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July 25, 2017

New Zealand Dairy News

AgriHQ: Stronger 2017/18 milk price:

The AgriHQ farmgate milk price forecast for the 2017/18 season moved to NZ\$6.68kgMS last week, NZ\$0.18kgMS above Fonterra's forecast. The AgriHQ spot price, which measures what the milk price would be if current commodity prices were achieved for the full season, has gained 5c to NZ\$6.61kgMS. The September 2018 milk price futures contract settled at \$6.50kg MS last week, in line with Fonterra's 2017/18 forecast. The AgriHQ forecast for the 2016/17 season remains at NZ\$6.23kgMS, NZ\$0.08kgMS above Fonterra's forecast.

Cream cheese investment:

Fonterra has pushed the go button on a NZ\$150m project to build two new cream cheese plants at Darfield to meet rising Asian. The first plant will be completed in 2018 with the second to follow in either 2019 or 2020. According to Fonterra's global food service director Grant Watson, Chinese consumers have few preconceived notions around how dairy should be eaten, making room for some of the most innovative product developments, such as tea with cream cheese. The new technology which is to be introduced at the plants will give Fonterra the flexibility to quickly change products as needed. When completed the first plant will have a capacity of producing up to 24,000t of cream cheese each year for export, the second plant will have the same output.

LIC back in black:

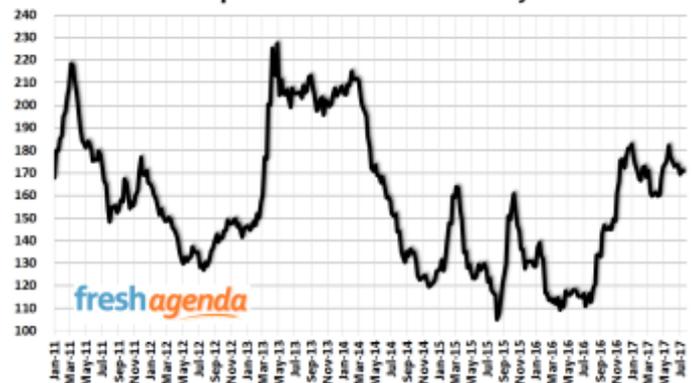
Farmer-owned Livestock Improvement Corporation (LIC) has announced an after-tax profit of NZ\$20.8m, an improvement on the previous year's loss of NZ\$4m, although NZ\$17.7m came from the revaluation of its bull team that was written down NZ\$3.3m the year before. In the year ending 31 May, revenue was down NZ\$7.2m from the year prior, to NZ\$203.5m. LIC's total assets increased NZ\$18m to NZ\$341m with debts of NZ\$32m, down from NZ\$41m the year before. Research and development was NZ\$13.9m, accounting for 6.85% of revenue, down from NZ\$16.9m the year before.

The strong performance of LIC's core services of artificial breeding and herd testing as well as a reduction in operating costs across the business contributed to the positive result and a return in value to shareholders. Cooperative and investment shareholders would be paid a full-year dividend of NZ\$2.43m or 6.44c per share, representing 80% of underlying earnings.

NZ Dairy Export Index

Index slides on strong NZ\$ – The NZ dairy export index fell a further 1% this week due to a stronger NZ\$. Spot quotes from Australasian exporters were mixed; WMP dropped US\$50/t to US\$3,100/t, and cheddar rose US\$25/t to US\$4,000/t. SMP shed US\$50/t to US\$2,050/t while butter set a new index record gaining US\$250/t to US\$6,050/t. The NZ dollar gained over 1c to **US\$0.7451**, sending the index down by **1.64 points** to **169.5**.

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.

Australian Dairy News

MG confirms 200m litre intake drop:

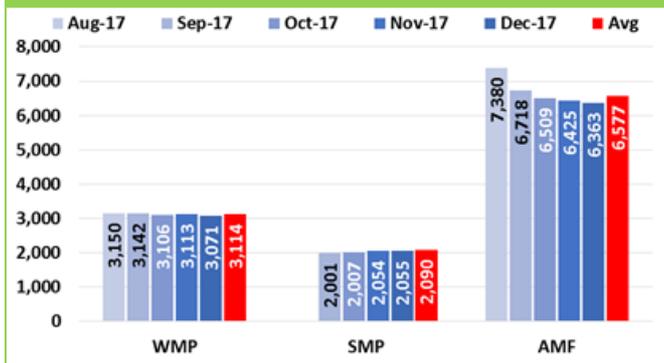
In a business update to the Australian Securities Exchange, Murray Goulburn (MG) has confirmed its milk intake for the 2017/18 season will be 2.3bn litres, 200m litres less than it previously forecast, and down from an estimated intake of 2.7bn litres in the 2016/17 season. The reduction in milk intake will not affect the opening average available Southern Milk Region farmgate milk price of \$5.20/kgMS, however, MG stressed that should the Australian dollar continue to strengthen, it would jeopardise the upper end of its forecast 2017/18 farmgate milk price of \$5.50/kgMS.

