

- [Dairy farmers plan to invest](#)
- [Bega launch \\$160m capital raising](#)
- [GDT slips – first fall since March](#)
- [Sheep and Beef farmer confidence surges](#)
- [Australian crop prospects dry up](#)

June 27, 2017

New Zealand Dairy News

Dairy farmers plan to invest:

Dairy farmers are feeling confident and planning to invest more in their business, according to the latest Rabobank Farmer confidence survey.

Dairy farmers recorded the biggest jump in investment intentions with 43 per cent now looking to increase their investment (from 29 per cent last quarter).

The survey found that 40 per cent of farmers expected to spend more on animal feed, fertiliser or machinery in the next year in comparison to the previous year, while only eight per cent were expecting to spend less.

Wilson warns farmers on OCD option:

Fonterra chairman John Wilson warned Waikato dairy farmers interested in supplying milk to different dairies to get independent, expert analysis on all aspects of payout and cooperative membership before quitting. Wilson refused to call expanding Open Country Dairy “a strong competitor” and said Fonterra had stayed on strategy to maximize payout and earnings and that its farmers were now some of the highest paid in the world again. He maintained that non-cooperatives didn’t have the same drive to maximise payout to its suppliers. OCD is currently building its fourth processing site in Waikato which will start production in 2018/19.

Farm values to increase:

PGG Wrightson Real Estate general manager Peter Newbold says farm values are likely to rise in the next few months with a shortage of good properties and increasing demand. Recent statistics from the Real Estate Institute of New Zealand (REINZ) showed both volume and value of sales are up for the quarter to May, by 5.1% and 2%, respectively. In the year to May, dairy farm sales increased 20% compared to the same period last year and Newbold said that as the outlook for dairy becomes more optimistic all rural categories are positive. He said that while owners are likely to become more bullish with pressure easing in the lending sector, it was expected to increase the supply-demand imbalance over the next couple of months.

Australian Dairy News

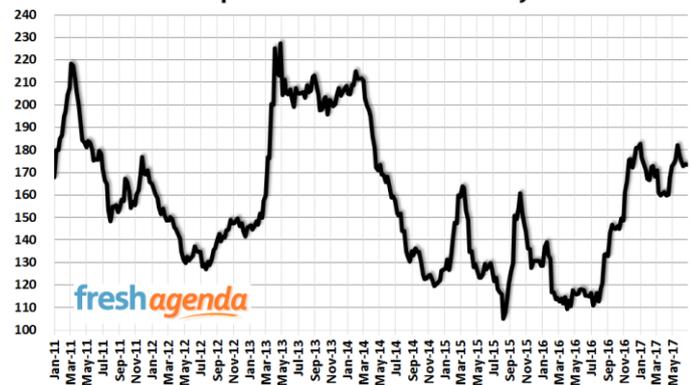
Bega launch \$160m capital raising:

Bega Cheese has launched a \$160m capital raising to deliver the “financial strength and flexibility to grow its dairy and

NZ Dairy Export Index

Index stabilises – The NZ export index slid a marginal 0.1% this week on a stable NZ\$. Spot quotes from Australasian exporters were mixed; WMP was steady at US\$3,100/t and SMP remained at US\$2,100/t. Cheddar shed US\$25/t to US\$3,975/t while butter keeps breaking records, this week up US\$200/t to US\$6,000/t. The NZ dollar gained just under 1c to **US\$0.7281**, shaving the index by **0.12 of a point to 173.58**.

