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May 9, 2017

New Zealand Dairy News

Cow culling lower:

During the first 27 weeks of the 2016/17 beef season (to 8 April), New Zealand's cow culling declined 27.5% on the prior season comparative, a difference of 139,990 head. Cow culling in the North Island fell 25.3% (86,081 head) over the period, while cow culling in the South Island declined 31.9% (53,909 head).

Agri-exposure less risky:

In their first half results, Bank of New Zealand (BNZ) and ANZ Bank New Zealand have reported a decline in impairment charges due to stronger credit profiles of their dairy loans. ANZ's NZ\$19bn agricultural portfolio shrank at a faster pace than industry-wide agricultural lending, bringing its market share to 29.9%, down from 30.3%. Meanwhile, BNZ's market share grew to 22.3%, valued at A\$13.57bn by its parent National Australia Bank.

BNZ chief executive Anthony Healy said increased dairy prices will see improved cash flow during the second half of the year and anticipates farmers will continue to reduce debt, but said the sector still had a way to go to adjust the cost base of milk production. The reduction in bad dairy debt has left BNZ's credit profile in the best shape it's been since the GFC in 2008.

NZ commodity prices slip:

In April, ANZ's Commodity Price index fell to 282.9, down from 283.5 in March due to a 2.5% fall in dairy prices led by a 12% drop in SMP prices and a 6.8% fall in cheese prices. ANZ New Zealand's agri-economist Con Williams said that while SMP prices continue to be under pressure due to ample European supply, WMP and fat prices have recently increased due to low seasonal supply from New Zealand and strong demand from Middle East, North Africa and China.

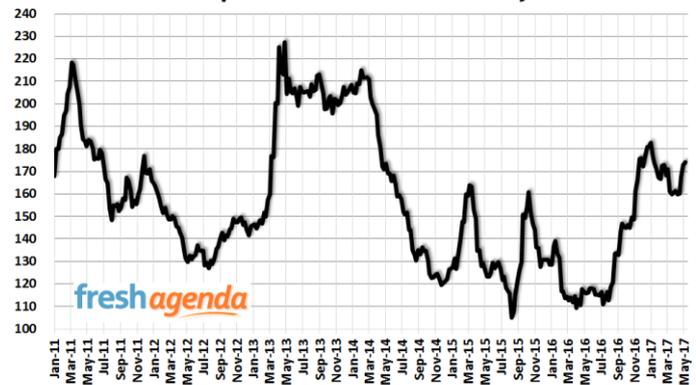
Labeling wars end:

A packaging dispute between Fonterra and Lewis Road Creamery has settled with Fonterra updating its Kapiti milk range with 'distinctive new packaging', due to hit stores in June. In December last year, Lewis Road Creamery co-founder Peter Culliane raised concerns about packaging similarities between his company's products and new Fonterra brand, alleging the labels were similar. The agreement reached between Lewis Road and Fonterra is confidential.

NZ Dairy Export Index

Index edges up – Mixed commodity values and a stronger Kiwi dollar lifted our NZ index this week by 1%. Spot quotes from Australasian exporters were mixed with WMP climbing US\$100/t to average US\$3,300/t for another week and SMP shedding US\$20/t to US\$2,020/t. Butter and cheddar remained steady, butter sat at US\$4,900/t and cheddar averaged US\$3,600/t. The NZ dollar gained almost 0.5c to **US\$0.6911**, lifting the index by **1.28 points** to **174.04**.

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.

Australian Dairy News

Norco and Coles extend PL deal:

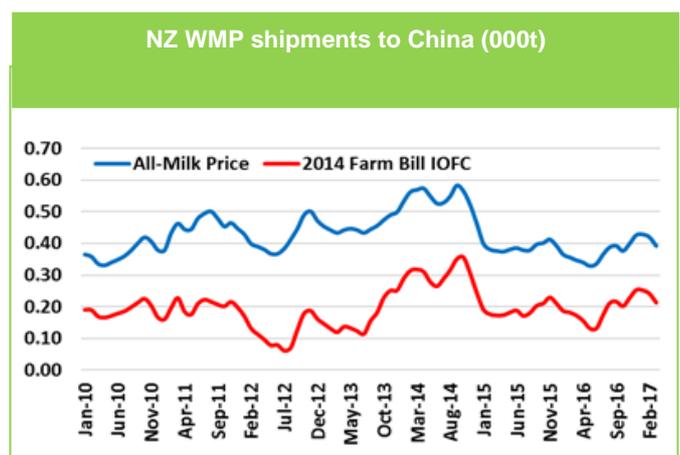
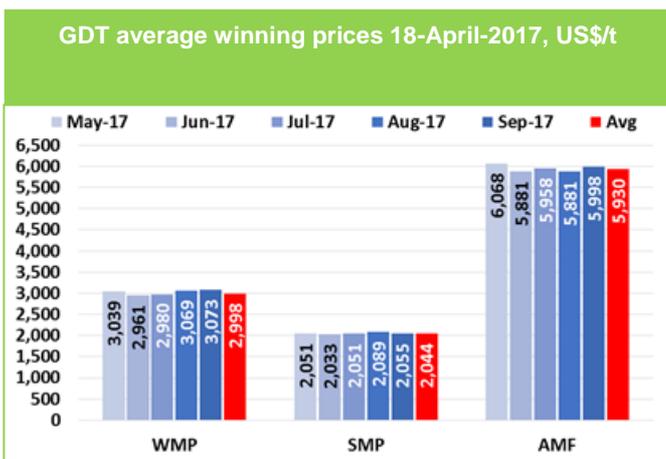
NSW-based cooperative Norco has talked up the benefits of supplying a grocery private label milk product – a very different tone to the farm lobby across the border – and extended its fresh milk supply contract with Coles until 2023, with the option to extend it until 2026. Norco started supplying Coles throughout Queensland and NSW with house-brand milk in 2014 with a 5-year deal. Initially, Norco supplied about 60m litres per year, but Norco chief executive Brett Kelly believes annual volumes will be closer to 70m litres by the end of this year and was hoping the 74 extra suppliers the cooperative took on when signing the contract would increase production. The Coles contract generates \$0.035/l- \$0.04/l towards its average farmgate price of \$0.58/l and provides a profit of \$9m per year. Kelly said the profitability of the contract provides an opportunity for Norco to grow its own brand of milk and invest more funds in its facilities.

