- Chance of warmer and drier weather in New Zealand
- Australian price outlook weakens
- Market outlook weakens
- US import prices ease
- EU wheat production to bounce back

March 7, 2017

New Zealand Dairy News

Chance of warmer and drier weather:

NIWA's latest outlook is for average or above average temperatures in the north and east of both the North and South Islands during autumn, while temperatures are likely to be near average in the west of both islands. Rainfall totals are about equally likely to be near or below normal in every region of New Zealand apart from the west of the South Island where there is a 45% chance of near normal rainfall.

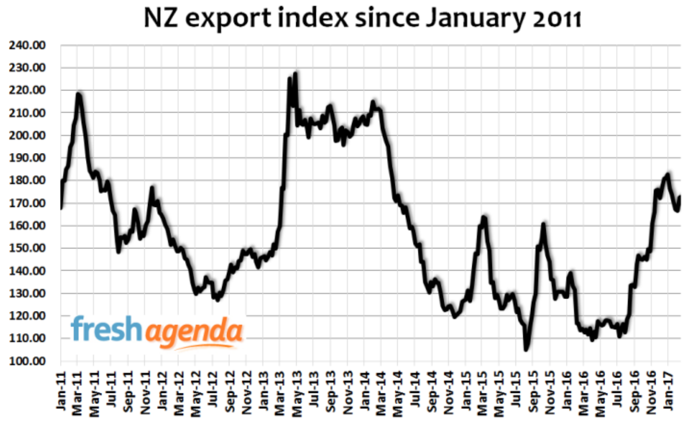
For soil moisture and river flows, there is a 35% chance they will be as normal and a 35%-40% for below normal in the North Island. In the South Island, below normal soil moisture levels and river flows are most likely for the east, and a 35% chance levels will be normal or below normal in the north and west.

Westland under pressure:

New Westland CEO Toni Brendish is under pressure, with more than a dozen suppliers threatening to move to Fonterra. While Brendish has promised to return Westland to profitability, the co-operative can only offer NZ$5.40 to $5.80kgMS for the current season. It's being reported that eight farmers in the Maruia, North Westland region are considering contracts with Fonterra, with a similar number in Canterbury assessing their options – and while they would be a drop in the Fonterra bucket, any loss of supply would be significant for Westland.

NZ Dairy Export Index

Index back up – A weaker NZ$ has boosted the index by 1.7% this week. Spot quotes from Australasian exporters were unchanged or trended down with WMP dropping US$25/t to US$3,200/t. SMP sat at US$2,600/t and cheddar remained at US$3,750/t. Butter shed US$25/t to US$4,600/t. The NZ dollar fell 1.5c to **US$0.7041**, adding 2.8 point to the index, which now stands at **170.96.**



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.

A2 takes Synlait stake:

The A2 Company has invested in Synlait, taking an 8.2% shareholding in its supplier to strengthen the relationship between the companies. A2 is acquiring its shares from existing investor, Friesland Campina, following the Dutch dairy cooperative's decision not to participate in Synlait's October capital raising. For A2 the deal provides certainty for the company's medium-term growth plans with the investment building upon the existing commercial ties between the two companies, with the current supply agreement continuing to be the cornerstone of the relationship.

Australian Dairy News

Price outlook weakens:

Freshagenda's latest farmgate price outlook has improved slightly for the current season, but weakened for 2017/18. Commodity prices peaked in January but have since weakened on news of a faster than expected recovery in NZ and EU milk production and still heavy SMP intervention stocks. The forecast average southern Australia farmgate milk price for 2016/17 is now in the range $5.20 to $5.40kgMS. Looking ahead to next season, average southern prices are still expected to improve, however our expectation of the underlying commodity milk value has been shaved by $0.20kg MS since the January update. Southern farmgate prices are now projected to average between $5.80 and $6.00kgMS in 2017/18, assuming an exchange rate of US$0.72.

BoM raises El Nino odds:

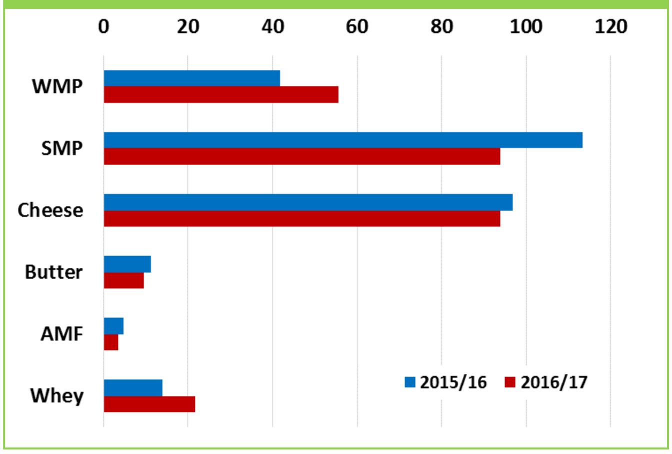
Bureau of Meteorology (BoM) has upgraded its El Niño-Southern Oscillation (ENSO) Outlook status to "an El Niño watch", meaning the likelihood of El Niño forming in 2017 is approximately 50%. Currently, all atmospheric and oceanic indicators of ENSO are within neutral thresholds, but sea surface temperatures have been rising in the eastern Pacific Ocean and are now warmer than average for the first time since June 2016. Seven out of eight models surveyed by BoM indicate steady warming in the central tropical Pacific Ocean over the next six months and six models suggest El Niño thresholds may be reached by July. The BoM suggests some caution, as there is lower model accuracy at this time of year.