NZ export index since January 2011



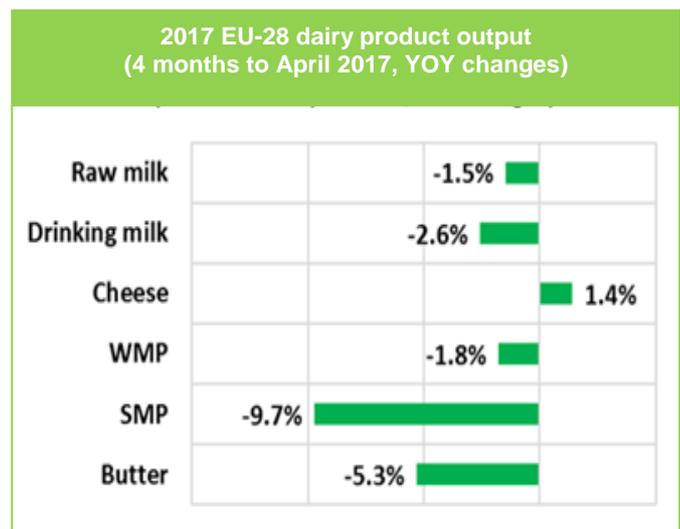
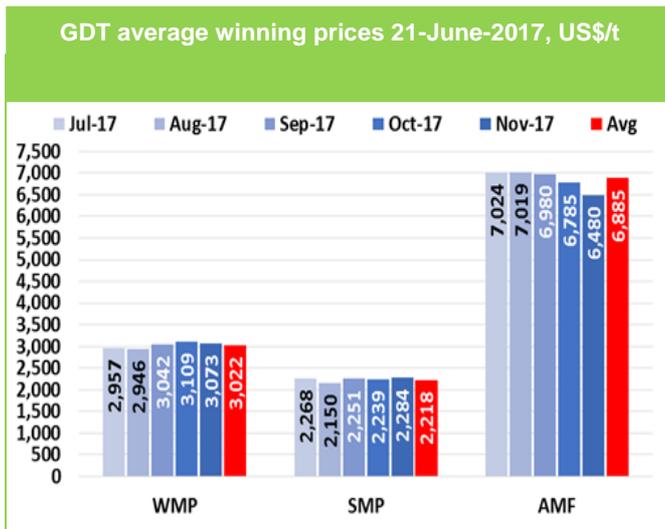
Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted NZ export prices, movements in currency and the total milk usage in exports by the NZ industry. It was set at 100 on 1 January 2000.

food businesses” on Friday. On Monday, Bega announced the successful completion of its institutional placement offer on Monday, raising \$122.5m. Another \$37.5m from a share purchase plan open to all existing shareholders, will open on 3 July. The institutional placement offer was for 22.9m shares priced at \$5.35 per share and the new shares under the share purchase plan will be priced at \$5.25. Along with its capital raising announcement, Bega confirmed its full year guidance for EBITDA at \$67.4m.

Lion seeks more milk:

Lion Dairy & Drinks is keen to add 50m litres of milk to its northern Victoria pool, to lessen its exposure to third party purchases. The search for new supply follows its announcement of its opening prices to its southern suppliers, ranging from a weighted average price of \$5.53kgMS for a one year supply agreement on a variable price, to \$5.89kgMS for a one year fixed price and a three-year fixed price weighted average price of \$5.79kgMS. Around 90% of Lion’s suppliers usually choose a fixed rate, be it three or one year. According to Lion procurement director Murray Jeffries, the processor’s decision to lessen exposure to third party milk traders was driven by volatility in the market and would reduce risk for the business.

Meanwhile, Lion parent Japanese beer giant Kirin Holdings is reported by the Financial review to be quietly testing the market appetite for its Australian dairy business and its understood Kirin has found interest for parts, such as yogurt and dairy beverages. Lion is the second largest milk and cream processor in Australia and along with dairy beverages and yogurt, it also produces milk and cheese.



Global and Corporate Dairy News

GDT slips – first fall since March:

After rising at the previous six auctions, the GDT Price Index dropped 0.8% last week on a smaller offering of 21,171t. WMP dipped 3.8% to average US\$3,022/t with all contract periods down, except for November delivery. SMP lifted 2.9% to average US\$2,218/t as European supply of fresh product continues to tighten. Fats rose on smaller volumes, AMF averaging US\$6,885/t, up 4.8% while butter climbed 2.4% to average US\$5,768/t. Cheddar shed 3.8%, averaging a more reasonable US\$4,121/t.

