

- Prices down 3.2% at overnight auction
- Fonterra Australia down 2.2% in Jan
- US imports still trading at a premium
- Mexico to source corn outside the US

February 22, 2017

## New Zealand Dairy News

### GDT Auction prices slip:

Average prices slipped 3.2% to US\$3,474/MT at Fonterra's GDT auction overnight. The average whole milk powder price slipped 3.7% to \$3,189. Buyer sentiment appears to have been affected by Fonterra's revision of its season collection estimate from -7% to -5% (see below). You can see the full list of auction results [here](#).

### Fonterra's milk recovery:

Fonterra has revised its 2016/17 season milk collection forecast to a 5% decline, up from the previous forecast of a 7% fall. Season-to-date (June-January) total collections were down 4.9%, implying Fonterra intake would have to average 5.3% in the last 4 months of the season. On recent form that seems unlikely, and our scan of pasture conditions using DairyNZ's tracking suggests things will only improve.

For the entire season New Zealand supply looks likely to drop nearly 3% as our analysis shows Fonterra collections as a share of the national total fell to 82.8% in the first 7 months of 2016/17, down from 84.5% in the same period of 2015/16.

### A2 Milk quadruples profits:

Dual-listed a2 Milk has reported net profit after tax for first half of FY2017 was NZ\$39.4m, compared to NZ\$10.1m in the same period the year before. Sales revenue for the half was NZ\$256.1m, up 84% from the comparable period last year. Managing director Geoffrey Babidge said strong sales and growing market share for a2 Platinum infant formula in Australia and China had boosted the company's results. Group a2 Platinum infant formula revenue rose 150% on the comparable period to NZ\$184.5m. a2 expects infant formula sales to moderate from the first half, which included sales build for key Chinese selling events, although they are expected to be material higher than the comparable period last year. The company is planning to launch additional nutritional products during calendar 2017.

### Dairy farm sales lift:

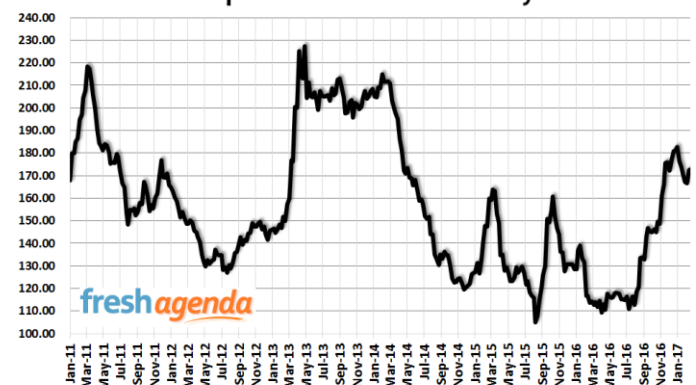
The Real Estate Institute of New Zealand reports farm sales in the three months to January 31 were down 2.1% YOY, but up 4.4% from the three months to 31 December. In total 521 farms were sold in the three months to January, the median price was down 1.2% to NZ\$27,058 on the same period last year. Dairy properties accounted for 18% of sales with 94 farms sold. Median price lifted to NZ\$44,322/ha for the three months to January, up from NZ\$39,367/ha in the same period a year earlier.

Prices on a per kilogram milksolids basis rose from NZ\$37.42kgMS to NZ\$39.75kgMS, up 6.2% from a year earlier. REINZ

## NZ Dairy Export Index

**Index takes a breather!** – Last week, the index remained steady due to steady commodity prices. Spot quotes from Australasian exporters didn't move with WMP at US\$3,350/t and SMP sitting at US\$2,700/t. Butter remained at a record-high US\$4,600/t while cheddar stayed at US\$3,850/t. The NZ dollar fell marginally to **US\$0.718**, lifting the index by **0.46 points to 172.86**.

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.*

rural spokesperson Brian Peacocke said caution and uncertainty continued to be ongoing components of the marketplace due to drought conditions in certain parts of New Zealand, income volatility and compliance issues.

