

- [Cooler September in New Zealand](#)
- [Bega raises \\$250m](#)
- [Whey drags US July exports](#)
- [US import prices slightly lower](#)
- [Australian crop down 12%](#)

12 September, 2018

New Zealand Dairy News

Cooler September:

New Zealand weather forecaster MetService predicts cooler weather for the first half of September across the country, while temperatures are expected to be more variable in the second half of the month.

Rainfall is expected to be below or near average for most of the country. However, wetter than normal conditions are in store for the east coast of the North Island. Rainfall will be near normal in the north of the North Island and in the north and central parts of the South Island.

NZX lowers price forecast:

NZX's milk price forecast for the 2018/19 season eased 4c to NZ\$6.39/kgMS as dairy commodity prices fell at the 4 September GDT event. The NZX spot price has also fallen 14c as a result of the lower prices achieved at the last event to \$6.31/kgMS. The September milk price futures contract eased five cents from a fortnight ago, settling at \$6.47/kg MS last week. Open positions have also fallen slightly, from 4,394 (26.4mkg of milksolids) a fortnight ago, to 4,371 (26.2mkg of milksolids) last week.

Meanwhile Westland Milk Products has downgraded its predicted payout range in 2017/18 to NZ\$6.05/kgMS, from a range of NZ\$6.10/kgMS to NZ\$6.30/kgMS. The final payout for 2017/18 will be announced on 25 September, following the next board meeting. Westland predicts a payout range of NZ\$6.75 to NZ\$7.20/kgMS for 2018/19, citing improved sales and better sales outlook after a couple of difficult years.

Automation focus in farm investments:

Dairy NZ's surveys of 500 New Zealand farmers in 2008, 2013 and 2018 shows that technologies to automate labour are popular, while adoption of information tech is slower. Dairy NZ research engineer Brian Dela Rue says technologies such as automatic cup removers, automatic drafting and in-shed feeding are well established in 90% in the surveyed rotary dairies. Dela Rue said rotary dairies had higher labour efficiencies, milked more cows and had a higher throughput than herringbone dairies. On average, rotaries milked 614 cows compared to 319 cows on herringbone platforms, with a throughput of 254 cows per hour, against 157 cows milked per hour at herringbone dairies. Rotaries are well suited to larger herd and the integration of some technologies, but are also costlier to build.

Dela Rue said investment in information technologies such as milk meters and detection systems remain low, installed in less than 20% of rotary dairies and less than 5% of herringbone dairies. The survey found that farmers are likely to continue to invest in commonly-used automation technologies as well as, gradually increasing information technologies. It's expected that recently-

NZ Dairy Export Index

Index rises – This week, the NZ dairy export index rose marginally due to a weaker NZ\$ and mixed price trends. Quotes for WMP lost US\$50/t to average US\$2,850/t. SMP climbed US\$25/t, to US\$2,025/t and cheddar rose US\$75/t to US\$3,775/t. Butter fell US\$100/t, to US\$4,400/t. The NZ dollar fell 1c to **US\$0.653**, lifting the index **0.83 of a point** to **167.72**.

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.

launched innovations for automated pasture measurement as well as new farm-wide low-cost battery powered sensors and networks will make an impact in the next five-yearly survey.