Butter stocks fall again:

USDA’s Cold Storage report indicates butter stocks were up 7% from April, but down 3% from a year ago. US butter stocks dropped for the second consecutive month in YOY terms, down 3% in May to 142,235t. Butter inventories are still 13.4% above the 5-year average but relative stocks have improved from the start of the year as local demand picked-up only after the end of Q1.

Total natural cheese stocks in refrigerated warehouses on May 31 lifted further, up 1% from the previous month and up 7% on the prior-year comparable. American cheese stocks continued to climb higher however. At the end of May, inventories were 12% higher YOY at 384,212t – this was 22.8% above the 5-year average. According to local analyst Matthew Gould, exports “have a long way to climb before these inventories normalize.” Other-than-American cheese stocks declined counter-seasonally in May, and ended the month only 0.3% above the prior-year comparative at 223,678t. The trend reflects an uptick in exports for the month of May.

EU milk grew in April:

Eurostat reports EU-28 milk output for April was up 0.7% (compared to the Commission's number of 0.4%), with the gains in Ireland (12.1%), Italy (6.4%) and Poland (4.1%) enough to offset weaker production from France (-1%) and Germany (-3.2%). The Netherlands is showing the early effects of the cow culling program, reportedly down 0.4%. With the harsh cold weather in May, it is expected the year-on-year gain was smaller. For the four months to April, EU milk collections were down 1.5%. As cheese provided the best returns for manufacturers, output rose 1.4% for the period. In contrast, SMP/butter offered the worst returns, reducing SMP output by 10%, while butter output fell more than 5%.

Rabobank: China is still coming:

In its Dairy Quarterly, Rabobank says the recovery in global milk is in line with its forecast, but slower than many expected. Favourable weather and higher farmgate prices are providing relief for dairy producers, encouraging a ramp-up in production. However, in China large corporate farm output has been restricted by weak farmgate prices, while a large number of small producers have been forced out. Mediocre consumption growth has outstripped supply, reducing domestic milk powder stocks. Rabobank expects China to increase imports by 35% in the second half of 2017, achieving a near 20% YOY growth for 2017, and keeping WMP markets balanced. Rabobank notes that tighter infant formula regulations appear to be benefitting importers more than local businesses as imports are significantly higher.



Beef and Lamb News

Sheep and Beef farmer confidence surges:

A wave of optimism is sweeping through the rural sector, with farmers reporting to Rabobank the highest level of confidence since the bank's surveys began in 2003. Sheep and beef farmers were the biggest movers since the last quarterly survey, climbing from of +9 per cent to +53 per cent. Rabobank's Hayley Moynihan said this reflected buoyant prices, with beef holding steady and lamb returns higher than initially expected. "It's very unusual to have farmers from all of New Zealand's key agricultural sectors so confident about the outlook for their own business's performance and this bodes well not just for the rural economy but for New Zealand's economy."

US import prices seesaw:

US imported lean grinding beef prices lifted slightly at the end of last week as market participants continue to be faced with the reality of limited spot availability with the US imported cow beef indicator up 0.2% on the week prior to US\$2.225/lb CIF, 9.6% ahead of the same week a year ago. According to the Steiner Consulting Group's report, end users have limited opportunity to secure supplies as New Zealand beef supplies' seasonal decline is underway while Australian packers are experiencing robust demand from Asian markets, both challenging US end users.

Indian cattle slaughter ban relaxed:

