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August 1, 2017

New Zealand Dairy News

Fonterra payout and intake climb:

Fonterra lifted its Farmgate Milk Price for the upcoming 2017/18 season to NZ\$6.75kgMS and announced a forecast earnings per share range of 45c to 55c. The forecast total available payout to farmers in the 2017/18 season to NZ\$7.20 to NZ\$7.30kgMS. According to chairman John Wilson, the revised forecast milk price reflects ongoing rebalancing of supply and demand in global markets and growing confidence on-farm across New Zealand.

Farmer organisations have reacted to the revised milk price, with Federated Farmers dairy group chairman Chris Lewis calling it fantastic news. According to DairyNZ the additional farmer income will increase forecast milk earnings to a total of NZ\$12.5bn for the season, an injection of about NZ\$104.5m to the region of Waikato and NZ\$71.8m for North Canterbury.

Meanwhile in its latest Global Dairy Update, Fonterra announced its milk intake jumped 18.6% to 12m kgMS in June. Intake in the North Island was up 19.6% to 9.1m kgMS and South Island intake was 15.3% higher at 2.6m kgMS. June typically represents less than 1% of the total season intake, so volumes are not significant. However, Fonterra is encouraging additional production of winter milk to support its consumer and foodservice business.

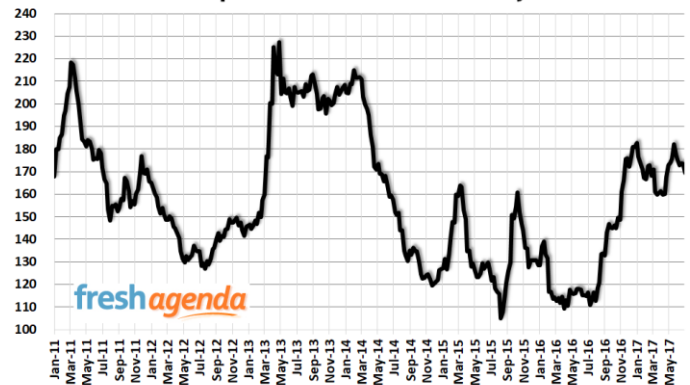
Disease worries farmers:

The discovery of Mycoplasma bovis in 150 cattle on a farm in South Canterbury has been labelled devastating by the farm's owner, Aad van Leuwen. Ministry for Primary Industries (MPI), subsequently reported another of Van Leuwen's 16 farms which was already under biosecurity controls has been confirmed as positive. All farms in the group are under legal controls restricting the movement of risk goods on and off the properties. Cattle can only move between the other farms in the enterprise – no movement of stock is allowed to farms outside the group. The disease is highly contagious and could affect milk production, however, MPI said milk from infected cows was safe to consume as long as it has been pasteurized. The scale of the problem has not yet been identified and neither has the source of the outbreak. According to Federated Farmer vice-president Andrew Hoggard there is no recovery or cure for Mycoplasma bovis, which leads to untreatable mastitis, pneumonia in up to 30% of cases, abortions and lameness. It is a common disease in many other countries, including Australia, but hasn't been detected in New Zealand before according to MPI.

NZ Dairy Export Index

Index slides again – The NZ dairy export index fell a further 0.7% this week due to a stronger NZ\$. Spot quotes from Australasian exporters were mixed; WMP remained at US\$3,100/t and cheddar rose US\$50/t to US\$4,050/t. SMP shed US\$25/t to US\$2,025/t while butter stayed at a record-high US\$6,050/t. The NZ dollar gained over 0.5c to **US\$0.7508**, shaving the index by **1.18 points** to **168.3**.

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.

Thai access lifted:

New Zealand's trade minister Todd McClay has signed an agreement to upgrade the Thailand-New Zealand Closer Economic Partnership, meaning more dairy products can enter Thailand under a preferential tariff rate and according to McClay this may increase exports 10-20% for some dairy products. Thailand is New Zealand's eighth largest market with two-way trade worth about NZ\$3.5bn in the year to May.

Farmers: Immigration rules still too tough:

Both Federated Farmers and DairyNZ are unhappy with the New Zealand government's pull-back on immigration rule changes, because their concerns haven't been heard. New Zealand immigration minister Michael Woodhouse announced the government has lowered the wage threshold which defines whether a migrant worker can stay longer than three years from NZ\$23.5 per hour to NZ\$19.97 per hour. Woodhouse said this would increase the number of workers who could stay in New Zealand beyond three years from 6,000 to 7,000. The minister said the initial estimates of the immigration rules effect had shown that only around half of the 38,500 workers on skilled work visas wouldn't be able to meet the threshold of earning NZ\$48,859 per year. However, more recent numbers showed the threshold would actually cut off 75% - 80% of workers, meaning wages have fallen in the past two years.

Federated Farmers said that none of the changes made to the immigration rules would enable farmers to attract and retain quality, motivated, highly capable migrant employees, however, the lobby organisation said it would continue to work constructively with the government during phase two of the changes, to ensure its concerns are heard.

