

- [Slow recovery in milk continues](#)
- [Australian milk output recovering](#)
- [Mexico's milk supply up in 2016](#)
- [US imported beef prices steady climbing](#)
- [China ramp up alfalfa production](#)

January 31, 2017

New Zealand Dairy News

Slow recovery in milk continues:

New Zealand milk production declined 3.1% YOY in December to 225.5m kg of milksolids according to Dairy Companies Association of New Zealand (DCANZ), an improvement on the 5.3% YOY drop in November. According to AgriHQ, wetter-than-normal November with near-normal temperatures was positive for pasture growth and therefore December milk supply.

In milk volume terms, December production fell 2.7% to 2.69m tonnes. In the first 7 months of the 2016/17 season, output was down 3.6% in solids and 3% in volume. Fonterra's share of total collections was 82.8% season-to-date compared to 84.5% in the same period of 2015/16.

Fonterra backs Beingmate despite losses:

Fonterra has moved to reassure investors, as its China partner Beingmate announced its 2016 loss would be double what was originally expected at 750-800m yuan. Fonterra's chief financial officer Lukas Paravicini, remains confident in the cooperative's China strategy. Companies like Beingmate were being hit by systemic discounting, as infant formula companies unlikely to gain registration under new regulations cleared inventories, according to Harbour Asset Management research analyst Oyvinn Rimer. While the Beingmate loss won't affect Fonterra's bottom line, on paper the company will lose US\$232.9m as Beingmate's shares have declined from 18yuan/share to 12.34yuan/share.

Meanwhile, to meet demand in China, Fonterra has boosted availability of its Anchor Dairy Foods product range by making the product available in 1,700 stores in recent months, up from 1,400 and upping its online presence. According to vice president of brands in China Chester Cao, breakfast items such as butter, cheese and cream were in hot demand due to a growing Chinese middle class. An app enabling users to share their favourite breakfast recipes found Western-style dishes made up 70% of the recipes shared. Data from China Customs show that imports for butter, cream and cheese all rose with cream up 57%, cheese up 31% and butter up 21% in the first 11 months of 2016 compared to the year prior.

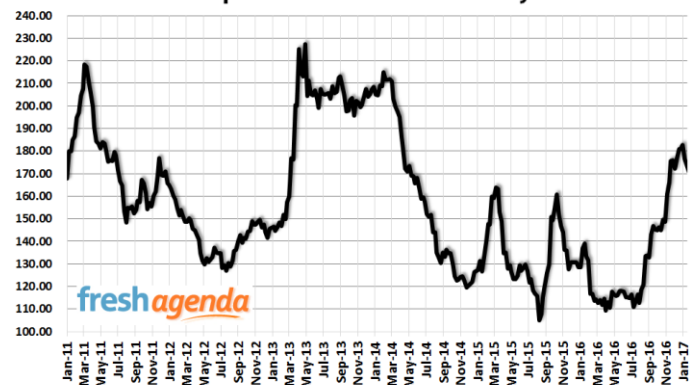
NZ WMP exports flat in December:

WMP shipments were virtually unchanged from the prior year in December and over the last quarter, ending 3% down for the full year. WMP exports to China & HK rose 22% in December, ending 2016 34,377t or 9.5% higher than in 2015. WMP exports to North Africa surged 64% during the quarter to December, but were weaker in other key regions such as ASEAN

NZ Dairy Export Index

Index dives – Last week, the index dropped again due to a stronger NZ\$ and mostly lower prices. Spot quotes from Australasian exporters trended down apart from WMP, which remained at US\$3,300/t. All other commodities fell US\$50/t, SMP to US\$2,600/t, butter to US\$4,350/t and cheddar to US\$3,950/t. The NZ dollar rose to **US\$0.7264**, shaving the index by **3.81 points** to **167.13**.

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.

(down 24%) and GCC (down 20%).

SMP exports fell for the second consecutive month in December, were down 4% over the last quarter and finished 2016 8% up on the prior year. SMP shipments to China & HK have registered double-digit declines each month since July. SMP exports to Africa and GCC rose 50% and 5% respectively, but failed to offset the 11% decline in exports to Asia for the period.