Fonterra talks parity with farmer suppliers:

Fonterra held an urgent meeting with directors of its farmer milk supplier body, Bonlac Supply Company to discuss the potential \$60m fallout for Fonterra from Murray Goulburn’s decision to forgive farmers their clawback obligations. Due to the Bonlac supply-agency agreement, Fonterra is obliged to match or better the farmgate milk price paid by Murray Goulburn, meaning the NZ-based processor will now legally have to pay its farmers an extra \$0.035/l for the 1.7bn litres of milk its farmers supplied during 2015/16. Fonterra farmers have vowed to pursue legal action against Fonterra if it does not commit to pay the full \$50m-\$60m.

Woolworths on the up:

Woolworths has reported a 5.1% improvement in Q3 sales for its food division to \$9.3bn, a 4.5% improvement on an Easter-adjusted basis. Woolworths gained share from arch-rival Coles in the third quarter in its transaction growth-led recovery. The increase of 4.1% in transaction indicating Woolies is attracting shoppers back to its stores – although items per basket and average sales price have been slower to improve. In its analysis, Citigroup expects food margins to improve in the second half, contributing to 19% EBIT growth in the Australian Food business. Lower stock loss, better terms from suppliers and price investment, as well as improved operations are some of the key drivers of the recovery, along with better customer service. With a lift in sales and its revised outlook, Citigroup expects Woolworths to outperform Coles over the next 12 months.



Global and Corporate Dairy News

Further jump in the GDT prices:

Last week, the GDT Price Index rose 3.6%, on a slightly smaller offering of 22,633t.

WMP prices jumped 7.8% to average US\$3,233/t with most contracts improving, the exception was August delivery - down

0.9%. As the only product, SMP shed 3% to average US\$1,982/t, SMP prices under pressure due to massive stockpiles of product in the EU. Cheddar hiked 5.9% to average US\$3,666/t and fats rose, with butter climbing 0.4% to US\$4,911/t while AMF gained 4.3%, averaging US\$6,185/t.

According to AgriHQ, prices achieved at the event exceeded market expectations as recently released New Zealand production data recorded a 10% lift in New Zealand's March milk supply. Maybe the risks flowing from the big wet weighed on buyers.

US farm margins weaker in March:

The Farm Bill income-over-feed costs (IOFC) measure was at its lowest point for five months in March, at USc21.2/lt, with a weaker all-milk price at USc39.3/lt per the USDA's latest Agricultural Prices report. The all-milk price was 6.5% lower than the prior month, but 13.1% higher in YOY terms.

Margins are still projected to recover later in the year and will remain above the mean profitability levels needed to ensure growth in national milk supply. The CME futures market currently prices-in a 10% premium between the September and June contracts for cash-settled cheese. With this margin, subscribers to the Margin Protection Program (MPP) will not receive an indemnity payment as the milk margin calculated for March is greater than the highest insurance level of USc17.6/lt.

Dutch milk supply resilient:

According to Eurostat, Dutch milk production rose 0.7% YOY in March. Irish milk supply was also ahead of the prior-year comparable in March, up 3.9%. Based on the 28% share of EU-28 milk production Eurostat is currently reporting, March production was up 0.2% YOY.

Meanwhile, more recent local data is pointing to worsening trends in the top two producers. In week 16 (ending 23 April 2017), output in Germany fell 4.1% YOY as cool weather affected supply. In the same week, French output declined 2.7%. Germany and France jointly account for about 38% of annual EU-28 milk supply. In the UK however, April daily milk deliveries (through to the 22nd) were 2.1% higher relative to the same period in 2016.



Beef and Lamb News

US imported prices edge up:

The 90 CL imported cow beef indicator lifted 1.4% last week as a result of extreme weather and escalating domestic beef prices, with the indicator closing at US\$2.135/lb, tracking 2.2% ahead of the last week and 4.7% ahead of the same week last year. In the US, extreme weather across cattle producing regions has caused major short-term disruptions and as a result, the Steiner Consulting Group is expecting cattle weights to be lower. Higher domestic prices and extremely limited spot availability continues to affect the imported grinding beef market, with end users having difficulty securing product.