**Banks mull NZ impaired loans:**

Commonwealth Bank of Australia's (CBA) impaired loans in its agricultural portfolio jumped 36% in the six months to December, with a vast majority of the A\$458m in impairments relating directly to dairy and New Zealand dairy exposures accounting for A\$333m. CBA chief financial officer David Craig said increasing farmgate prices were expected to relieve dairy stress going forward.

National Australia Bank's had A\$300m in impaired New Zealand dairy exposures as of September 2016, while Westpac's stressed exposure rose from 4.74% to 25.29% of its NZ\$5.9bn total exposure to Kiwi agriculture in the year to September 2016. ANZ data shows it had a NZ\$12.4bn exposure to New Zealand dairy with the probability of defaults rising to 2.2% from 1.1% in the year to September 2016.

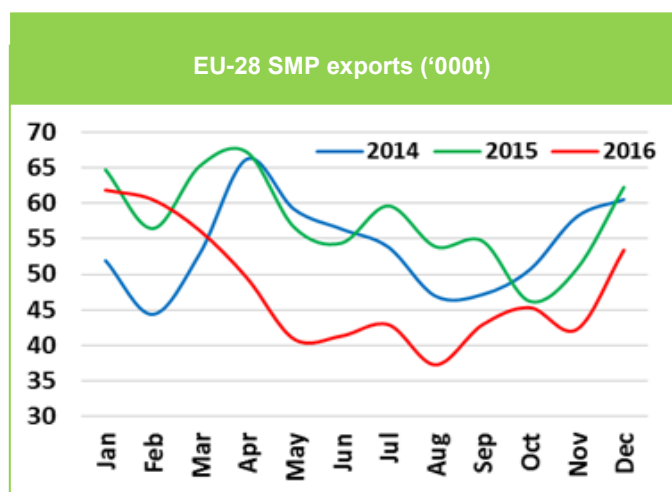
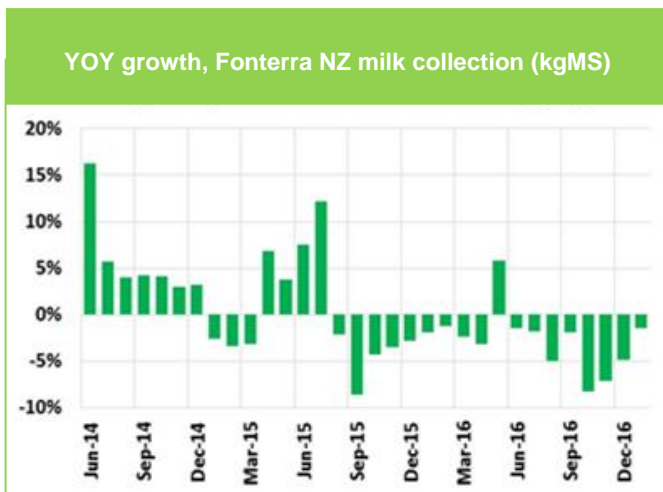
**Australian Dairy News**

**Fonterra Australia down 2.2% in Jan:**

Fonterra Australia's January milk collection was 10m kgs milksolids, down 2.2% YOY. According to Fonterra's February Global Update, season to date milk intake was down 6.9%, impacted by unfavourable pasture conditions.

**MG: right track, wrong speed:**

Speaking at the Australian Dairy Conference, former FrieslandCampina chairman Piet Boer said Murray Goulburn (MG) had the right strategy but felt the pace was "over-challenging and over-demanding for themselves." Boer noted that a new brand in China was hard and time consuming but not impossible, as Australia is a preferred supplier. FrieslandCampina and Arla were amongst the few EU cooperatives to have established brands in China, with investments over 50 to 100 years. "Strategies need to be more than three years, more than 10 years, according to Boer. The former chairman stressed the importance of dairy processors investing in their own brands, bringing them closer to customers where the largest slice of the margin is, although the volume of sales meant supermarket brands couldn't be ignored.



