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July 19, 2017

## New Zealand Dairy News

### Butter increase at gDT auction

At the latest global dairy trade auction last night prices rose slightly by 0.2 per cent, setting an average price of US\$3387/kg. Butter made the biggest gains increasing by 3.4 per cent.

This follows two slight dips at the last two auctions after six consecutive rises. The whole milk powder price rose 0.3 per cent to US\$3114, while skim milk powder was down 3.2 per cent, and cheddar up 1.6 per cent.

### MyFarm launches new service

As a result of growing demand from farmers outside the MyFarm group of dairy farm syndicates, MyFarm has opened up its farm business management services to all New Zealand dairy farmers.

MyFarm Business services include Financial Management, Farm System Analysis, Farm Business Management, Equity Raising & Succession Planning, Strategy and Governance

### Peak cow?:

Livestock Improvement Corporation (LIC) chief executive Wayne McNee says New Zealand has hit "peak cow" due to economic and environmental pressures. As a result, LIC is forecasting zero growth in the Kiwi herd over the next five years. Over the past 23 years, an extra 100,000 cows were added to the national herd every year on average — an extra 2.3m cows over the period. McNee says the LIC forecast is corroborated by other information and what others in the sector are saying. "We are seeing stabilisation; it may vary region to region - some will grow, some won't." McNee says reaching "peak cow" makes genetics and herd testing even more important. Farmers need to breed from the best, most productive cows.

### Fonterra partner to sell major assets:

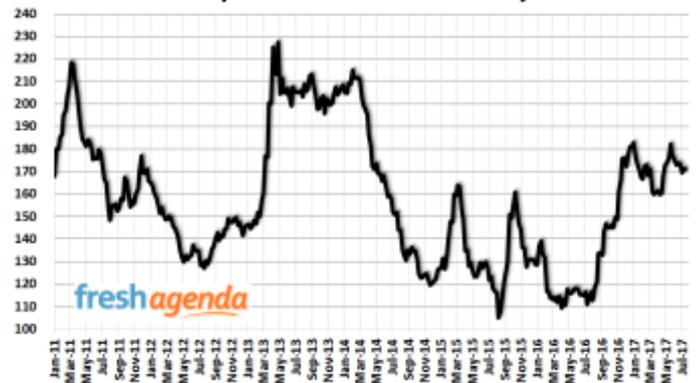
Fonterra's Chinese investment partner Beingmate has said it will make an imminent announcement about an asset sale, leading to a 10% fall in its share prices and subsequent suspension of share trading on the Shenzhen Stock Exchange. Fonterra said in a statement it had been notified of Beingmate Infant & Child Ltd's intention to sell major assets to its controlling shareholder, Beingmate Group Co Ltd.

Fonterra invested NZ\$700m in Beingmate in 2015 for an 18.8% stake in the company. Last year, Beingmate was hit by a case of alleged milk powder tampering, leading to a forecast loss of NZ\$48m in the first quarter of this financial year.

## NZ Dairy Export Index

**Index stabilises** – The NZ dairy export index dived a marginal 0.2% this week on a stronger NZ\$. Spot quotes from Australasian exporters were mostly positive; WMP lifted US\$50/t to US\$3,150/t, and cheddar rose US\$50/t to US\$3,975/t. SMP sat at US\$2,100/t and butter remained at US\$5,800/t. The NZ dollar gained just under 1c to **US\$0.7345**, sending the index down by **0.3 of a point** to **171.1**.

### 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.*

Within the past six months, a number of senior employees have departed the company including a director, vice-president and chief financial officer Shen Lijun.

**Dairy hub opens:**

The opening of Southern Dairy Hub last week, saw dairy farmers and industry leaders gather to celebrate the new research and demonstration farm near Invercargill, which “marks a new era for dairy farming supported by research.” Through the Southern Dairy Development Trust, Southland and South Otago farmers and businesses have invested NZ\$1.25m, while DairyNZ and AgResearch have invested NZ\$5m each. Conversion of the 349ha property began in November last year and the hub’s first research trial is already underway, comparing the feed regimes of cows on fodder beet with those on kale.