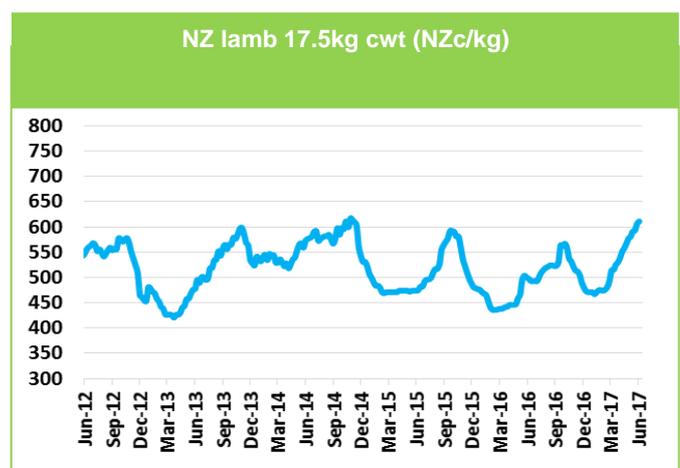
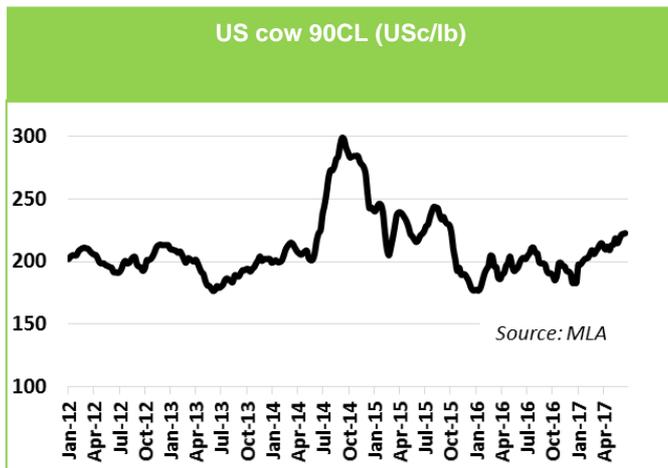
Australian meat industry analyst Simon Quilty says it may be Australian beef exporters opportunity that the Indian government has watered down an outright ban on slaughtering cattle, put in motion to appease conservative Hindu-nationalist groups. The ban, announced last month, would ban the sale of cattle, including cows and buffaloes for slaughter across India. Vietnam and Indonesia were likely to be key markets impacted by a fall in Indian meat exports, however, Quilty expects markets will return to normal with a small amount of extra buffalo meat on world markets as cheaper frozen Indian buffalo meat continues to apply pressure to Australian beef exports.

US imposes ban on Brazilian beef:

Last week, a statement from US Agricultural Secretary Sonny Perdue announced an immediate suspension of all imports of beef products from Brazil due to food safety concerns. The suspension of all imports of fresh and frozen beef from Brazil comes three months after a major scandal involving allegations of bribery of Brazilian meat inspectors, which prompted temporary bans in more than 15 importing countries. Since March, USDA's Food Safety and Inspection Service has inspected all Brazilian products arriving in the US and refused entry to 11% of Brazilian fresh meat products, totaling 1,000t. The suspension will remain in place until the Brazilian Ministry of Agriculture takes corrective action, satisfactory to the USDA.

Demand support strong NZ lamb outlook:

In its June Market Outlook, AgriHQ said solid demand for New Zealand lamb is helping drive up values, so far by more than NZ\$1.40/kg compared to earlier in the year. As lamb exports out of both New Zealand and Australia are down on normal this season, demand has been sparked along with stronger export values which will continue to translate into strong farmgate prices. Prices for the new season are expected to average NZ\$7/kg, NZ\$1/kg higher than last season.



Feed/Arable News

Australian crop prospects dry up:

The Australian grains industry is concerned its YOY production may exceed the 33% fall forecast by ABARES last week as lack of rain and large areas of unplanted or yet to germinate crop remains an issue. A commodity analyst said unless the season is wetter than average from now on across South Australia, the state was unlikely to achieve average yields. However, despite moving its El Nino watch to Neutral, the Australian Bureau of Meteorology still expects warmer and drier than average weather across Australia in the second half of 2017.

French wheat crop rating tumbles:

FranceAgriMer has graded 68% of the French national wheat crop as being in "good" or "excellent" condition due to hot weather with temperatures of 38°C last week, down from 74% a week prior and 75% the same week a year ago. However, Paris futures only saw a 0.3% increase to €178/t for December delivery, below the 10-month high of €183/t and as such weren't affected by the data as fears of damage to crops in France were counterbalanced by positive harvest potential in the rest of Europe.