In the update, MG also announced the sale of its Kiewa Country brand and associated assets to a local business, which is expected to recommence local production, and the appointment of Deutsche Bank as its financial adviser during its comprehensive strategic review.

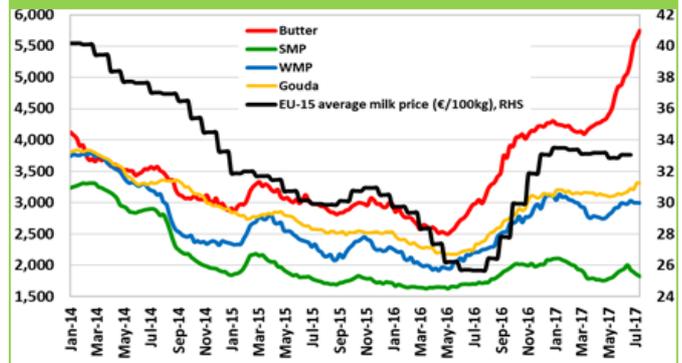
Organic boost:

Wattle Health Australia (WHA) has entered into a non-binding heads of agreement with Organic Dairy Farmers of Australia Pty Ltd (ODF), Mason Ventures Ltd and Pack Niche Dairy Pty Ltd to undertake due diligence for the establishment of a joint venture to produce organic powdered milk. If the parties agree on the commercial due diligence, the JV will construct a \$25m-\$30m powdered milk spray drying plant, adjacent to ODF's current Geelong-based organic milk processing centre. The JV will process Australian certified organic milk and conventional milks supplied exclusively to ODF. WHA will contribute a maximum of \$1.5m for 2.5% of the JV, ODF will have a 50% share.

GDT average winning prices 18-July-2017, US\$/t



EU wholesale prices (€/t) v farmgate payouts



Global and Corporate Dairy News

GDT index edges higher:

The GDT Price Index gained 0.2% at the latest event, on a slightly lower offering of 26.688t, compared to 28,574t at the previous auction in early July.

WMP rose 0.1% to average US\$3,114/t with modest increases across contracts, except for contracts with August delivery. The WMP price remains below imputed butterfat and protein values, weighed down by stronger NZ milk output expectations. Butter prices lifted 4% to average US\$6,004/t as buyers scrambled for contracts with short-term delivery, raising values for contracts 1 through 3 well above AMF relativities. Fonterra is offering 15% less butter on the GDT platform over the next 12 months due to strong demand from other sales channels, and this will keep the pressure on GDT prices. AMF prices eased 0.3% to US\$6,577/t and cheddar averaged US\$4,112/t, up 1.5%. SMP average prices fell 3.2% to US\$2,024/t, reflecting intervention stock affected EU values.

US milk grows 1.6% in June:

USDA's NASS reports milk output rose 1.6% YOY in June, putting the YTD leap year-adjusted national total ahead 2%.

Average yield per cow was up 0.7% YOY in June, the lowest increase in the past 17 months. Cow numbers rose 0.9% YOY – that brought the number of milk cows on farms in June to 9.404m head, 78,000 head more than in June 2016, and 4,000 head more than the prior month.

EU butter prices still surging:

According to Milk Market Observatory (MMO) data for the week ending 16 July, butter prices gained another €106/t to €5,747/t. Local traders indicate butter prices are currently stable as negotiations with Germany's largest retailer have started during the summer holiday break, but are far ahead of EC-reported figures in the €6,100-6,200/t range.

SMP prices fell for the 4th consecutive week, down €29/t to €1,824/t – with relatively strong farmgate prices, policy makers have an environment in which intervention volumes could be released to the market – yet there is no evidence that demand will be sufficient to absorb old stocks as well as expected increased production in the coming 6 months. EU-28 SMP exports surged in latest data through May, making it unlikely that further volumes would flow into intervention - even if the scheme is extended to the end of the calendar year. Meanwhile, SMP EEX futures contracts for delivery through to the end of 2017 are trading below the €1,800/t benchmark.

Cheese prices have trended higher, but gouda was unchanged in the latest week at €3,311/t. Our milk valorization analysis suggests that given latest wholesale prices, the butter/SMP stream (€46.01c) is ahead of gouda and cheddar (€45.66c and €45.45c respectively) while WMP ranks last at €41.75c per kg of milk.



Beef and Lamb News

US import prices drift lower:

US beef import prices continue to decline with the imported 90CL indicator falling 1.4% last week, closing at US\$2.19/lb CIF, but still tracking 4% ahead of the same week last year. Limited offerings from overseas packers and reluctance from US end users to cover forward positions are anticipating a seasonal decline in lean grinding beef prices meant prices drifted further. The Steiner Consulting Group reported market participants are taking a more cautious approach as cattle futures move lower and more cattle are expected on feed in July. Overseas supplies are hampered by seasonal declines in New Zealand cattle slaughter, tight supplies in Uruguay and Nicaragua and suspended fresh beef exports from Brazil.