Australian Dairy News

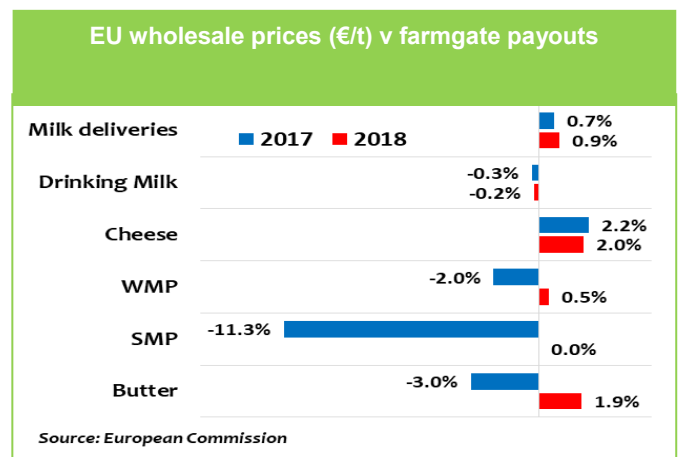
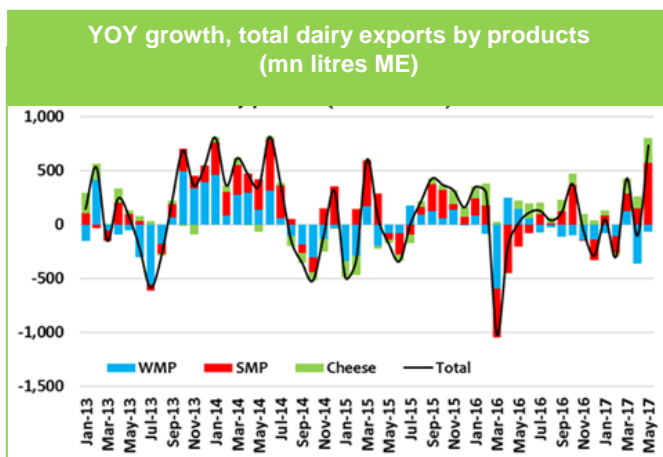
BOM: Warmer and drier in spring:

its latest climate and water outlook, the Bureau of Meteorology (BoM) reiterates its points from its prior outlook with warmer than average temperatures and below average rainfall predicted. With a record dry June and a drier than average July, Australia's rainfall deficiencies are rated serious to severe in eastern Victoria, South Australia and WA. Clear skies and dry warm air has led to unusually high evaporation rates in many areas, and evaporation has been greater than rainfall in large parts of Australia, meaning soil-moisture is below average in most parts of southern Australia. Water storage is affected with a late start to the winter filling season.

High pressure systems are likely to persist south of Australia, meaning sunnier days and less rain for southern parts of Australia, while less than average rainfall is expected, with August bringing a dry end to winter. Temperatures for August to October are expected to be above average, with greater risk for clear night skies increasing frost risk. Stream flows are more likely to be low on the east coast from July to September.

Fonterra lifts price:

Fonterra Australia has stepped up its current milk price to \$5.50kgMS, a \$0.20kgMS rise on its May opening price. Fonterra also revised its forecast 2017/18 closing price to between \$5.50kgMS and \$5.80kgMS, citing improved commodity returns, although a strengthening Australian dollar is a concern.



Global and Corporate Dairy News

Overall trade trends mixed:

Freshagenda's latest Global Dairy Directions Trade Trends report indicates for the year to May; global trade rose by 1.25bn litres ME (or 2.2%) on the prior 12-month period. The early 2016 comparative does include a period of large SMP sales into EU intervention, but ongoing strength in cheese trade has contributed to the rise. Trade volumes over the latest 6 months of total data were similar to the same period in 2015 and 2014. Global WMP trade is tracking lower, despite a revival in New Zealand exports – offset by lower EU and Argentinean availability. Fat trade remained weak, due to chronic shortages in the EU and lower NZ supply..

American cheese stocks decline in June:

According to USDA's Cold Storage report, American cheese stocks fell 26,000t between May and June. American cheese stocks at 810,275t in June were still 16.7% above the 5-year average, but apparent domestic disappearance picked-up significantly over the last 2 months when accounting for revisions to historical data. This, along with stronger exports and expectations of weaker milk supply has been reflected in higher CME cheese prices since the start of the month.

Other-than-American cheese stocks increased 13,265t between May and June – this was 2.7% higher in YOY terms and 14% above the 5-year average. Butter stocks were lower in YOY terms for the third consecutive month in June at 140,665t – this was 15.2% above the 5-year average.

EC projects modest milk recovery:

The European Commission's latest Short-term outlook for EU agricultural markets in 2017 and 2018 projects EU-28 deliveries to dairies will increase 0.7% in 2017 and a further 0.9% in 2018. All the growth in milk supply is attributed to increases in average yield/cow as dairy cow numbers are projected to fall in the three consecutive years to 2018 to 22.6m.

Most of the increase in supply during 2017 and 2018 is expected to flow into cheese as demand from export and domestic markets remains healthy, with output increasing 2.2% this year and a further 2% next year.



