

- 3.6% price rise at gDT overnight
- MG announces closures, write-downs
- China ups imports of high-value products
- Prices fall on wet weather and short weeks
- World stocks to fall by less

May 2, 2017

New Zealand Dairy News

Milk surged in March:

Average dairy prices rose 3.6 per cent at the Global Dairy Trade auction last night.

Flooding following Cyclone Cook and Cyclone Debbie pushed dairy prices up at the last auction, but commentators who were watching the futures market had predicted prices would flatline at this week's event. Prices are now at their highest level this year - after rises of 1.7 per cent on March 21, 1.6 per cent on April 4 and 3.1 per cent on April 18.

There was a 5.2 per cent increase in whole milk powder (WMP) prices to US\$3233 (NZ\$4670) a metric tonne.

There's widespread agreement that recent market prices support the forecast final payout of \$6 per kilo of milksolids.

NIWA: Warmer through to July:

In its seasonal outlook for May – July, the National Institute for Water And Atmospheric Research (NIWA) forecast warmer conditions for the north and west of the North Island and the north of the South Island, and most likely to be near average for the rest of New Zealand. However, the forecaster warns winter, frosts and cold snaps will occur from time to time, even in regions with higher than normal seasonal temperatures.

Rainfall, soil moisture and river flows are forecast to be near normal in the north of the North Island and east of the South Island. For the west and east of the North Island and the north and west of the South Island rainfall, soil moisture and river flows are likely to be below normal or near normal from May – July. Soil moisture and river flows are likely to be near normal of below normal in the north of the South Island while soil moisture in the west of the South Island are about equally likely to be normal or near normal while river flows are likely to be in the below normal range.

NZ exports mixed:

WMP shipments were the only bright spot in New Zealand's March exports. Shipments were up 15.2% for the month, with WMP destined for China up 35.2% YOY. Exports to Asia were almost 38% up for the month, while shipments to the Middle East were 25% down YOY. However, looking at the five months from November – New Zealand's peak shipping period - the story is less positive, WMP shipments are down 3.1% overall with exports to China up just 1.5% for the period.

NZ SMP shipments were down 9.5% in March, with China shipments down 16.9% for month, and 16.1% lower for the five-

NZ Dairy Export Index

Index on a high – Steady commodity values and a weaker Kiwi dollar lifted our NZ index this week by 3%. Spot quotes from Australasian exporters were mixed with WMP steady at US\$3,200/t for another week, and SMP adding US\$15/t to US\$2,040/t. Butter climbed US\$10/t to US\$4,900/t while cheddar jumped US\$150/t to US\$3,600/t. The NZ dollar fell almost 2c to **US\$0.6863**, boosting the index by 5.12 points to 172.76.

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.

month period from November. While exports to Asia were up 8.5% in March, this was well against the trend of the peak shipping period from November, which was down 19.2% on the comparative. It was a mixed story for fat exports in March, AMF shipments were up 6.5%, while butter fell 14.7%. On a fat-equivalent basis, shipments were actually down 5.7% for the month – it seems some signs of buyer resistance to strong prices are emerging.

OCD builds new plant:

Open Country Dairy (OCD) is preparing to build on a fourth site at Horotiu in northern Waikato, a milk powder plant with the capacity for 250m litres of milk annually. Dairy industry analyst and investor Geoff Taylor said OCD had grown 10% annually over the past five years and were planning to increase milk supply by 20% for the Horotiu powder plant. Furthermore, OCD has paid more on average for milk than the farmgate milk price over the past five seasons, indicating a move into higher-value ingredient products and established customers was paying a premium for committed suppliers.

Australian Dairy News

MG announces closures, write-downs:

Murray Goulburn (MG) has announced the results of its asset and footprint review. The Edith Creek UHT plant will close in Q2 2018, closure of the Rochester plant in Northern Victoria is planned by Q3 2018, with Kiewa following by Q12019 – impacting 360 employees.

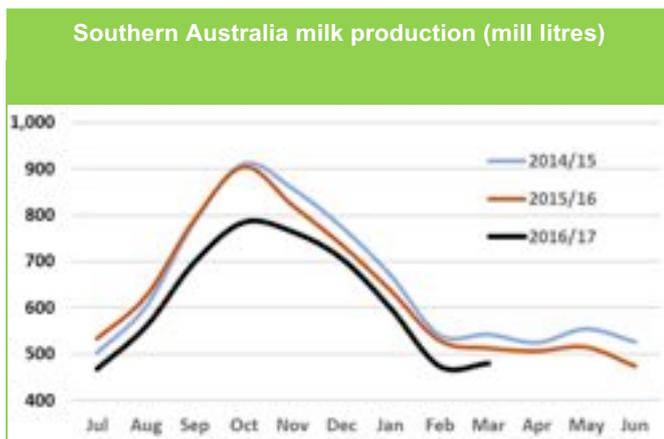
To mitigate risk of further milk losses, MG will forgive the Milk Supply Support Package (MSSP) payments which were scheduled to recommence from July. MG will repay continuing and retired farmers who made MSSP payments between July and September 2016. The resulting write-down will be in the order of \$148m (post-tax \$104m).