Cheese exports continued to grow, up 7% over the December quarter with a 22% expansion in shipments to China & HK. This region accounted for 15.8% of total NZ cheese exports in 2016. Butter exports slowed, 3% weaker in the December quarter, with a 23% fall in shipments to China & HK.

Australian Dairy News

Milk output recovering:

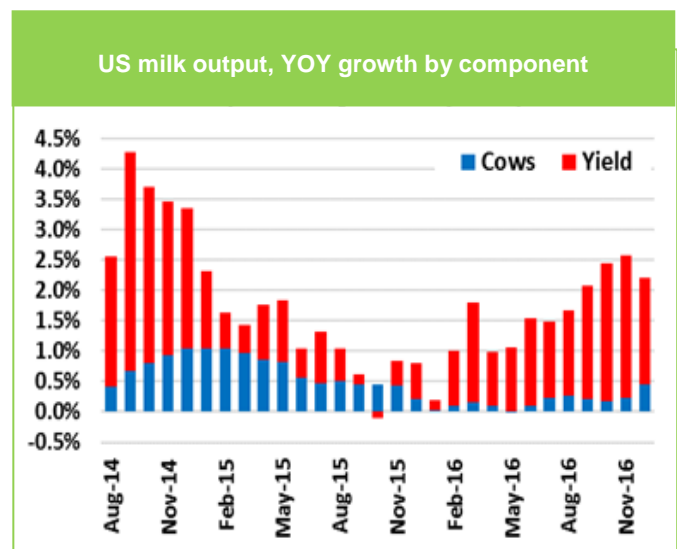
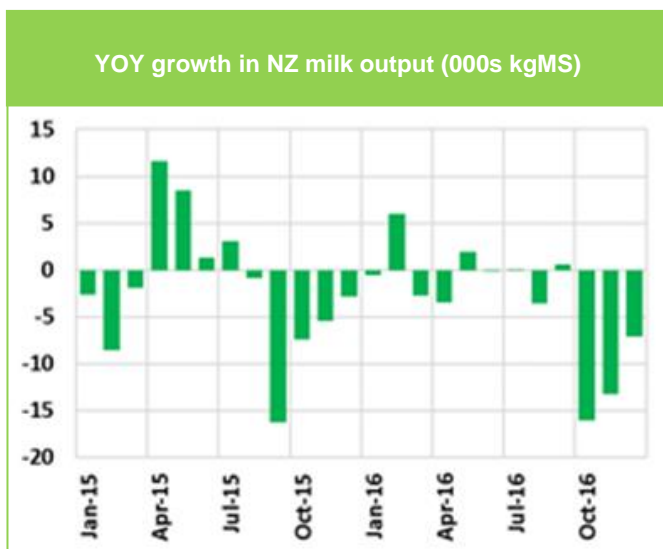
In a \$460m deal, Bega Cheese has entered into a binding agreement to acquire most of Mondelez International's Australia and New Zealand grocery and cheese business, including Vegemite, as well as peanut butter and cheese and other products using the Kraft brand under license. In its statement to the ASX, Bega said after accounting for additional operating costs and adjusting for brand rationalization the purchased business is expected to generate pro-forma net revenues of approximately \$310m and EBITDA of between \$40 to \$45m in its first full year of operation. The acquisition is being funded by bank debt.

As part of the deal Bega acquires the global trademark rights to Vegemite and ZOOsh, a transitional royalty free trademark licence for several Kraft branded products until December 2017. Bega has a brand rationalization and transition strategy post that date. In announcing the deal, Bega's Executive Chairman Barry Irvin said "this acquisition will be value accretive in its own right, strategically important and company making."

Saputo makes WCB takeover offer:

Saputo will make an off-market takeover bid for all Warrnambool Cheese & Butter (WCB) shares through its Australian subsidiary Saputo Dairy Australia Pty Ltd. The offer is \$8.85 per share for all ordinary WCB in which it does not currently have a relevant interest – 11.98% of shares on issue. WCB established an International Board Committee to engage with Saputo on the terms of the offer and manage any conflicts.

