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February 7, 2017

New Zealand Dairy News

Drought declared in Northland:

Primary industries minister Nathan Guy has officially declared a drought in Northland, classifying the conditions as being “a medium-scale adverse event”. Dairy output has been hard hit, with intake down 23% on last season.

The official drought declaration will make extra funding available to coordinate support through local organisations and banks are suspending or reducing loan principle repayments as well as offering short-term funding.

Westland mulls job cuts:

Westland Milk Products has announced it is conducting a further review of staff roles throughout the group that is likely to lead to job losses. The review is scheduled for completion by the end of February and is part of an overall program to increase efficiencies and reduce costs. According to chief executive Toni Brendish, current payout predictions – while higher than the last two seasons, are not where shareholders need them to be.

Westland’s current payout prediction for 2016/17 is between NZ\$5.50 to NZ\$5.90kgMS, which is estimated to bring a net return to shareholders of NZ\$5.30 to NZ\$5.70kgMS.

Kiwis push for Mexico FTA:

New Zealand trade minister Todd McClay is upbeat about the clear signal he has received from Mexican president Enrique Pena Nieto, who wants to forge bilateral deals with New Zealand and other signatories to the Trans-Pacific Partnership. McClay who is en route to Mexico and several other countries will request that talks on a Mexican free trade deal be placed on the agenda when he meets Pena Nieto. McClay is visiting the TPP signatory nations to see which elements of the deal can be preserved after President Trump’s decision to exit the agreement.

Australian Dairy News

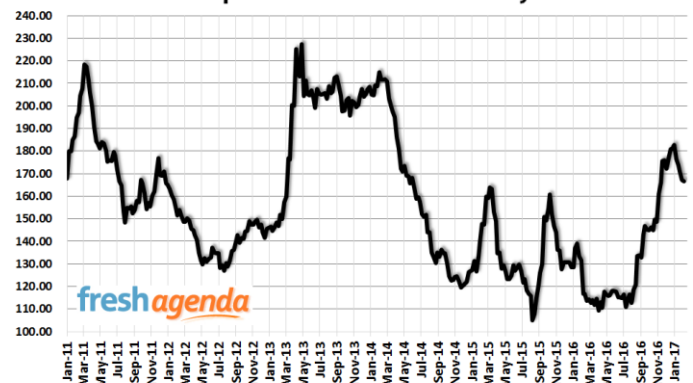
Aus dairy exports rise:

Dairy Australia reports dairy exports for July-December increased 2.8% to 400,607t compared to the same period in 2015, while value rose 2.2% to \$1.47bn. There were mixed trends for powders with WMP taking priority - exports were up 35% to 48,119t. In contrast, large overseas stocks have taken the shine off SMP markets, and exports dropped a significant 20% to 75,895t. Cheddar and other cheese shipments declined 0.5% to 26,743t and 7.6% to 53,777t, respectively. Fat shipments were also lower – butter exports declined 11% and AMF exports were down 4% from a low base to 3,309t. Milk

NZ Dairy Export Index

Index stabilises – Last week, the index slid marginally due to steady commodity prices and a stable NZ\$. Spot quotes from Australasian exporters remained at the prior week’s level with WMP unchanged at US\$3,300/t and SMP at US\$2,600/t. Butter sat at US\$4,350/t and cheddar at US\$3,950/t. The NZ dollar rose to **US\$0.7288**, shaving the index by **0.55 points** to **166.58**.