According to Southern Dairy Hub chair Maurice Hardie, the opening is an important milestone for the region and the country as it enables research incorporating the southern region’s climate and soil types which will drive better farming practices, environmental initiatives and increased efficiency on farm.

**Australian Dairy News**

**A\$ surge threatens milk price gains:**

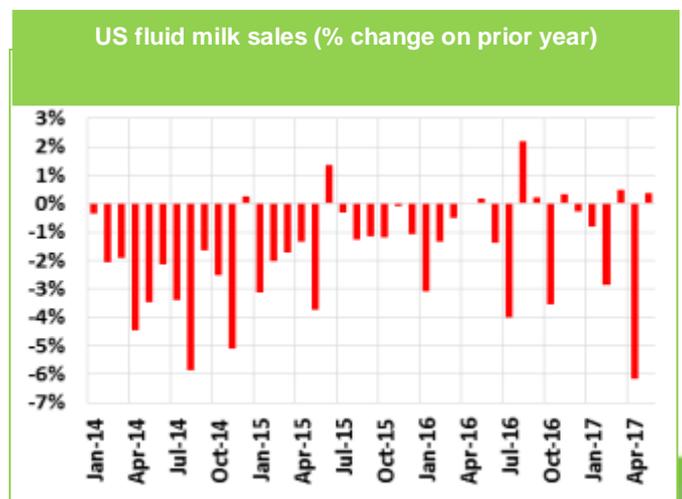
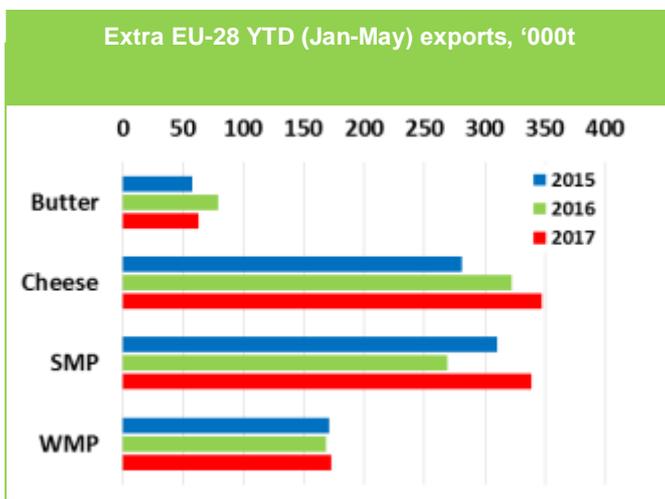
Last week, the Australian dollar surged past US78c, reaching US78.32c the highest since May 2015 as weak American economic data dimmed prospects for a third US interest rate hike later this year. Currency analysts suggest a headline drop in the consumer price index will leave US policy makers with little confidence to hike the interest rate as it affects the personal consumption expenditures price index, the preferred inflation measure for the Federal Reserve.

Australian interest rates are widely expected to remain unchanged through the end of 2018, however, commodity prices are expected to retreat in first half of 2018, with Westpac expecting a 26% fall in the bulk commodity index and a 30% price fall in the iron ore price. The impact of the stronger A\$ on our Commodity Milk Value (CMV) has been to shave \$0.19kgMS off in just a week. The CMV now stands at \$5.77kgMS after reaching \$6.17kgMS in late June.

**Bellamy’s defends due diligence:**

Bellamy’s has defended its due diligence in purchasing Camperdown Powder’s Braeside factory. Bellamy’s recently announced its \$28.5m purchase of a 90% stake in Camperdown Powder. As well as offering Bellamy’s access to a dedicated processing facility, the deal offered access for product to China as the factory had the required CNCA licences. However, Camperdown Powder went into administration two days after selling the factory, and its Chinese export license has been revoked. A complaint to the CNCA that resulted in the license being withdrawn was made after ‘due diligence’ was completed and the deal concluded.