Australian exports rise:

Dairy Australia reports total dairy exports for the seven months to January increased to 468,631t, up 2.6% on the same period in 2015/16, while value rose 1.9% to $1.72bn. Powder trends were mixed, with WMP shipments up 33% while SMP exports dropped 17%.

In the July to January period, total cheese shipments were 3% down but cheddar exports rose 2.6%. Butter and AMF exports fell 15% and 24% respectively, while exports of whey and other dairy products rose in double-digits for the period.

Australian dairy exports July-January ('000t)



YOY growth, NZ WMP exports ('000t)

Global and Corporate Dairy News

Market outlook weakens:

Freshagenda's February Global Dairy Directions (GDD) outlook worsened from the prior month due to a slightly better outlook for milk production in New Zealand and the EU through 2017, offset by patchy improvements in demand. Freshagenda's market tension indicator weakens later in 2017 but changes in product availability and import demand in the short-term will balance out.

A better outcome for NZ milk output than Fonterra's forecasts are factored in, however, the strength of pasture is now expected to drive faster growth over the remainder of the 2016/17 season to May. Milk is recovering gradually in Europe, spurred by better milk prices and weak feed costs. The EU flush is a critical variable affecting the outlook. Projected product values peak in the current quarter or Q2-2017 as expected export availability from major producers and import demand remains in close balance over 2017. Downside risks in the outlook are mostly from a stronger EU milk recovery.

January NZ exports slump:

New Zealand's WMP exports fell 11% in January, pulling volumes 3% lower in the quarter. This was despite a 3% rise in shipments to China & HK while exports to the rest of Asia and Sub-Saharan Africa were down 17% and 8% respectively.

Weak sales weren't confined to WMP, as shipments in all categories other than UHT were down for the month. January SMP exports fell 6% to pull the quarter 11% lower. Shipments to China & HK fell for the 7th consecutive month (down 19% in January) and 20% over the quarter. SMP exports to Asia dropped 11% over the same period. Fat exports also slowed down, with butter and AMF shipments each falling by 15% in the quarter to January. Cheese exports were also awful in January – down 15% for the month with a slump in sales to China, but a jump in sales to Australia (up a third for the quarter).

Dutch cull ramps up:

The Netherlands government has decided to accept all applicants to the first tranche of its oversubscribed dairy herd reduction scheme, which will see 31,500 cows from 497 farms slaughtered in coming weeks. The scheme offers €300/cow slaughter premium and will cull 60,000 cows in total, with further applications likely in May. The applications to date account for 52% of the Netherlands 'phosphate reduction target with further restrictions imposed through quotas and lower phosphorous content in feed.

US cheese supply strong:

The USDA NASS Dairy Products report indicates January cheese output rose 3.7% YOY. American cheese production was up 3% and output of "other cheese" varieties increased 4.1%. According to local analyst Matthew Gould, cheese production increased significantly in regions with new processing capacity, including Texas and Iowa.

SMP output fell 1.4% YOY in January, the first decline since October 2015, and likely reflecting lower export demand. Non-fat dry milk (NFDM) output rose 13.1% YOY however for a combined SMP and NFDM output growth of 9.2% for the month. Butter production rose 1.2% YOY, the highest January output since 2014. Dry whey production declined for the 3rd consecutive month. Supplies in this market remain tight, with January inventories 19.8% below the prior-year.

Beef and Lamb News

US import prices ease:

Last week, the 90 CL imported cow beef indicator closed at US$2.06/lb, down 1.4% from the week prior and tracking 1% higher than the corresponding period last year. Supply out of Australia and New Zealand remains tight, with Australian exports to the US down 37% YOY. New Zealand has been unable to take up the short fall with shipments up only 2% YOY as higher than average rainfall has led to lower than expected slaughter numbers through January and February. Many end users are reluctant to enter the market at high prices, as imported grinding beef prices continue to trade at a premium to domestic beef. At the same time, some larger end users are struggling to fill orders in the current market with spot supplies still very tight.