The Committee has recommended that, "in the absence of a superior offer and subject to an independent expert concluding that the offer is fair and reasonable, WCB shareholders accept the offer". Saputo has already received Foreign Investment Review Board approval for the offer, and is conditional only on the Canadian company acquiring 90% of WCB shares on offer. In making the offer, Saputo has informed WCB shareholders it intends to compulsorily acquire WCB if it is able to do so, or cause it to delist if it is able to do so. Lion Dairy & Drinks accounted for 10.22% of WCB shares as at May 2016.



Global and Corporate Dairy News

Mexico's milk supply up in 2016:

Mexico's milk production rose 1.9% in 2016 to 11.6bn litres with a strong 3.3% YOY rise in December. The full year growth in 2016 followed a 2.4% rise in 2015 and a 1.5% expansion in 2014.

Rising domestic supply, and an 11% decline in the Peso against the greenback since the US Presidential election mean Mexican non-fat dry milk (NFDM) buyers are sitting on the sidelines according to US-based analyst Matthew Gould. In the first 10 months of 2016, Mexico's SMP/NFDM imports were 14.3% higher compared to the same period in 2015 at 235,758t with a 93% market share for the US.

US December milk output up 2.2%:

Milk production rose 2.2% in December, with average yields once again accounting for most of the increase. Cow yields increased 1.8% on average, with December average output the highest for the month since the series began. Cow numbers rose 0.4% YOY, an increase of 38,000 head on the same month in 2015, and 11,000 more than November.

National milk production was up 1.9% for the year in 2016 with a 2.4% rise in the December quarter. Output in south-west states rose 2.8% for the period versus a 2.1% expansion in other states. California milk output increased in each of the last 3 months while Texas led all states in terms of YOY growth for the third consecutive month with a 12% rise in December. In contrast, Wisconsin's 1.7% YOY rise was the lowest in 28 months.

EU milk prices rising:

According to the European Commission, the weighted-average price of cow's raw milk was estimated at €32.15/kg in December, 1.2% higher than the prior month and 25.2% above the July 2016 low. Prices have continued to improve following sustained increases in wholesale cheese prices, which appear to have peaked.

More detailed LTO data by processor shows DMK payouts increased €1/kg for December and January (excluding "Milkmasterbonus") to €31.35/kg. The same increase applies to Kerry Agribusiness and Glanbia Ingredients prices in Ireland, but only for December, increasing prices to €30.19/kg and €29.95/kg respectively. In Denmark, the Arla Foods standardized milk price will reach €34.49/kg by February while the Dairy Crest (UK) payout will total €34.52/kg in the same month. FrieslandCampina's guaranteed price for January is €34.50/kg, a €3/kg decline from the prior month, while February milk will be priced at €3.50/kg.



Beef and Lamb News

US imported beef prices steady climbing:

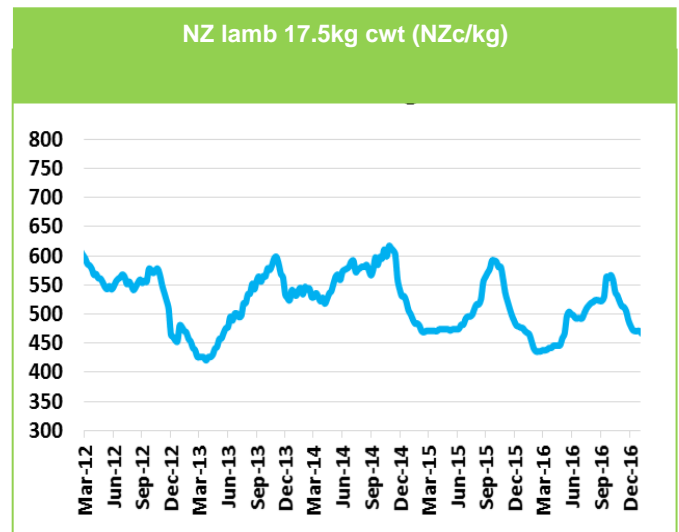
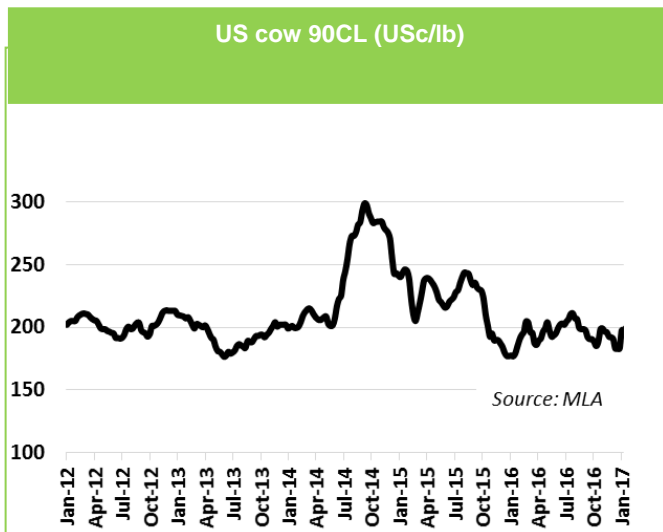
Another week of steadily increasing US imported beef prices, the 90CL imported cow beef indicator closed at US\$2.015/lb, up 1% from the week prior and tracking 8.9% higher than the corresponding period last year on tightening supply. Australian slaughter has remained light in recent weeks due to holidays, while New Zealand slaughter has shown signs of recovery, but is vulnerable to weather conditions, with above average rainfall limiting cattle supplies. The Steiner Consulting Group reports buyers feel prices have been pushed higher too quickly, and there has been some pushback from end users. This could be temporary according to Steiner, with end users once again looking for product.