MG will not proceed with proposed major capital investments in dairy beverages and nutritionals. MG also committed to pay a farmgate milk price (FMP) of \$4.95/kg MS in 2016/17 despite weakening trading conditions. In order to implement its initiatives and maintain the FMP, MG has resolved to deviate from the Profit Sharing Mechanism by up to \$410m, with an independent expert's opinion concluding the move is in the interests of supplier shareholders and unit holders.

Milk output recovering:

Australian milk supply was 5% lower than the comparative in March and close to 8% down year-to-date, as Victorian output reduced the deficit from the same month last year with favourable weather conditions and adequate cheap feed, while Tasmania's output worsened. The three Victorian regions narrowed their deficit, with Gippsland recovering to be less than 1% lower than March 2016.

Victoria however remains more than 9% down on the prior year through to the end of March, a similar deficit for the entire southern region. The full year result will probably be better than that given the steep dip in June 2016 intakes after the southern price step-downs. Northern fresh milk states tracked closely to the year-ago numbers, while Queensland remains the only region ahead of the prior year over the 9-month period.



Global and Corporate Dairy News

China ups imports of high-value products:

Chinese imports of high-value products increased in March with imports of infant milk formula up 18.7% YOY, while cheese imports rose 16.9% YOY and whey powder imports lifted 10.6% YOY.

European shipments to China grew in the period January to March with the Netherlands, Ireland, France, Germany, Denmark and Switzerland accounting for a 78% share of the infant formula market in China. Ireland and the Netherlands exported a combined 26,000t, representing a 48% share of infant formula imports through the January to March period. In the same period, Poland grew its exports of whey powder to China by 2%, however the US still has a 59% share of the Chinese whey powder market. Italian cheese exports grew 18% in the first quarter, increasing market share to 3%, alongside Denmark. New Zealand and Australia remain the top exporters of cheese to China accounting for 54% and 22%, respectively.

TPP supporter appointed ag secretary:

Former governor Sonny Perdue has been appointed the new agriculture secretary, with bi-partisan support from Republican and Democrat senators. Farmers are demanding Perdue advocate trade liberalization as US farmers are calling for new ag-policies to revive their industry and small American towns. Despite President Trump's stated support for small towns and farming, he has proposed a 21% cut US agricultural programs and has been critical of trade deals supported by farmer organisations. Lobbyists The American Farm Bureau Federation were optimistic that Perdue would be a proponent of free trade, given his previous support of TPP.

EU prices slightly better:

A slightly improved story for EU wholesale prices in the latest data published by the EU Commission, but uncertainty lies ahead with all eyes on milk output through the spring flush. Butter prices have continued their recent push to revisit the record high set in late December 2016 with an ever-tightening supply situation, and will keep rising by a further €300/t if quotes for delivery over the next 3 months are a guide. SMP prices have continued a steady weakening towards intervention buying prices, leaving the butter-SMP composite steady.

WMP price has risen, following Oceania quotes, and spot prices suggest further firming. Gouda and other semi-hard cheeses were marginally weaker, but current spot quotes are firming across these lines.



Beef and Lamb News

Prices fall on wet weather and short weeks:

The 90 CL imported cow beef indicator fell 1.4% last week, due to low product availability from New Zealand and Australia, with the indicator closing at US\$2.09/lb, but still tracking 5.0% ahead of the same week last year. A combination of wet weather during March and short killing weeks in New Zealand and Australia has reduced inflows of beef to the US in April. Lower than expected supply shipments from New Zealand and Australia and a lack of meaningful supply into the US from new exporter Brazil, has created a very tight supply situation in the US imported lean grinding beef market, according to the Steiner Group's weekly report. This has resulted in continued firm prices for lean grinding beef and imported beef trading at a premium to domestic prices.