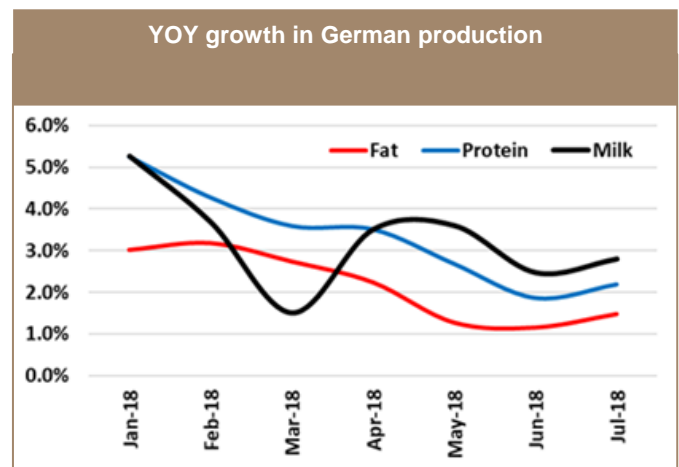
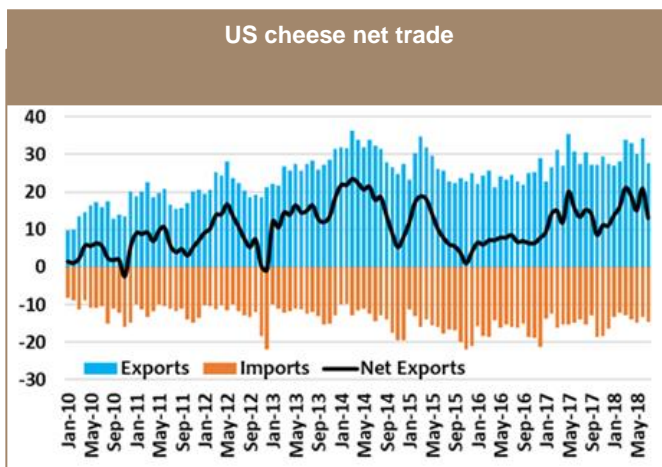
Fonterra capacity spend stops:

Fonterra's newly opened cream cheese plant at Darfield and its mozzarella cheese plant at Clandeboye marks a halt to major capital expenditure. According to global operations chief operating officer Robert Spurway, a second cream cheese plant is planned at Darfield, but construction will depend on customer demand. When running at capacity, Fonterra's cream cheese plant at Darfield produces 24,000t annually, producing enough mozzarella cheese for 600m pizzas. Fonterra's rapid expansion of food service capacity over the last five years accounts for a large proportion of Fonterra's capital expenditure. Fonterra expects full year capital expenditure for 2017/18 to be NZ\$800m – NZ\$850m, similar to previous years.

Australian Dairy News

Bega raises \$250m:

Bega Cheese has raised \$200m through with a placement of fully paid ordinary shares with institutional investors, priced at \$7.20 per share, a 5% discount from the closing price on 7 September. The Institutional Placement will be followed by an offer to all existing eligible Australian and New Zealand shareholders to participate in a Share Purchase Plan (SPP), capped at \$50 million and not underwritten. The placement will be followed by a share purchase plan, expected to raise a further \$50m at a price of \$7.10 per share. The proceeds will be used to reduce debt following the acquisition of the Koroit Facility and improve Bega Cheese's financial flexibility to "take advantage of future growth opportunities in dairy and food".



Global and Corporate Dairy News

Whey drags US July exports:

US exports for July were the lowest since January, but still stronger than in the same month of 2017 and 2016. On a milk solids basis, exports were equivalent to 14.7% of national production for the month. Aggregate shipments of commodity products were up 18% for the year to July at 1.34mt, while value increased 5% to US\$3.34bn.

Whey exports were 39,273t in July, 8% lower YOY, the lowest in more than two years. July whey product shipments to China dropped 26% YOY, with weaker dry whey and WPC. SMP/NFDM were 54,343t for the month, a 30% YOY increase and reflected higher exports to Mexico and SE Asia, which were 31% and 40% higher respectively.

Cheese exports totaled 27,636t in July - the lowest since January, but this was still 1% higher YOY. There were mixed trends in July across regions however – growth cheese shipments to South Korea and MENA more than offset declines in Mexico, Japan and China. For the year to date, butterfat exports were up 76%, and at 24,707t were also ahead of the 2016 comparable.

American cheese production surges in July:

According to the latest USDA Dairy Products report, output of American cheese rose 6.1% YOY in July. This brought year to date output 2.2% ahead of the comparable – we estimate that this compares to a 2% lift in the availability of “manufacturing milk” over the same period. Total cheese output rose 2.4% in the first seven months of 2018. In this period, output of other cheese varieties (such as mozzarella) increased at a relatively faster pace of 2.6%.

