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MYFARM™ INVESTMENTS

- Wilson stands down
- Australian milk output shrank in June
- NAFTA next month??
- US imported beef prices slide
- Easier to find needles than hay!

1 August, 2018

New Zealand Dairy News

Wilson stands down:

Fonterra chairman John Wilson has left his position as chairman for the New Zealand dairy cooperative effective immediately while he recovers from a health scare, with the board selecting John Monaghan as new chairman. Monaghan has been on the Fonterra board since 2008 during which time he has served and chaired several committees. In a statement, Fonterra said Wilson has undergone significant surgery within the last month, which requires on-going treatment. Wilson will remain a Fonterra Director until the coops annual meeting in November.

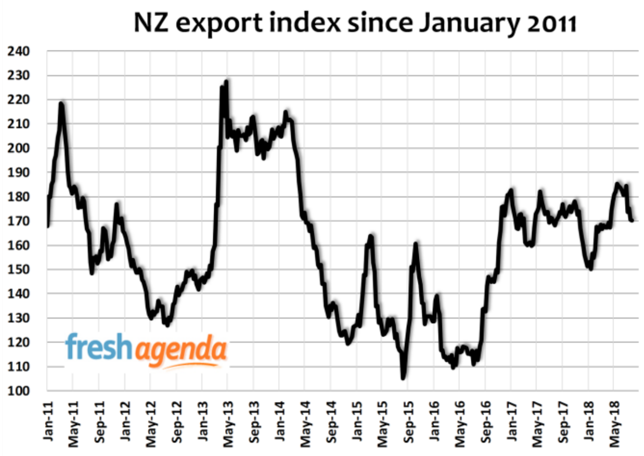
Reacting to the news, DairyNZ chairman Jim van der Poel said the New Zealand dairy industry has benefitted from Wilson's leadership skills for over 20 years. Van der Poel said Wilson understood Fonterra's business and the market environment very well and his passion and dedication to the sector went beyond Fonterra.

Fonterra intake lifted in June:

In its latest Global Dairy Update, Fonterra reported 13% YOY in June to 13.3m kg of milk solids. North Island milk collection reached 10.4m kgs od milk solids in June, 14.2% ahead YOY, driven by volume growth in the key producing regions of Waikato, Northland, Bay of Plenty and Taranaki. South Island milk collection lifted 9.2% YOY, totaling 2.9mkgMS for the period, ascribed to good pasture conditions in Otago and Southland, driven by favourable weather.

NZ Dairy Export Index

Index steady – This week, the NZ dairy export index fell marginally on a stronger NZ$. Quotes for WMP gained US$75/t to average US$2,975/t while cheddar averaged US$3,800/t, unchanged from the week prior. Butter dropped US$120/t to average US$4,960/t while SMP averaged US$2,020/t. The NZ dollar gained just under 0.5c to **US$0.6794**, sending the index down by **0.15 of a point** to **170.20**.



__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.

Westland looks to fund growth:

Westland Milk cooperative is reviewing its capital structure with a view to funding future growth. A range of options are on the table, including introducing a cornerstone investor, a merger or divestment of the coop. Westland chairman Pete Morrison says the cooperative is implementing a strategy focused on more value-added products, which existing shareholders and new suppliers have supported. Morrison said the coop needs new and increased capital to realise these opportunities. Westland's board has appointed Macquarie Capital and DC Advisory to consider potential capital and ownership options, which can create a more sustainable capital structure and support a higher potential payout. Shareholders will vote on any proposals with the first update on the process expected before Christmas.

Greenpeace: Fonterra at a crossroads:

Executive director of Greenpeace New Zealand Russel Norman is urging new Fonterra chairman John Monaghan to stop Fonterra's "failed international investments in Chinese agribusiness", and instead start investing in diversifying NZ's dairy farms and embracing regenerative practices. Norman says while Fonterra has made promises to encourage less use of PKE as feed supplement, New Zealand is still the world's number one importer. Norman links PKE production to the destruction of rainforests and endangering orangutans and says the cooperative should get out of PKE altogether.