Limited NZ lamb supplies boost returns:

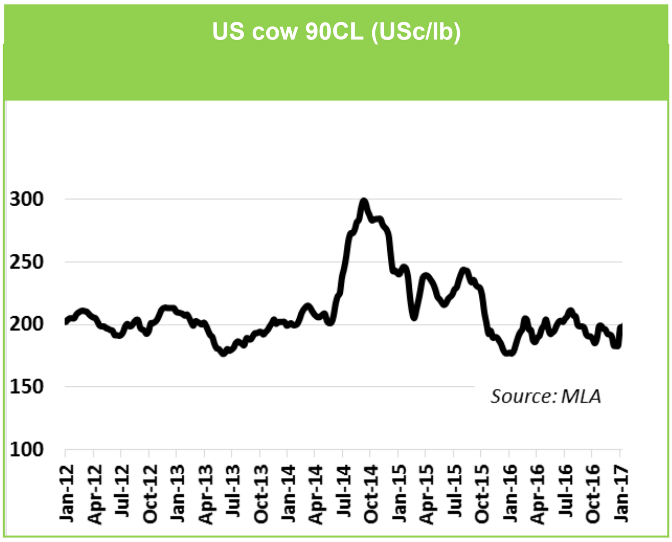
According to the latest AgriHQ Monthly Sheep and Beef report, on-going Chinese demand for lamb has kept prices high as domestic New Zealand supply remains tight. However, there are fears that tight supply will lead to rising in-market prices which could push some buyers out of the market. AgriHQ analyst Reece Brick said if supply does not increase lamb cuts could return to levels not seen since 2015, hurting relationships with importers and damaging long-term opportunities.

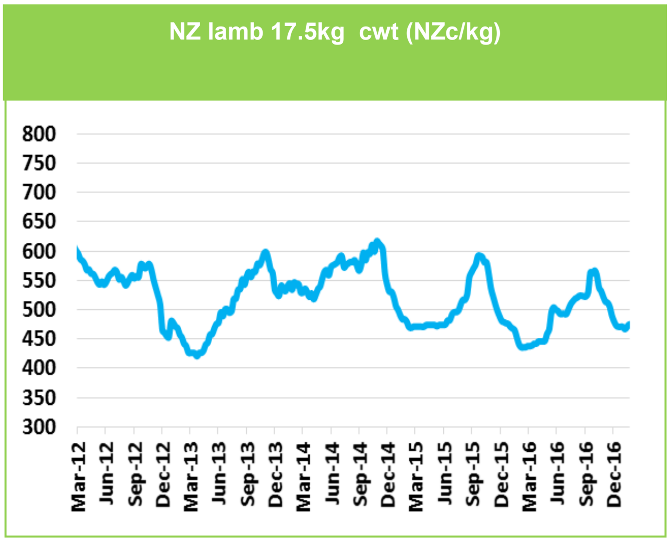
Coles will take a hit on lamb margins:

To preserve customer loyalty, Australian supermarket Coles is taking a long-term approach to the current market's supply and price pressures in order to keep its shoppers buying red meat. It's holding its retail prices on beef and lamb despite record saleyard values. Coles CEO Josh Durkan said customers want consistency and not prices which follow broader market fluctuations. Over the last year, the pressure on red meat prices has reflected increasing supply pressure which has pushed customers to buy more alternative proteins such as chicken which is less cyclical in both its supply and price.

Heytesbury cattle buys into Wellard:

Australia's largest live export company, Wellard has welcomed the purchase of nearly 10% of its stock by Paul Homes à Court's company Heytesbury Pty Ltd. The company already owning six stations spanning 2.5m hectares across the north of Australia. According to Wellard's CEO Mauro Balzarini, it's a big opportunity for Wellard's as Paul Holmes à Court understands the industry. Wellard recently posted a loss of A$18m, which saw shares dip to 17c before news of the deal added 18%. Balzarini speculates that Holmes à Court may be using Wellards as a hedge against softer beef prices.





Feed/Arable News

EU wheat production to bounce back:

After a disappointing harvest, EU wheat production is expected to rise 6.5% next season as yields return to normal. The EU Commission pegging its forecast for soft wheat production at 143m tonnes. The bounce back in output is mainly due to a French cereal crop up 26% from last year as wet and cloudy conditions hit wheat production hard. Increases in cereal production is also recorded in Germany and Poland, and while staying flat in the UK, the forecast for Italy, Spain and Hungary is down. Increased soft wheat production comes despite a forecast 1.3% drop in planted area to 23.8m ha.

World wheat output to fall:

For the first time in five years, wheat production is set to fall despite a fresh record harvest in Russia. The UN pegs world wheat output at 744.5mt for 2017/18, a fall of 13.5mt YOY, the first decline in output since 2012/13. The FAO is forecasting output increases in many leading producers, including the European Union where the harvest is expected to increase 5.5m tonnes to 150mt, with China up 400,000t to 129mt. Offsetting these increases are reduced North America plantings, with the USDA forecasting wheat sowings in the US will be to the lowest in more than a century.