**Global and Corporate Dairy News**

**GDT offer volumes lift:**

Fonterra has increased its forecast GDT offer volumes over the next 12 months in response to improving milk intake, increasing WMP offer volumes by 5,000t, SMP by 5,050t and BMP by 495t. The increases in offer volumes take affect at this week's GDT event with WMP offers up 5% to 13,950t and increased in contracts 2 and 3 availability. Butter volumes on offer at the next event lifted 10% on the forecast to 1,610t, while AMF lifted 41% to 2,130t. However, the changes for AMF and butter are due to Fonterra's cream group production flexibility rather than a lift in volumes.

### EU powder exports fall:

EU SMP exports fell 17% in 2016 to 574,185t, reflecting diversion of product into the relatively more attractive public intervention program through to September. During this period, shipments to major markets dropped in YOY terms, with Algeria and China shipments down by 17% by 6% respectively.

WMP exports also fell 5% in 2016, with shipments to the top two markets Oman and Algeria dropping by 20% and 5% respectively. Butter and cheese exports rose substantially however, despite the ongoing Russian embargo and weak oil prices affecting spending in price-sensitive regions such as MENA. Butter exports were up 20% in 2016 to 132,285t despite weaker shipments in the last quarter. Shipments increased across all major destinations except Singapore, which recorded a 1% decline. Cheese exports rose 11% to 800,155t in 2016 with shipments to the US rising 2% to 142,219t and sales to Japan up 15% to 79,066t.

### Cheese, NFDM prices sliding:

Last week, CME cash cheese (block and barrel) as well as non-fat dry milk (NFDM) prices fell. According to local analyst Matthew Gould the market sentiment is “mixed, but generally weaker”. In addition to softer foodservice sales, reports are emerging of falling retail cheese sales in January scanner data. Cheese blocks ended last week at US\$3,482/t - the lowest for 4 and a half months.

NFDM prices fell for the 6th consecutive week and landed below the US\$2,000/t mark for the first time since 25 November 2016. Meanwhile, the USDA is more optimistic about national milk supply this year, tipping a 2.6% YOY growth with the herd expanding by 32,000 head.

### EU December milk down 2.9%:

According to Eurostat, December EU-28 milk output declined 2.9% YOY, putting the Q4-16 total 3.4% below the prior-year comparative. The December supply cut was smaller than October and November falls, when total milk supply declined 3.7% and 3.6% respectively.

Meanwhile, more recent local data is pointing to improving trends in key producers. In week 5 (ending 5 February 2017), output in both Germany and France declined 4.2% YOY. In the UK, February daily milk deliveries (through the 11th) were 4.1% lower relative to the same period in 2016.