NZ export index since January 2011

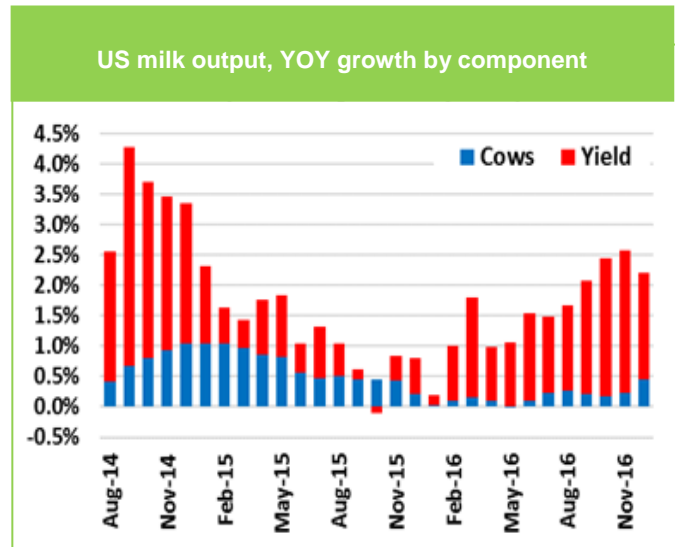
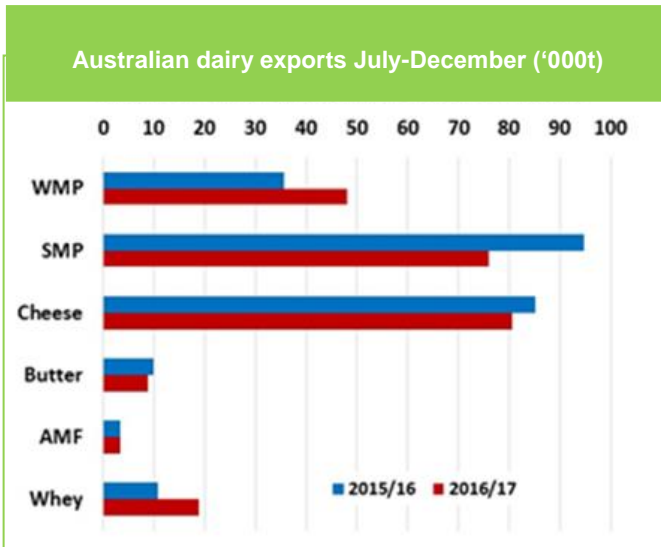


Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted NZ export prices, movements in currency and the total milk usage in exports by the NZ industry. It was set at 100 on 1 January 2000.

exports rose 7% and whey product shipments increased 73% to 18,774t.

Fonterra steps up:

Fonterra Australia has announced a step up in average farmgate milk price to \$5.20/kgMS, bringing the milk price to its forecast closing price for the 2016/17 season. Fonterra Australia Managing Director Rene Dedoncker said the revised price reflected improvement in the global commodity markets and progress on key initiatives for the Australian business, such as Fonterra's strategy of growing its ingredients business with the expansion of its Stanhope cheese plant and its Beingmate joint venture in Darnum.



Global and Corporate Dairy News

Global outlook improves, slightly:

Freshagenda's first [Global Dairy Directions](#) update for 2017 sees a slight improvement in the global market outlook with healthier import demand and slowing supply shifting the market towards a stronger "net-demand" balance. China, SE Asia and MENA are expected to be the key demand drivers, while South America and Mexico imports will be heavily influenced by politics.

Recent GDT results and adjustments in futures curve are more aligned with our view on the fundamental value of dairy commodities (PFVs) based on the balance of product demand and supply. The projected fundamentals support values to peak in the middle of the year at around US\$3,350/t for WMP and US\$2,500/t for SMP.

Key downside risks remain the pace of milk supply recovery in the EU and New Zealand. Our current outlook is for net milk supply growth for the top five exporting regions to turn positive in the second quarter of this year. But that says nothing for new wildcards that have quickly come into view as President Trump seems to be putting into his election promises and threats into practice, souring relations with US dairy's biggest export customer. Then there's the threat to send home undocumented farm workers and bring on a foreign and trade policy war with China. In the words of the former head of the CIA at IDFA Forum in Florida on Monday – Buckle Up!

Argentina's WMP exports drop:

Total Argentinean dairy shipments declined for the 4th consecutive month in December – down 44% YOY. Exports in for the full year were down 21% compared to the prior year, despite a 40% increase in shipments to Brazil. In the last 12 months, Argentina's WMP exports to South America were down 38% hit by a 71% fall in shipments to Venezuela. Over the same period, Venezuela accounted for just 18% of total Argentinian WMP export tonnage, down from a high of 57% in

October 2015. As well as reduced demand, lower shipments reflected falling local product availability with Argentina's milk production declining 14.4% in 2016..