SMP production was down 1.9% for the year to date. However, NFDM production was virtually flat - bringing combined SMP/NFDM output 0.4% behind for the period. After a strong start to the year, NFDM output fell in YOY terms for the four consecutive months to July.

Output of dry whey and WPC also slowed recently, but strong first quarter growth means year to July output lifted 2.9% and 2.4% respectively. Production of WPC 25-49.9% in July was an exception to the generally negative trend – up 9% YOY. Butter production rose for the 10 consecutive months to July in YOY terms, and increased 3.6% for the year to date.

EU milk growth normalizing:

Based on 67% of average Eurostat-reported milk production, EU output rose 0.9% YOY in July. This was despite negative trends in Ireland (-3.1% YOY) and the Netherlands (-1.2% YOY). Among other key producers, Germany’s production lifted 2.8% YOY for the month while output of solids tracked considerably lower as a result of unusually hot and dry weather in some parts of the country. UK production lifted 1.5% YOY in July, while output in Poland and Denmark rose by 1.7% YOY and 2.5% YOY respectively.

The most weekly data indicates French supply fell for the four consecutive weeks to 26 August – in weeks 33 and 34, production was down 0.9% on the comparable periods of 2017. German production has recovered however, up 0.3% YOY in week 34 after negative trends for most of August. According to daily milk collections data, UK’s supply rose 0.7% in August.

Australian cheese exports still growing:

During the first seven months of 2018, Australian dairy exports increased across all products, with the exception of SMP and butter. This reflects a tight domestic market situation as processors shifted milk away from the SMP/butter stream during the 2017/18 season. Between January and July, cheese exports rose 1.6% to 99,206t. Most of the growth was into key Asian markets and despite weaker shipments to China & HK.

Infant formula exports continued to grow strongly – up 28% for the year to July, with nearly all shipments destined for China & HK and additional volumes likely masked under the WMP HS code. The largest absolute growth for the January-July period was for milk & cream – up 12.8% to 125,504t. We estimate that Asia accounted for 68% of this growth.

NAFTA concessions would “flatten” Canada:

Chief executive of Dairy Farmers of Canada Jacques Lefebvre said if NAFTA negotiations double American farmers’ access to Canada’s market, it could shut a third of Canadian dairy farms down. Different estimates says American farmers have access to 5% of Canada’s market, but if that number increases to 10% it will displace domestic dairy products. Canadian foreign minister Chrystia Freeland didn’t offer much detail on current negotiations, but said talks “had taken place in a good atmosphere”.

Beef and Lamb News

US import prices slightly lower:

In the US, the imported 90CL beef indicator fell marginally, closing at US\$1.90/lb CIF, and 5.0% behind the same week in 2017. According to reports from Steiner Consulting, imported beef trading was uneventful with light trade as offerings from New Zealand and Uruguay remain limited, while Australia continues to focus on Asian markets. Prices haven’t dipped, despite increased US cow slaughter due to robust foodservice demand and ample retail features. Prices for some cuts dropped further due to weaker seasonal demand for ground beef in the US.

Australian senate passes bill to ban live sheep exports:

A private bill to ban live sheep exports from Australia during the northern summer and phase live exports out entirely within five years has cleared the Australian upper house by 31 votes to 28. However, the ban would need to get through the House of Representatives to come into effect. A push by Labor in the House of Representatives to debate and vote on the bill failed after Liberal MPs refused to cross the floor despite supporting the ban. The Australian government has rejected a ban on live exports