Norman points to discrepancies in being the world's second largest milk processor in the world, but only the 18th biggest when it comes to revenue per kg milk. The Greenpeace director says more milk from more cows has only driven New Zealand into a fresh water and climate crisis. Under the current Dairy Industry Restructuring Act (DIRA), Fonterra is required to pick up milk from new dairy farms, even if those farms are in environmentally fragile areas. Norman encourages Monaghan to lobby for changes to DIRA so Fonterra can "put their money where their tweets are", referring to a tweet from Fonterra saying it would "prefer not to see more dairy expansion in the Mackenzie Basin".

Australian Dairy News

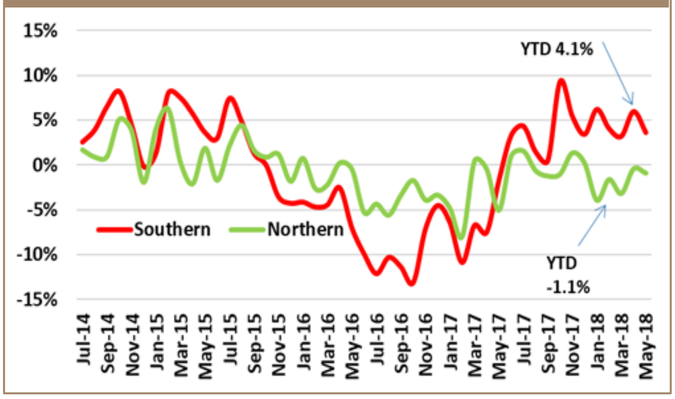
Australian milk output shrank in June:

Despite a 1.4% dip in June milk production, the 2017/18 season ended 3.1% ahead of the season prior as milk output reached 9.3bn.

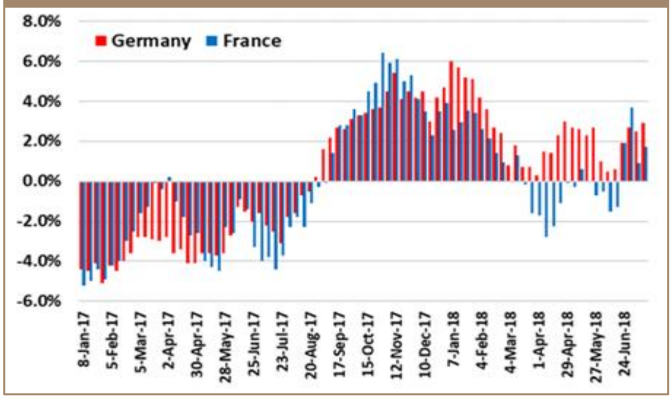
Milk production in southern key southern regions fell 0.4% in June compared to last year with Victorian milk production down 3% on the comparable, offset by a 10.3% hike in production in South Australia and a 15.5% increase in Tasmanian output YOY. In the northern producing regions, milk production was down 3.7% in June due to a 0.6% decline in NSW output and a massive 11.8% drop in milk production in Qld. For the 2017/18 season as a whole, a 1.1% drop in northern output was more than offset by the 4.1 increase in southern region production.

Meanwhile, Fonterra Australia reported June milk milk output rose 13.9% YOY, lifting milk output for the season 24.3% to 153m kgMS, up 30m kgMS from the season prior. Fonterra reported June milk collection was up 10m kgMS, mainly due to gains in market share as winter conditions varied across key producing regions. Good rainfall was reported in south-west Victoria and Tasmania, while drier conditions were reported in northern Victoria and Gippsland.

Australian milk production – YOY changes in southern v northern output



YOY growth, weekly milk production



Global and Corporate Dairy News

NAFTA next month??:

US trade representative Robert Lighthizer said it's possible NAFTA partners will reach a tentative agreement next month to revamp the 24-year-old pact. The US trade representative said a deal couldn't be signed until three months after is has been agreed according to US law. This means a tentative deal would have to be reached before Spetember, so Mexican president Enrique Pena Nieto can sign the deal before leaving office in December. Lighthizer said Canada could be a sticking point in reaching a deal, as he believed his northern neighbour had not compromised to the extent both the US and Mexico have. Mexican economy minsiter Ildefonso Guajardo said it would be possible to reach a tentative agreement in August.