Better grass growth boosts profits:

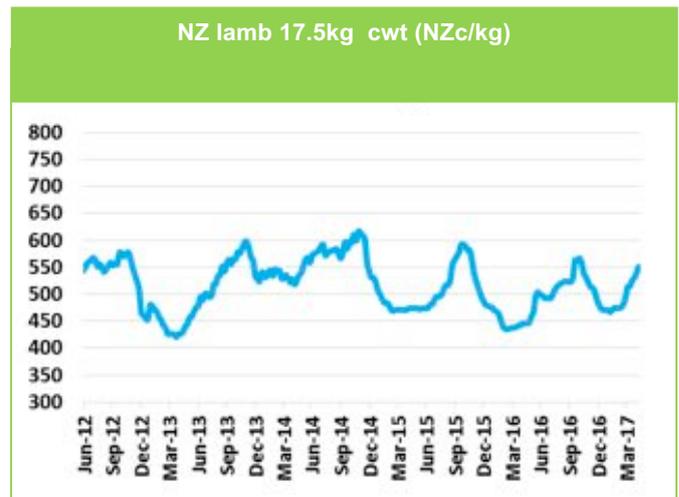
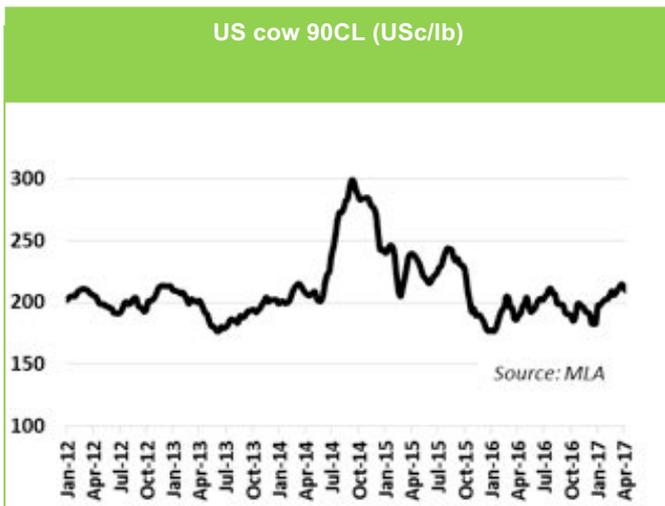
Sheep farmers in New Zealand can look forward to a boost in income thanks to better lamb prices and improved grass growth. Farmgate prices for prime lambs are now around NZ\$5.60/kg to NZ\$5.80/kg and across the entire season the prime lamb price is forecast to average NZ\$4.95 and lambs are forecast to be similar to last season, indicating farmers are strongly committed to sheep. Meanwhile, sheepmeat exports for the season are tipped to fall by 4% to 442,700t and according to Beef + Lamb New Zealand chief executive Sam McIvor, NZ exporters need to keep telling consumers where a product is from as it resonates with consumers and sells the product.

More beef on global markets:

USDA forecasts increasing beef production in the US and South America will result in a lift in global beef exports in 2017, offsetting the decline in Australian and New Zealand shipments, which are expected to be down 6% on last year. The US, South America and India are expected to export 5% more beef in 2017, raising global beef exports by just over 2%.

Indonesian feedlot sells NT breeding property:

One of Indonesia's largest feedlotting operators Great Giant Livestock (GGL) has put Willeroo Station, 120kms south-west of Katherine, up for sale, three years after it was bought. GGL imports about 50,000 cattle from Australia per year and as Willeroo Station only provides 3,000 steers per year to the company's feedlots, the property didn't fit its needs. Australian adviser to GGL Peter Watkins said the company has been agisting cattle and leasing country, backgrounding steers and preparing breeding cattle in Australia for export to Indonesia over the last two years and was focusing on backgrounding cattle instead of breeding.



Feed/Arable News

World stocks to fall by less:

The International Grains Council has changed its forecast slightly, saying world grain stocks will fall by less than had been thought next season. In its second estimate for 2017/18, the IGC raised estimates for inventories at the close of the season by 7mt to 491mt. Its estimate for corn output in 2017/18 was lifted 2mt to 1.026bn t, while that for wheat was raised by 1mt to 736mt, despite acknowledgements of weather worries, such as over wetness slowing US Midwest corn sowings and cold testing European wheat crops spurring price revivals.

NAFTA negotiations bring 'fairer trading':

The renegotiation on the North American Free Trade Agreement (NAFTA) has brought hope to US wheat farmers who are eyeing 'fairer grain grading rules'. Under current rules, US wheat exporters cannot have their wheat graded by the official Canadian Grain Commission, meaning US wheat delivered to Canadian grain elevators is being sold as either feed grade or at a specification at any price agreed to by buyer and seller. According to the USDA's Ottawa bureau, critics have urged the permission of official grading, handling and export of US grain through Canada, bringing hopes of trading equality.