Lower prices as herd rebuilds in Australia:

June marked a turning point for Australian beef, with slaughter numbers above year-ago levels for the first time in three years. Meanwhile, prices crossed year-ago levels, in the other direction - with the Eastern Young Cattle Indicator falling below year-ago prices according to Meat & Livestock Australia's (MLA) latest cattle industry projections. In 2017, adult cattle slaughter is forecast to be almost level with 2016 and MLA projects a steady build of the herd, which is projected to pass 8m head by 2020. Beef exports are also forecast to be at level with last year, the fifth consecutive year above 1mt.

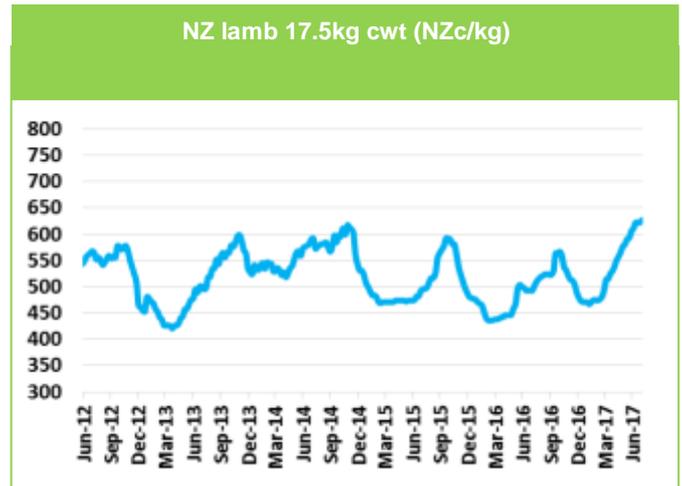
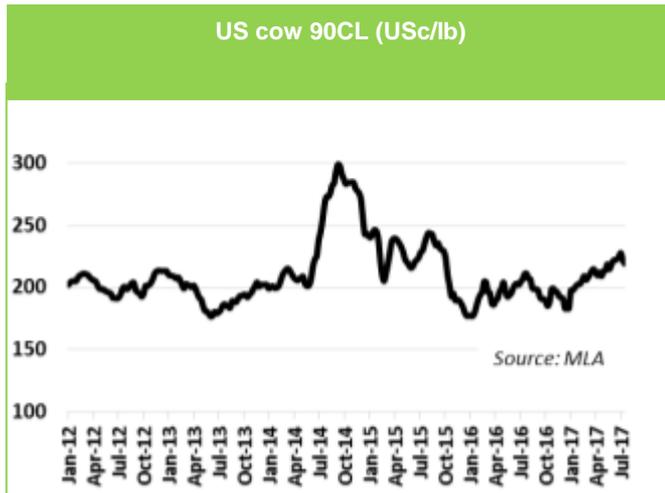
Organic producer pushes flavor regions:

David Brook, co-founder of the OBE Organic group says cattle produced in the Channel Country of western produce superior tasting beef due to their diet. The sweet feed growing on the rich red soils and floodplains gives the beef its mouth-watering taste, according to Brook.

“People here have all breeds – Angus, Shorthorn, Droughtmaster, Hereford – so it’s not the breed that’s the secret, it’s the access to good feed.” Brook argues beef regions should be promoted in the same way a wines by their location – the Barossa, the Hunter Valley, Marlborough – and which are known by connoisseurs for their distinctive tastes.

NZ lamb exports slip:

In line with typical seasonal production decline, New Zealand’s lamb exports for May totalled almost 31,000t swt, down 11% YOY and down 4% for the season-to-date (October – September) to 225,000t swt. China is the largest lamb export destination, however, shipments dropped 10,000t swt in May, a 23% fall YOY while exports to the Middle East totalled just under 1,200t swt for May, down 21% YOY, Ramadan was a contributing factor to the fall in ME exports.



Feed/Arable News

Canada’s bread wheat exports to rise:

Canada’s official analyst has marked down its 2017/18 wheat production from last month but despite reports of dry conditions in its prairie regions, exports volumes might still be higher than last year’s. Agriculture and AgriFood Canada has reduced its wheat production forecast by nearly 1.3mt from the June figure and now predicts a Canadian wheat crop of 22.7mt, down 5% from 2016/17. Despite the fall in forecast production, Canada’s exports are expected to increase by 3% YOY to 16.6mt, as forecast a weaker Canadian dollar make supply more competitive.

Heatwaves dent EU corn yields:

Official EU researchers have cited heatwaves in some southern and eastern countries of the European Union as the reason for drops in corn yields and warned that further downgrades might be on the way. The European Commission’s agricultural meteorology service Mars cut its forecast for EU corn yield by 0.31t/ha to 6.83t/ha, taking the yield below the 7.07t/ha achieved the year before and below the EU average of 6.88t/ha. Meanwhile, Mars cut its wheat yield forecast by just 0.01t/ha to 5.85t/ha, while raising the soft wheat harvest forecast for France to 6.84t/ha. Analysis group Agritel estimates the French soft wheat harvest at 36.64mt, a rebound of 33% YOY, with yield expectations of 7.12t/ha.