American cheese output higher:

USDA NASS reports American cheese output rose 3.2% in Q4-2016 compared to the same quarter in 2015. According to US-based analyst Matthew Gould, new cheese processing capacity that will continue to boost supply and dampen prices. Production of other-than-American cheese varieties slowed in Q4 however, rising by 1.2% compared to a 2.4% increase in raw milk production.

Output of non-fat dry milk (NFDM) and SMP picked-up pace in the last quarter, rising 7% and 12% respectively, with most additional milk deliveries ending up in plants with available NFDM/SMP capacity. Reflecting firm demand for cream, butter output declined 5.5% in Q4. Dry whey supplies continued to be tight, with production down 4.6% in the last quarter.

US farmgate prices up in December:

USDA National Agricultural Statistics Service (NASS) reports the all-milk price rose for the second consecutive month in December to US\$42.7/l. This was 6.8% higher than the prior month, 8.7% ahead of the same month in 2015 but 7.8% below the 2014 comparative.

Among individual states, all-milk prices received in December (before deduction for hauling, including quality, quantity and other premiums, and excluding hauling subsidies) ranged from US\$36.6/l in New Mexico to US\$50.2/l in Florida.

EU milk decline slows:

EU28 milk output continues to decline, but the worse is already over. In latest data for the week ending 22 January, German and French supply was down 4.1% and 4.4% YOY respectively. In the UK, cumulative daily milk deliveries through 28 January were running 4.5% behind the same period in 2016.

Official Eurostat data for December is available for only a few majors, with reporting countries accounting for 35% of EU28's supply. Dutch production was flat in the last 2 months of 2016, and rose 7.5% in the calendar year. Output in Ireland fell 2.2% in December after dropping 3.2% YOY in November, but was still up 4.4% for the full year. Supply continued to decline in Denmark, Belgium, Finland and Lithuania through the end of the year, but rose in Poland up 2.4% in December and 1.1% YOY in November.



Beef and Lamb News

Prices for imported beef on the rise again:

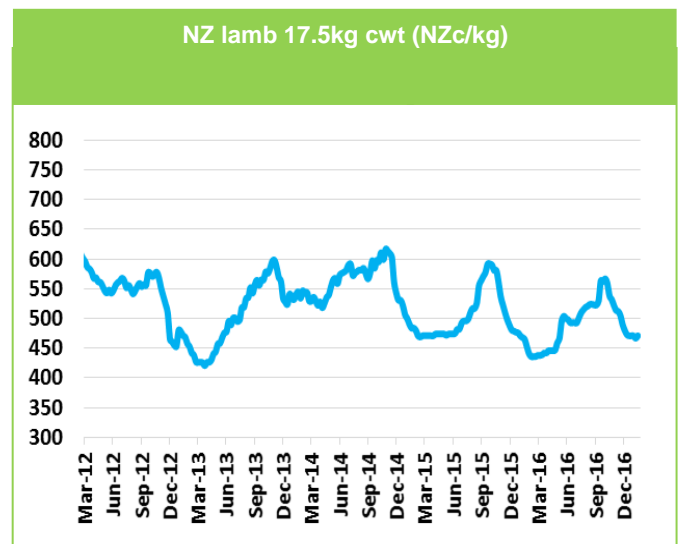
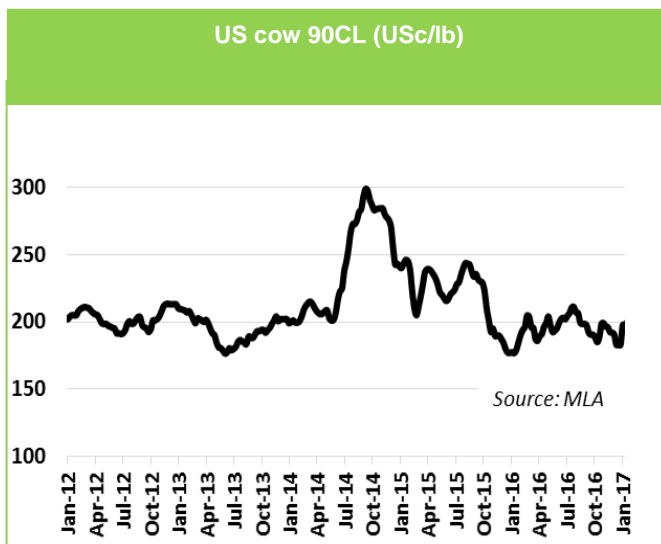
Strong demand and "extremely" limited supplies are continuing to drive up prices of US imported beef. Last week, the 90CL imported cow beef indicator closed at US\$2.025/lb, up 0.5% from the week prior and tracking 6.3% higher than the corresponding period last year. Demand for ground beef is growing in the US, which is pushing import prices higher as lower domestic beef prices are encouraging fast food marketers to focus more funding on promotions – supporting demand. The Steiner Consulting Group expects that Australian beef shipments to the US will be 40% lower in January, compared to the same month last year, due to both supply constraints but also an Australian dollar which is US\$0.03 higher than at the close of 2016