Meanwhile, Bellamy’s have issued a supplementary prospectus and trading update, offering shareholders their cash back from the current rights issue in light of the Camperdown Powder developments. Bellamy’s major shareholders including John Ho, Delta Partners and Bruce Neill have agreed to underwrite the cash hand back so the company will still have its \$60m from the rights issue.



## Global and Corporate Dairy News

### No newcomers to Rabo's top 20:

Rabobank's annual survey of the world's largest dairy companies has admitted no newcomers to the top 20 this year, but some changes in the ranking. According to Rabobank's Global Sector Head Dairy Kevin Bellamy, this is due to difficulty in achieving the €4bn turnover threshold, as organic growth has slowed because of lacklustre prices and a slowdown in mergers and acquisitions. Swiss-headquartered Nestle remains at the top with a turnover of €21.7bn in 2016, followed by Danone who swapped places with Lactalis following its acquisition of WhiteWave Foods. However, Rabobank expects Lactalis to move up again next year following its acquisition of Danone's Stonyfield business in the US and Omira in Germany.

Dutch cooperative FrieslandCampina and Fonterra also traded places, while US-based Dean Foods dropped out of the top ten, making room for two Chinese dairy companies, Yili at no 8 and Mengniu at 10. German dairy Müller slipped from 15th to 19th, the largest decline of anyone in the list while Japanese Meiji jumped from 17th to 14th. Rabobank believes organic growth will return as milk supplies are growing in north-east US and mergers and acquisitions are increasing.

### EU SMP exports hit May record:

Low prices are doing their job. Shipments of SMP from EU-28 members hit a new monthly record of 80,200t in May, pushing 2017 exports up 26% higher than for the first 5 months in the prior year. China, Mexico and Algeria account for the biggest absolute growth in tonnages. WMP exports went in the other direction, down 9% in May, however Algeria and China provided some gains, lifting total shipments 2% over the comparative, while most other buying regions were down over the first 5 months of 2017.

Cheese exports also picked up, growing 9% higher than May 2016, after slowing in April – Japan, Korea and Chile the biggest contributors to the increase, while shipments to the EU's biggest market, the US, were flat through to the end of May. Butterfat shipments through to May trailed 2016 by 20%, but markets growing their purchases included the US, Iran and Australia.

### US fluid sales weaken:

Packaged fluid milk sales by milk handlers fell 2.4% in the first five months of 2017. Conventional milk sales dropped 2.6% YTD despite a 2.1% rise in whole milk sales, offset by a 5.1% fall in fat reduced sales. While organic milk sales were up 1.3% between January and May, their share of total fluid milk sales remains relatively insignificant at just 5.4%.



## Beef and Lamb News

### More beef pressures US import prices:

After only rising for six consecutive weeks, US beef import prices declined last week with the imported 90CL indicator falling 2.4% from the week prior, closing at US\$2.22/lb CIF, although still tracking 7.5% ahead of the same week last year. Prices fell as Australian exporters have seen limited supply ease lately, making them more willing to offer product for delivery in late August and September. Lower Australian asking prices meant a number of US market participants were able to cover orders this week according to the Steiner Consulting Group's weekly report. The Australian dollar rose significantly, however, it does not appear to have significantly impacted the market as yet.