US milk solids falling:

According to USDA data, average national US milk fat content dropped in May after being ahead of comparatives for the previous four months. The official reported rate was 3.78% in May, unchanged from the same month in 2017. Heat has affected milk component levels in the west part of the country and in some regions has also reduced milk supplies.

Falling fat components will no doubt bring some much-needed relief to an oversupplied domestic butter market heading into the holiday baking season. We estimate that during the first five months of the year, butter supply (production and imports) rose 4.3% while commercial disappearance (domestic consumption and exports) grew 2.1%. Meanwhile, as cream is becoming relatively more expensive – butter manufacturers are increasingly tempted to sell cream into alternative uses. Over the past two weeks, CME butter prices have been stable and trading in the US$4,900-5,000/t range.

EU milk up 2% in May:

According to Eurostat, EU-28 milk production rose 2% in May – the highest YOY expansion in the past three months. There were mixed trends across member countries however. Among major producers, output in the Netherlands and Ireland fell 1.5% YOY and 0.4% YOY respectively. Supply for the year to May was 2.3% higher than the same period last year at 67.18bn kgs.

According to more recent weekly data, output in key producing countries continued to increase, with no apparent impact from the recent heatwave and record-high temperatures which has kept market prices firmer. In week 28 (ending 15 July), German production rose 2.9% relative to the same week in 2017 – this was Germany's strongest expansion since late April. French supply rose for the fourth consecutive week in YOY terms – up 1.7% in week 28. UK production was down 0.2% during the first 21 days of July. This followed a 1.5% increase in June.

Trump and Juncker find some harmony:

After meeting last week, US president Donald Trump and European Commission president Jean-Claude Juncker agreed on a plan to resolve existing duties on steel and aluminum. While there were no details available (a common outcome from recent meetings involving Trump), Trump said both wanted to strengthen the trade relationship between the EU and the US to benefit American and European citizens. Juncker and Trump agreed to launch a new phase in the relationship and work toward zero tariffs, zero non-tariff barriers and zero subsidies on non-auto industrial goods. The EU has committed to buy soybeans and natural gas.

The deal is contingent on an understanding that no further tariffs will be imposed during negotiations and existing steel and aluminium tariffs will be reassessed. Trump also won a commitment to work together on reforming the World Trade Organization to address some of his complaints about China, including theft of US technology, the behavior of state-owned enterprises, and overcapacity in steel.

Beef and Lamb News

US imported beef prices slide:

The imported 90CL beef indicator fell 2c this week to US$1.925/lb CIF, 5.9% behind the weekly comparable the year before. Supplies out of New Zealand and Australia are limited with strong demand from Asia - China in particular - absorbing the additional flow of product onto the market. According to the Steiner Consulting Group's latest weekly update, US end users are reluctant to offer higher bids as they are focussed on the seasonal increase in US cow meat supplies, expected to affect lean grinding beef prices. Declining retail demand after Labor Day in September should put further pressure on grinding beef values.

Record prices for Aus & NZ lamb:

Australian trade lambs are approaching a record A$8.00/cwt while New Zealand's lamb prices are pushing A$7.29/cwt, a 15% increase YOY. Higher YOY lamb slaughter during autumn in both markets kept a lid on prices. But since then, seasonal low lamb slaughter in NZ and contracting lamb kills in Australia have boosted prices as export demand from China and the US ramps up. Australian lamb exports lifted 12% in 2017/18 to 270,000t swt. In New Zealand, demand is growing at similar rates, however given supply constraints, additional exports have come at the expense of domestic consumption. Prices are expected to remain elevated due to dry conditions in Australia and seasonally low lamb supply out of New Zealand. There are some downside risks, as prices bump up against consumer price ceilings and the ongoing trade war leads to economic shocks in China and the surrounding region