## Beef and Lamb News

### US imports still trading at a premium:

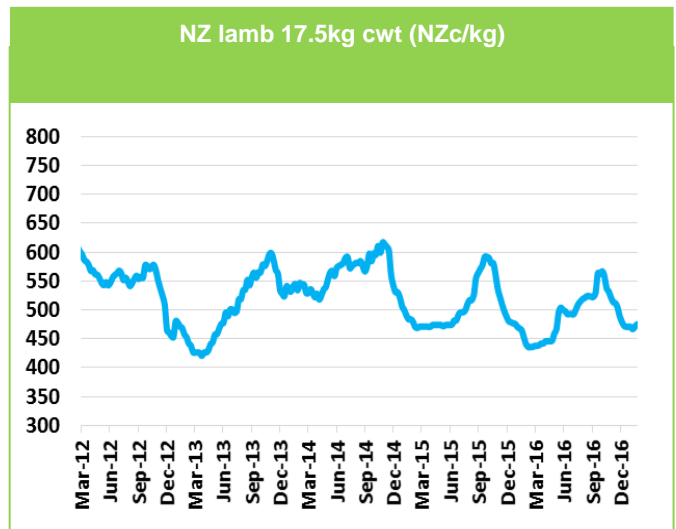
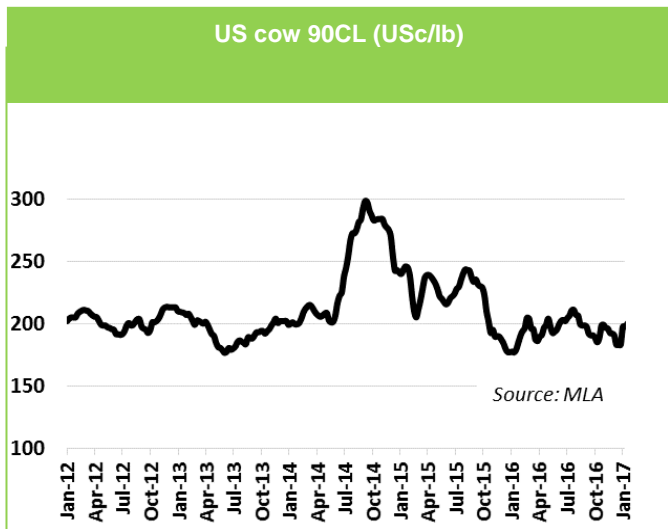
US imported beef prices continues to increase with the 90 CL imported cow beef indicator closing at US\$2.06/lb last week, up 1.5% from the week prior and tracking 4.8% higher than the corresponding period last year. According to the Steiner Consulting Groups, market participants are divided over the short-term direction of the US imported beef market. Supply constraints out of Australia and New Zealand continue to be an issue and there are reports that end users looking to secure delivery of product in March are paying a premium while others are taking a “wait-and-see” approach. Drier weather in New Zealand and Australia have continued, which is reflected in the higher slaughter numbers – however, New Zealand packers have long positions in place through to mid-March; in no rush to sell more beef at present.

**Record Aussie lamb production:**

Strong Australian lamb slaughter in December rounded off the year with a new high as data from Australian Bureau of Statistics show lamb slaughter in December was down 9.2% from the month prior, but up 9.1% compared to the same month a year ago. Just over 2m lambs were processed in the last month of the year, lifting the annual number of lambs processed, 0.35% higher than 2015. December's lamb production lifted, totaling 45,962t, volumes 12.8% higher than volumes recorded a year prior, which according to Meat and Livestock Australia is due to favourable spring conditions across key producing regions. Lamb exports followed suit with string results that saw Australia export 16% more lambs in January than a year ago.

**US beef production increases:**

The US cattle herd has recorded three consecutive years of growth, recording a 6% increase in production to 11.5m tonnes cwt in 2016. As of January 2017, the US cattle herd stands at 93.6m head and the increase in production affects multiple markets, with Australian beef exports to the US declining 42% in 2016, primarily due to the recovery in US production, but also impacted by the significant reduction in Australian cow slaughter. Japan increased its imports of US beef by 16% YOY, lifted to its highest level since the discovery of BSE in the US late 2003. In South Korea, the US increased its share of the market to from 36% in 2015 to 43% in 2016 and in 2016, US beef imports were up 47%.



**Feed/Arable News**

**Mexico to source corn outside the US:**

Following US president Donald Trump's harsh stance on the Mexican border, a government leader in Mexico has indicated a desire to buy the country's corn elsewhere, saying he will introduce a bill to buy corn from Brazil and Argentina instead. The news comes as the new US president has suggested an import tariff on Mexican items to pay for the building of a southern US border wall. Mexico is one of the largest importers of US corn, in 2015/16 superseding Japan as the largest importer, when the country accounted for 27% of the total US corn exports. Some traders are saying if corn sales are shut off it may overflow into other commodities such as pork and dairy.

**Aus grain pipeline under strain:**

The Australian farm commodity export pipeline is straining to cope as a monster grain crop coincides with a shortage of suitable shipping containers. Shortages of food grade 20-foot containers have hit Australia as bulk grain export elevators are running near to capacity after a 58m tonne national winter harvest and the collapse of South Korea's Hanjin Line as well as other shipping industry rationalisation. While some container users are enjoying competitive price discounting, exporters needing food grade boxes are paying up to 30% more than a year ago. Australian containerised sales have been climbing rapidly with wheat exports up from 258,000t in 2015 to 363,000t in 2016.