**Australian graziers destock on dry outlook:**

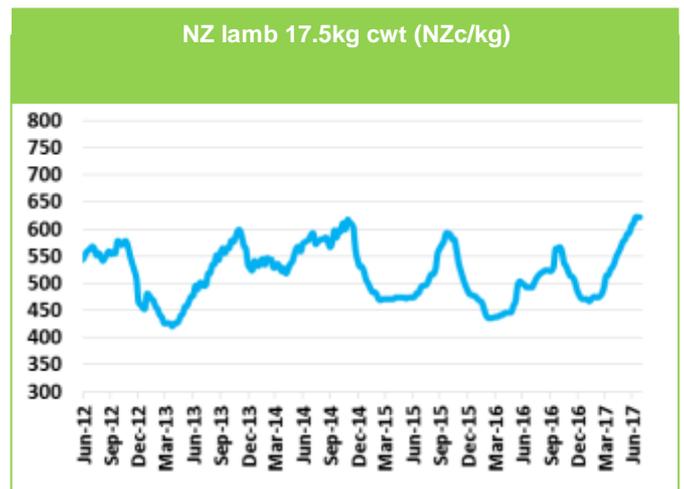
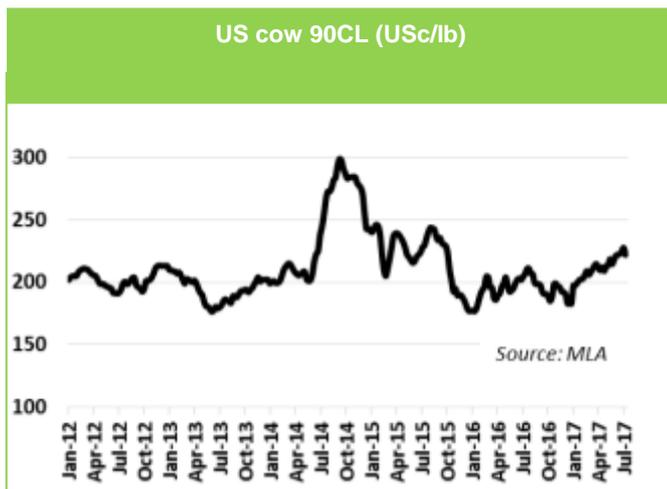
Graziers in far west New South Wales are starting to destock as station dams run low and the outlook for June to September indicates warmer and drier than normal conditions across the state. According to farmers the dry conditions meant lambs dropped early, causing the ewes to be stressed and it has also forced some farmers to sell their stock as lamb instead of growing them out. While the dry conditions are pushing farmers to destock, some are saying it will be another 12 months before it will be as dry as in 2003, where some farmers saw all watering points dry out.

**India's Supreme Court suspends ban on sale of cows for slaughter:**

According to the Hindustan Times, the Indian Supreme Court last week suspended the Government's ban notification on the sale of cattle for slaughter across all of India. The solicitor general said the cattle-trade rules would not come into effect and the Government would revise the rules by the end of August after considering the objections. Unsurprisingly, the multibillion-dollar beef industry, mostly run by members of the Muslim minority, applauded the Supreme Court decision.

**\$A600m class action over live export ban has its day in court:**

The Australian Farmers Fighting Fund (AFFF) is backing a \$A600m class action against the federal government over the 2011 live cattle export ban, with legal arguments tested in court this week. The case, first filed in 2014, is seeking to establish the reasoning behind the then Minister Joe Ludwig's second control order of June 7, 2011, that suspended trade for up to six months. "The industry will argue that in enacting the second export control order, closing the live export trade, federal Minister Ludwig misused or abused his power as Minister for Agriculture," says the Northern Territory Cattlemen's Association (NTCA). NTCA CEO Tracey Hayes said the importance of the class action case "cannot be understated and the message it sends to government is powerful".



**Feed/Arable News**

**RFG's spending grows every year:**

Property trust Rural Funds Group (RFG) is gearing up for another record year with a growing appetite for farmland investment. A few weeks ago the company completed a A\$78.6m fully underwritten, entitlement offer, which was used to pay down its recent spending spree on prime land and water assets. In 2016/17, RFG spent A\$80m on new assets and according to managing director David Bryant it grows year-by-year as the scale of the trust's equity raisings are increasing as its transactions get larger. RFG, owns more than A\$550m of farm assets.

**Grains outlook drying up?:**

The USDA's World Agriculture Supply and Demand Estimates (WASDE) point to increased corn production, feed use and ending stocks for 2017/18 while soybean output estimates were also raised. However, the WASDE points to reduced wheat supplies. However, many producers are watching the weather with the Northern Plains experiencing drought conditions affecting spring and winter wheat crops, with the outlook for drier, warmer weather. Dry conditions are also affecting Canada's southern prairies and the outlook for Australia's winter cereal crops.