Aus lamb exports slide:

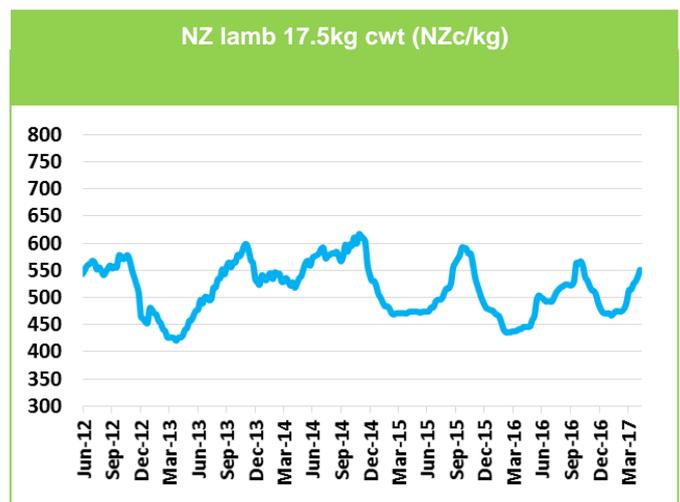
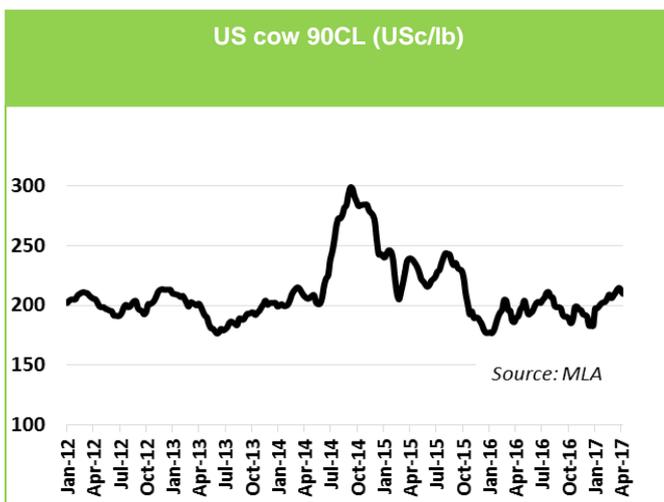
Australian lamb exports have been affected by limited supply with the average weekly kill in April falling 17% lower than last year at 310,579 head across eastern states, sending April shipments down 19% YOY to 17,053 tonnes swt. Reduced availability sent lamb exports to 80,072 tonnes swt year-to-date, down 3% from the year prior. Eastern states lamb kill for the first four months of 2017 averaged 341,378 head per week, 8% lower than last year. Despite a lower kill rate, year-to-date lamb shipments remain 14% higher than the five-year average for the period due to high volumes in 2016.

Changes to patty formula threatened NZ beef exports:

Large scale end-users in the US are changing the way beef patties are formulated, potentially affecting the need for New Zealand beef as a key ingredient. Usually a combination of lean, imported frozen beef and fattier domestic product has been used, but now end-users are finding ways to produce patties without the use of frozen ingredients. The change has seen some players use a wider variety of domestic cuts as prices of imported cuts are at a high.

Overseas demand bolster NZ sheep returns:

Limited volumes of lamb available this season and robust overseas demand has seen prices for New Zealand sheep set favourable pricing records. The AgriHQ Monthly Sheep and Beef report for May has identified New Zealand dollar returns for French rack, flaps and forequarters at their strongest for this point in the season in more than four years. Meanwhile, NZ exports to China also lifted with especially the impact of stronger Chinese demand showing in the frozen export statistics for the first quarter, lifting 17% on the five-year average and 15% YOY.



Feed/Arable News

Overseas grain put pressure on NZ prices:

New Zealand grain prices will remain under pressure from imported prices in the short term as production prospects and planting of northern hemisphere crops are reported. In the US, delayed spring wheat plantings may support offshore grains values, however, US growers ability to quickly plants acres affects offshore grain values in the short-term. In the Black Sea region, recent reports indicate warmer weather means the winter crop is in better condition than first thought, while lack of rainfall across key growing regions in Europe has the potential to push crop yields lower than expected. The production volume prospects indicates pressure of a cap on NZ prices from import prices will remain.

India to import wheat despite record crop:

Favourable weather conditions has seen the USDA's bureau in New Delhi raise its forecast for the 2017/18 wheat crop, however, despite the massive crop India needs imports due to long-term growth in consumption. The USDA bureau noted cool weather with intermittent rainfall as well as lower incidents of pests and disease, which led to a lift in its forecast for the 2017/18 harvest by 1.5m tonnes to 96.5 tonnes, a rise of 9.5m tonnes YOY. India remains a net wheat importer with the USDA's forecast for Indian wheat imports at 4.0m tonnes, down 1m tonnes on its last forecast and 2m tonnes YOY.