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26 September, 2018

New Zealand Dairy News

Milk intake lifted 4.6% in August:

Dairy Companies Association of New Zealand (DCANZ) released August milk production data, with national supply up 4.6% YOY on a milk solids basis and 4.7% YOY on a volume (tonnes) basis.

August was the fifth consecutive month of YOY increases in milk production. The latest August increase reflects relatively weak prior-year comparable but also favorable weather conditions supportive of good pasture growth. Production for the June to August period was 5.4% ahead on the comparable period in 2017/18 at 156.5m kgMS.

Synlait nearly doubles profit:

Processor Synlait's profit almost doubled to NZ\$74.6m in 2017/18, up from NZ\$39.5m the year before. Top line revenue increased from NZ\$759m in FY17 to NZ\$879m in FY18. Synlait's final average FY18 milk price was NZ\$6.78kgMS, including a base price of NZ\$6.65kgMS (compared to a FY17 base milk price of NZ\$6.16kgMS) and seasonal and average value-added incentive payments of NZ\$0.13kgMS. Synlait CEO Leon Clement said increased sales of finished infant formula drove profit, underpinned by investments in blending and consumer packaging.

Meanwhile, the processor announced a continued focus on added value sectors and clients globally by entering into a conditional agreement to acquire selected Talbot Forest Cheese assets. The NZ\$30m to NZ\$40m investment is expected to settle in August 2019 when Synlait will assume management and operational control of Talbot.

BNZ: pressure on milk price:

Last week's fall in the Global Dairy Trade price index marks the eighth consecutive fall and along with a lower NZ\$, the pressure on Fonterra's NZ\$6.75kgMS milk price forecast is mounting. BNZ senior economist Doug Steel said the GDT price index has yet to post an increase in the new season. Rabobank analyst Emma Higgins said headline results are now at their lowest since October 2016, and the supply outlook would cap prices. "WMP volumes on offer increased by 20,450t (+3%) over the coming 12 months and with plenty of milk, ample product and expectations reflecting the choice available, buyers are remaining on the sidelines."

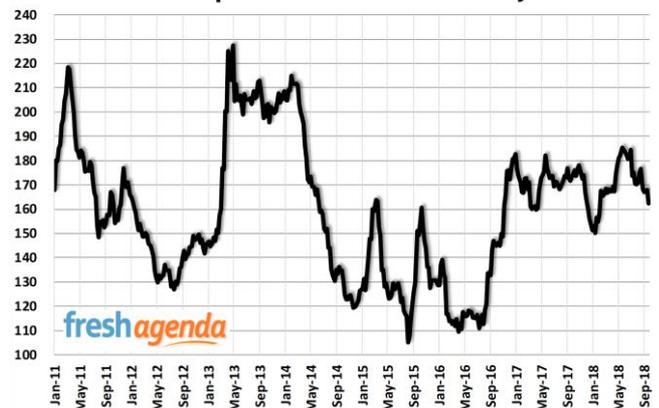
A2 shares on sell-off:

Only two months after taking over as chief executive Jayne Hrdlicka sold all her shares in the company to meet tax obligations, pocketing NZ\$4.36m and sending the company's market value south to the tune of NZ\$450m. On Monday, A2's share value fell 5.5% to NZ\$11.81, its shares closing at NZ\$11.80 Tuesday. In March, the company was New Zealand's largest by capitalisation

NZ Dairy Export Index

Index plummets – This week, the NZ dairy export index fell due to a stronger NZ\$ and mixed price trends. Quotes for WMP averaged US\$2,780/t, down US\$70/t. SMP dropped US\$30/t, to average US\$2,000/t and cheddar fell US\$100/t to average US\$3,700/t. Butter averaged US\$4,500/t, up US\$100/t. The NZ dollar lifted more than 1c to **US\$0.6683**, sending the index down by **5.59 points** to **162.26**.

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.

when share value hit NZ\$13.99. On Monday, its market capitalisation fell to NZ\$8.7bn. Analysts commenting on shareholders' reaction said share sales by Bellamy's Australia executives before its fall from grace were likely fresh in the mind of investors.