Beef and Lamb News

US import prices down again:

US beef import prices are in free fall with the imported 90CL indicator down 3.2% last week, closing at US\$2.12/lb CIF, still tracking 0.5% ahead of the same week last year. Overall grinding beef availability is increasing, especially for end users securing product for delivery in September and October. The Steiner Consulting Group reported the impact of higher year-on-year cattle slaughter out of Australia and New Zealand, which combined with softer Asian demand, improves the prospect of lean meat availability in the US Autumn. Meanwhile, USDA released its cattle herd estimate last week, which reflects an industry in growth; the herd 7% larger at 102.6m head, the beef cow herd up 9%.

Japan ups tariffs on US beef:

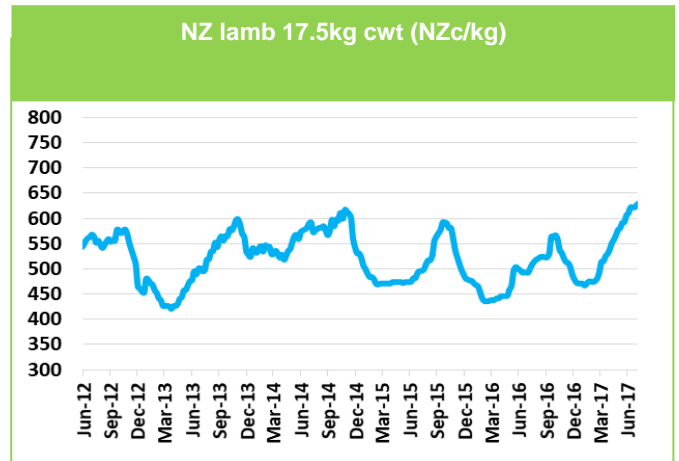
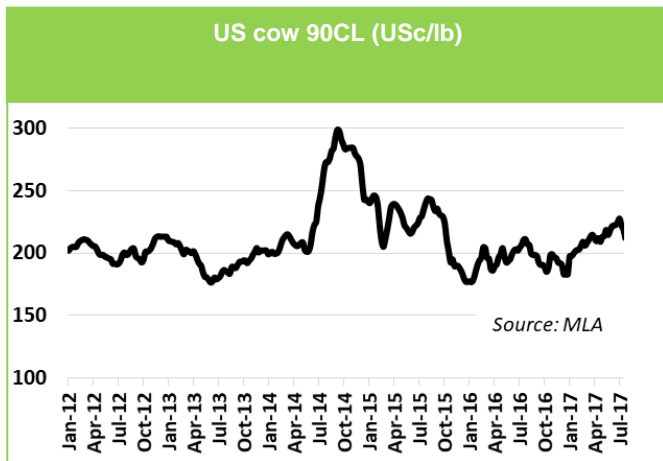
Japan's ministry of agriculture, forestry and fisheries announced it would invoke a dramatic increase in tariffs on US beef imports to protect Japan's domestic cattle producers from rapid import increases. The 'snapback' is invoked as US imports lifted more than 17% from the prior year. This means tariffs on US beef imports will lift from 38.5% to 50%, making Australian beef imports much more attractive. The 'safeguard trigger' hasn't been used against the US in more than a decade.

China places temporary ban on Australian beef processors:

A temporary export ban on six processing plants in Australia owned by five different companies was put in place by China last week. According to the Australian Meat Industry Council, the suspensions applied to chilled and frozen beef and sheep meat from the plants, and trade minister Steve Ciobo is working to resolve the situation as quickly as possible. Ciobo said there was a number of beef shipments en-route to China from affected processors. Meat processors claim the bans are in retaliation for foreign minister Julie Bishop's comments over freedom of navigation in the South China Sea, however, a spokesperson for Bishop said Chinese officials hadn't raised any concerns with the foreign minister.

JBS does a deal with banks:

Brazilian meatpacking giant JBS has struck a deal to renegotiate US\$6.5bn of debt as part of a broader effort to address the fallout of a major bribery scandal. The deal involves a group of local and foreign banks as well as JBS's local unit. JBS Brazil will pay the interest rates established in its original financing contracts in full as well as four installments of 2.5% of the principal amount of debt. Since paying more than US\$3bn in penalties after admitting to paying politicians over several years in exchange for government favours.



Feed/Arable News

IGC: Dry weather to prompt hefty drop in world grains:

The International Grains Council (IGC) has flagged concerns the world is on track for its steepest drop in grains output due to dry weather. IGC cut its forecast for world grains production in 2017/18 by 11mt to 2.04bnt. The revisions reflect dry weather in North America, the European Union and Australia, which have lowered the outlook for global corn, wheat and barley harvests. The 4.1% drop in expected world grains production is the largest decline in at least a decade. The IGC said that while opening stocks will help cushion the fall in output, overall availability will shrink by 2% YOY.

EC lifts corn import forecast:

Weakened prospects for domestic output within the European Union, saw the European Commission lift its forecast for EU corn imports this season by more than 3.0mt to 15.3mt on a July to June basis. The upgrade lifts the imports well above the current record of 15.09mt, recorded in 2007/08. EU corn imports are already running 33% ahead of last season, at 978,000t as of July 25.