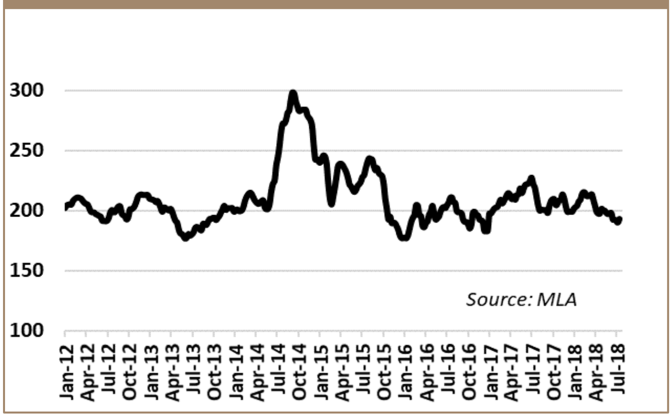
US beef production grows:

US beef production continues to grow on the back of increased cattle on feed and a lift in cow slaughter. USDA's mid-year herd and feedlot inventories reveal cattle on feed on 1 July totaled 11.28m head, up 4.3% YOY and 8.9% above the five-year average. Cow slaughter remained high in 2018 due to lower cow-calf profitability and poor pasture conditions in key producing regions. The most recent herd inventory report reflected a shift towards higher slaughter as replacement beef cow numbers declined 2.1% YOY to 4.6m head in June. This indicates that the aggressive herd expansion between 2014 and 2017 is over, and that herd growth will likely be limited or may even contract in the next two years.

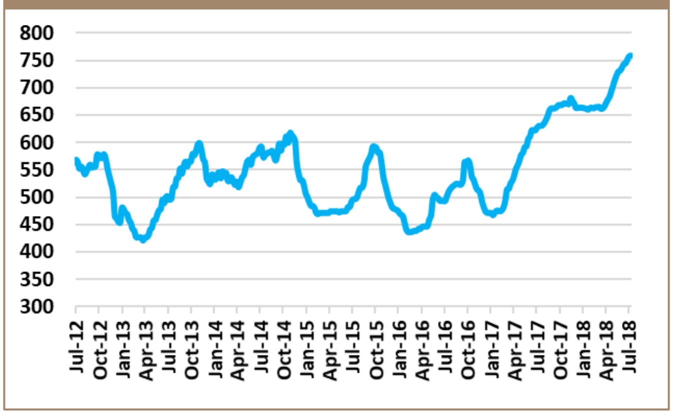
BoM outlook brings no joy for Aussie farmers:

Following a dry and warm winter across most of Australia, the Bureau of Meteorology's (BoM) August to October outlook is more of the same. The BoM warns that if El Niño develops, warm and dry conditions could continue beyond the period. According to the Bureau, January to June has been the driest start for the Murray Darling Basin since 1986. Below average rainfall is expected for most of mainland Australia over the period, most notably in the south east. August is expected to bring a dry end to winter. With dry soils and below average rainfall, low streamflows are expected in two-thirds of forecast locations for July to September. Warmer than average days and night are anticipated for most of Australia. In recent dray and warm conditions the south may see fire potential increase when the official Southern Seasonal Bushfire Outlook is released. A slow warming trend in the tropical Pacific Ocean, and five of eight climate models are suggesting El Niño conditions in spring, the Bureau of Meteorology's ENSO outlook remains at El Niño watch

US cow 90CL (USc/lb)



NZ Lamb 17.5kg cwt



Feed and Arable News

Easier to find needles than hay!:

Old crop reserves of hay have depleted as the fodder industry deals with high demand from northern NSW and southern Qld – a vastly different situation to six months ago, when producers thought their hay would never sell. Grain Producers Australia chair Andrew Weidemann says hay users are trucking baled straw to northern NSW from Victoria at a massive cost to feed livestock. Drought across most of eastern Australia is forcing farmers to bring hay across from Western Australia and South Australia to meet feed gaps. Meanwhile, low hay reserves in other areas means buyers are accepting lower quality hay than usual.

Aus grain uncompetitive:

Australian wheat and barley is now uncompetitive on world markets, with ASX wheat futures for January 2019 hitting A$369/t. Futures traded up on news of increasing production concerns in Russia, the EU, south-western US and Australia. For domestic stockfeed buyers, the delivered Melbourne wheat price is A$18/t higher this week at A$346/t and Feed 1 barley is A$10 higher at A$335t. Grain consumers are faced with a dilemma, buy a little now or wait it out until harvest. Unlike feed millers stockfeed users can complie a ration based on a range of commodities.