NZ lamb prices firm in January:

Increased seasonal production in the first weeks of the new year means New Zealand lamb prices in January have remained relatively steady so far, underpinned by strong domestic and international demand from China and parts of the Middle East in. Through Christmas, New Zealand lamb prices trended 10c/kg dearer YOY close to NZ\$5.20/kg, however, farm gate prices for slaughter types remained well below the five-year average value of NZ\$5.80/kg. Lamb farm gate prices are expected to hold around NZ\$5/kg in the lead up to Easter due to lower inventories,

Beef producers brace themselves for hard Brexit:

Agricultural experts from Ireland’s Teagasc are warning many beef farmers will be facing a battle for survival, should Theresa May stick to her “hard” exit from the EU over the next 18 months. Meat Industry Ireland’s Cormac Healy said a situation with basic World Trade Organisations rules for British beef processors could be catastrophic, but Healy said that beef processors were preparing themselves for a long fight. And while Healy wants to push for more state aid due to structural change, others were more optimistic, saying EU isn’t interested in inflicting harm upon itself by not trading with the UK. Healy maintained leaving the EU would affect prices negatively – and Agri-economist Professor Alan Matthews said Brexit would be a big negative shock and “permanent one”.



Feed/Arable News

China ramp up alfalfa outlook:

The Chinese ministry of Agriculture projects quality domestic alfalfa output to reach 5.4m tonnes a year by 2020, meaning China’s alfalfa self-sufficiency will remain at 80%. It’s an effort to reduce heavy dependence on imported alfalfa hay, mostly from the United States, Australia and Europe. China’s demand for alfalfa is forecast to reach 6.9m tonnes by 2020 if the country projects its milk production to attain 41m tonnes with a total of 6m milking cows. China’s alfalfa project will see an additional 400,000ha of high yield alfalfa planted, however, China will still need to import 1.5m tonnes of alfalfa by 2020 to support demand for milk production as China’s dairy industry consolidates.

Spain EU’s largest feed producer in 2016:

According to the Alltech Global Feed Survey, Spain replaced Germany as the EU’s top producer of animal feed in 2016, up 8% YOY as global production hit a high. Growth across Europe was slower; however, global feed production was up 3.7% on 2015 to 1.3bn tonnes, despite a 7% reduction in the number of feed mills. The fastest output growth was achieved in Africa, up 13% and in the Middle East were production grew almost 17%. Across Europe, Brexit and the likely reform of agricultural subsidies cast shadows, resulted in slower growth. While feed for dairy production was flat globally, there were noticeable variations – with US and India leading the pack with increases of 12% and 14% respectively, while the Netherland and Argentina also increased. In contrast, dairy feed production in Turkey and Germany was down 1.5m tonnes and 3.4m tonnes respectively.