Russia threatens to ban imports of NZ beef:

A report released by Russia’s agriculture watchdog claims to have found the feed additive ractopamine in some beef samples and plans to temporarily ban imports of beef and beef products from New Zealand from February 6. However, New Zealand’s Ministry for Primary Industries (MPI) said it hasn’t received prior notification and are seeking further clarification on the matter. A spokesperson said ractopamine is not registered in New Zealand for use in animals. Chief executive of the Meat Industry Association Tim Ritchie said the additive is prohibited for use in beef and sheep, but was allowed in pork. According to Ritchie, a residue program run by MPI has not picked up any ractopamine in its last report.

Mutton prices set to ignite:

The past two weeks have seen mutton prices rally to six-year highs with a A\$1.45/kg carcase weight climb YOY due to tight supply and solid demand. According to Elders southern livestock manager Ron Rutledge, the rally in prices was due to intensifying restocker demand as the Australian sheep flock hadn’t grown compared to last year, despite commentators and processors saying there would be an overload of stock. Meat and Livestock Australia reporter Leann Dax said last year’s severe droughts had forced producers to offload increased numbers of aged ewes, pushing up prices to A\$212 for merino ewes scanned in lamb, compared to last year’s A\$150.



Feed/Arable News

PEP takes 60% Allied Mills stake:

GrainCorp and Cargill Australia have announced plans to sell out of Allied Mills to Pacific Equity Partners (PEP), which will retain GrainCorp’s 60% share in the joint venture for \$190m pre-tax. According to GrainCorp group financial officer Alistair Bell, the sale of the equity investment in Allied Mills creates an opportunity to realise value, reduce gearing and improve returns while allowing the company to invest in other areas. Subject to regulatory approval, Allied Mills’ seven flour mills in Queensland, NSW, Victoria and Western Australia will add to PEP’s other food manufacturing business.

Grain prices still under pressure:

A better than expected Argentinean soybean crop is weighing on prices. While the crop won’t be exceptional, it won’t be as disastrous as some analysts were expecting in the wake of recent flooding. Yields in Brazil’s largest producing region of Mato Grosso, are forecast to be “extremely high” – leading to a record harvest predicted to be between 104 and 407m tonnes. In the US, Midwest farmers are likely to prioritise soybeans over maize for spring plantings, given returns are still around 2.6 times higher. Record crops in both Brazil and Argentina mean the outlook for maize is far from bullish – despite decreased US plantings. Wheat prices are stalled as the market awaiting news on winter kills resulting from a cold snap in southern Russia reach the market. Across the US plains temperatures have dropped below -20 degrees C, and crop conditions are down from last year – but the impact on yields is yet to be determined.