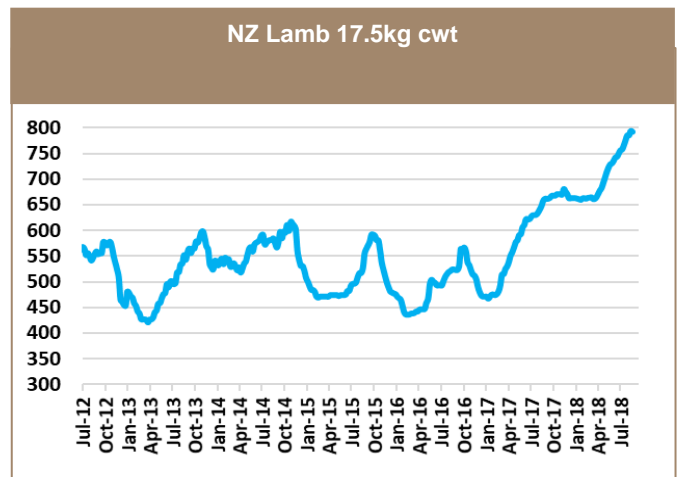
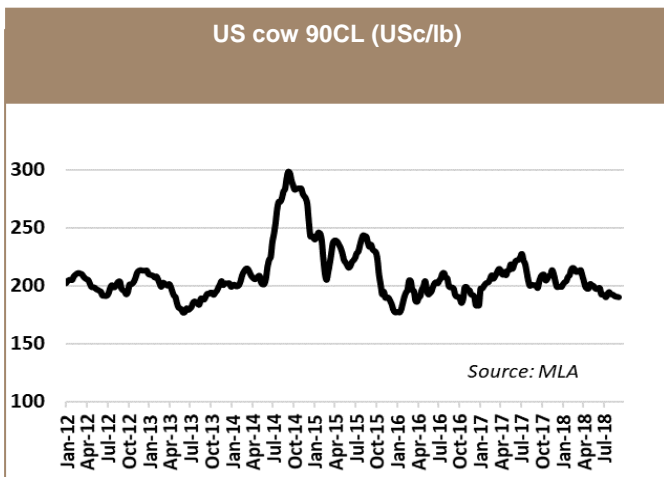
in favour of rules to increase space allocated to sheep on ships, improve ventilation and increase penalties for directors who don't follow the standards.

Indo-Aus FTA stimulates rising demand:

The newly finalised Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) provides tariff elimination for those red meat and livestock lines not addressed under the ASEAN-Australia-New Zealand FTA. The trade agreement delivers a quota for 575,000 head of live cattle, which will grow 4% every year over five years to 700,000 head. Access for female live cattle will be liberalised with no tariff on entry when the agreement enters into force. Meanwhile, import permits will be issued automatically on an annual basis and without seasonal restrictions, streamlining the current process.

Rabobank: US beef piles up:

Increased supplies of beef, poultry and pork and potential trade fallouts are increasing market volatility, according to Rabobank's latest Global Beef Quarterly. US beef production is currently up 3% and a similar growth rate is expected in 2019. There's a risk of herd liquidation due to ongoing US drought conditions, which will put downward pressure on prices and impact demand. The increased US beef supplies lifted exports by 14% in the year-to-date to June 2018 with a significant increase to South Korea and Hong Kong, up 14% and 11%, respectively.



Feed and Arable News

Aus winter crops down 12%:

In its September crop report, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) forecast total winter crop production in 2018/19 will decrease by 12% to 33.2mt. Varying seasonal conditions in Australian cropping regions over winter have resulted in widely differing crop prospects at the beginning of spring. Production in Queensland and NSW is forecast to be 38% and 46% below 2017/18, while production in WA is forecast to be 12% above. While forecast winter crop production is 9% below the 20-year average to 2017/18, it remains 91% above the lowest harvest during this period.

Croppers consider cutting losses:

Grain growers across the Mallee in southern Australia are contemplating whether to cut crops for hay now, or run the risk of waiting for rain and grain as temperatures climb towards 30C. According to Victorian Farmers Federation president David Jochinke, the next two weeks are critical for growers. Most growers aren't cutting due to damage or poor yield yet, but VFF vice-president Brett Hosking said the clock was ticking on making a decision. Hosking said warm weather would accelerate the decision-making process for growers.