all sub-categories except WPI (+9%). May lactose shipments were the lowest in 28 months with weaker demand from Japan and China – the YTD total was down 1% to 143,054t. Butterfat exports remained insignificant at 8,471t YTD, down 28% relative to the same period last year.

According to USDEC, the total value of exports increased 22% between January and May to US\$2.3bn. On a total milk solids basis, US exports were equivalent to 14.2% of US milk production YTD, up from 13% compared to the same period in 2016.

**EU Milk supply improving:**

Milk output growth in key Western EU countries is recovering after abnormally hot temperatures affected dairy cow comfort in June. In week 24 (ending 18 June), German and French supply fell only 1.5% and 1.4% YOY respectively – a significant trend improvement from a month ago. Moreover, UK milk deliveries in the week ending 24 June were on par with prior year comparables.

Eurostat May data is only partially available, but YOY supply increases were reported by some key producers such as Ireland and UK – up 7.3% and 1.3% YOY respectively. Polish output was again ahead on the prior year, up 3.1% for the month. In the Netherlands, YOY supply cuts continued to be marginal – May output was down 0.7% after the 0.4% drop in April. At the time of writing, we estimate that the countries reporting May data to Eurostat jointly account for about 45% of total EU milk with their combined supply up 1.5% YOY. Total EU April milk production growth was revised upwards to a 0.55% YOY growth.

**Canada's SMP exports surge:**

With increased local milk production and falling fluid use since the start of the year, Canada's export availability has sharply increased. During the first 5 months of 2017, SMP exports rose 281% to 19,925t, with 17% of total shipments destined for Egypt, 12% for Cuba, 11% for Algeria, 9% for Philippines and 7% for Indonesia. A total of 8,050t of SMP was exported in May alone, the highest single month volume on record. Over the same 5-month period, whey exports rose 66% to 27,929t. Cheese exports remain relatively low, with a 15% decline YTD to 5,708t. According to Statistics Canada, leap year-adjusted milk output was up 5.8% in the first 4 months of 2017, while fluid use fell 3.4%..



**Beef and Lamb News**

**US import prices at record high:**

US imported lean grinding beef prices held firm yet another week due to 4th of July and a short week of trading. The US imported 90CL cow beef indicator lifted 1.3% from the week prior, closing at US\$2.2275/lb CIF and tracking 11.2% ahead of the same week last year. According to the Steiner Consulting Group, trading lifted in the latter part of the week due to the national holiday falling on a Tuesday. Seasonal decline in New Zealand slaughter and the ban on Brazilian beef imports have seen US end users turn to Australia for supplies, but sharp competition from Asian markets have seen lower bids from US end users dismissed.

**Australian beef exports feel supply pinch:**

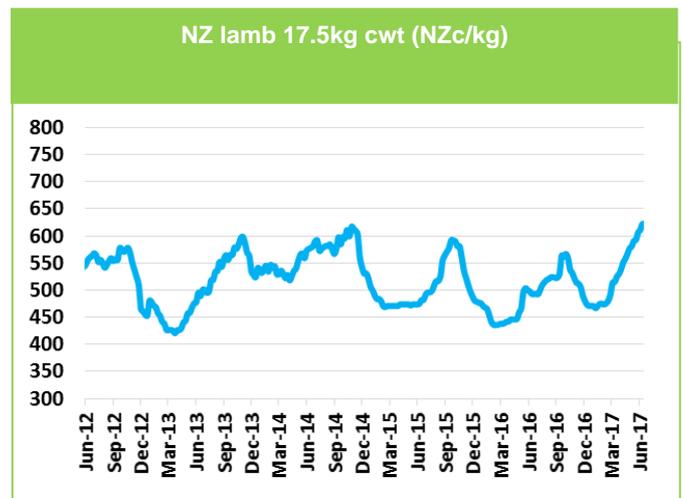
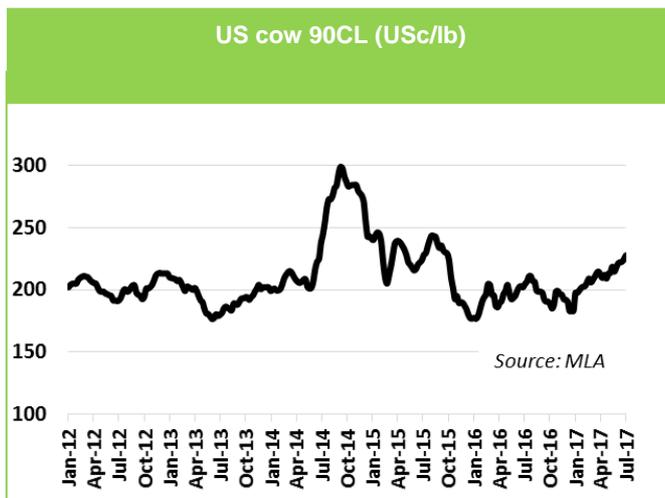
Beef availability for export has been considerably reduced over the past 12 months as the Australian herd rebuilds following drought-driven herd liquidation. For fiscal 2016/17, Australian beef exports have slipped below the 1mt mark for the first time since 2011/12 with volumes down 17% YOY to 963,000t swt. Beef exports to China declined 24% YOY and exports to the US also fell significantly - down 37% YOY. Japan was the only major export destination to record an increase in the year to June 2017.

**Brazilian beef giant rejig:**

Brazilian-based meat group BRF has made changes to its business, leading to a more “effective functioning of a global organisation.” It has created 14 vice-president posts and made changes to the way it manages its international operations. Previously its international markets were divided into Asia, Europe, Americas and Africa, but going forward business will be conducted under a single trading unit. The rejig of BRF’s organizational structure follows “deeply unsatisfying results” in 2016, where the company made a net loss of BRL372m after a quarterly loss of BRL460m in Q4.

**Record Australian lamb exports to China:**

Another strong year for Australian lamb exports in 2016/17 with volumes reaching 240,000t swt, down 1% of the record volume shipped in 2015/16 and 11% above the five-year average. Across major market destinations, the Middle East and US still absorb the bulk of Australian lamb shipments, despite a 13% fall in YOY lamb shipments to the Middle East in addition to a 2% fall in shipments to the United States. Asian markets were the strongest performers in terms of growth. China exports reached 42,594t swt, up 18% from the year before. Meanwhile, shipments to Korea surged 59% from the prior year to 12,156t swt - the growth was underpinned by reducing tariff regimes and stronger demand for Australian lamb in the foodservice sector.



**Feed/Arable News**

**Smallest Australian wheat crop in a decade?:**

National Australia Bank (NAB) has forecast a 23.3mt Australian wheat harvest in 2017/18, undercutting estimates from the International Grains Council of 24.8mt and USDA’s forecast of 25mt. NAB pointed to lack of rain, and expects further downside risks to the outlook if dry conditions persist. Last season’s record harvest of 35mt is long gone as growers and traders agree national wheat production could fall even below 20mt - the lowest in 10 years.

**FAO: Cereal prices has risen at highest pace in three years:**

The United Nations Food and Agriculture Organization (FAO) has lowered its forecast for wheat production in 2017/18 by 3.3mt to 739.9mt due to dryness in Europe. Despite trimming its estimates for wheat inventories at the end of the season wheat supplies are at a record high, but FAO warns supplies of high protein wheat could become tighter in view of a deteriorating crop outlook in the United States. Abundant global supplies of cereals overall due to record corn harvests across South America will see markets of major coarse grains well supplied.