No to water tax, invest instead:

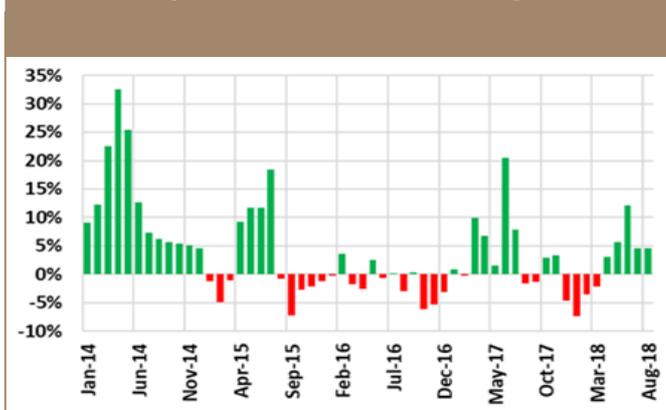
While acknowledging the complexities around water use in its interim report, the Tax Working Group sees a water tax as a way to increase water use efficiency. However, Irrigation NZ chief executive Andrew Curtis says a nationwide water tax is not workable, and allowing irrigators to invest in more modern irrigation systems would result in the biggest improvements in water use efficiency. Curtis says modern irrigation systems have less water and nutrient run-off which is good for the environment, but some irrigators would need to spend a total of NZ\$80m to replace irrigation systems to meet Farm Environment Plan requirements. A national water tax would make changes to farm practices more difficult and government investment in new water infrastructure less viable.

Australian Dairy News

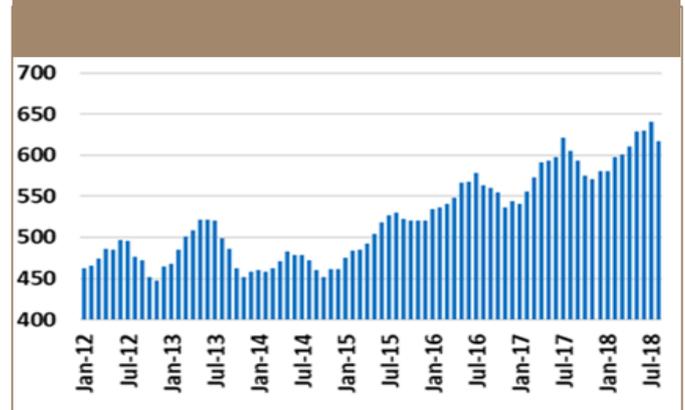
Saputo steps up:

Saputo lifted its southern region farmgate milk price to \$5.95/kgMS, up from \$5.75/kgMS, increasing its price by 14c/kg butterfat and 28c/kg of protein. Saputo reviews its milk price quarterly and is the first local processor to increase its farmgate price this season. NSW drinking milk suppliers also received a step-up of 28c/kg of butterfat and 42c/kg protein. This takes the price to 52c/l, according to Saputo, a rise from 49.6c/l. The price increase comes as The Weekly Times reports preliminary Dairy Australia production estimates of a 3.9% drop for the season to August, with the biggest drop in Victoria, down 6.9% YOY.

YOY growth, NZ milk collections (kgMS)



Total US cheese stocks ('000t)



Global and Corporate Dairy News

China reduces tariffs:

China plans to reduce average tariff rate on imports from most of its trading partners as soon as October. China cut tariffs on almost 1,500 consumer products in July in efforts to open up its economy. Chinese Premier Li Keqiang said the Chinese government will continue to lower import tariffs on some goods. The promise to further lower import tariffs comes as China and the US remain locked in an escalating trade dispute that has disrupted financial markets and cast uncertainty over global supply chains.

US production up 1.4% in August:

US milk production rose 1.4% YOY in August – following a 0.5% YOY expansion in July. Increased average yields were responsible, as the dairy herd was smaller than the prior year comparable. For the January to August period national supply rose 1.1% relative to the same period in 2017. The number of cows on farms in August was 9,400m head, up 5,000 from July but down 4,000 from the same month in 2017.

After falling 2.4% YOY in July, California milk output rose 1.2% YOY in August. Combined milk growth in the Desert states remained above 4% for the 23rd month in a row. This region accounted for 60% of national milk growth for the year to August. In the key Upper Midwest region, production rose 1% YOY in August – the same expansion as in the prior month, while output in the Northeast and Southeast continued to decline.

US lactose, whey exports face higher tariffs:

The Chinese finance ministry's latest retaliatory tariffs will significantly impact US dairy farmers according to the International Dairy Foods Association (IDFA). US exporters of lactose, ice cream, infant formula, chocolate milk, whey proteins and isolates will face additional taxes. Powdered infant formula and other infant foods have been slapped with 10% higher tariffs of 15% and 12% respectively. A 10% retaliatory tariff has been added to ice cream exports, with the tariff now 22%. Senior director of international affairs Beth Hughes said IDFA would continue to relay its members' concerns to top officials within the US Administration.

EC sells 8,983t of SMP in tender:

The 24th SMP tender under Regulation No (EU) 2016/2080 resulted in the European Commission (EC) selling 8,983t of SMP at a minimum price of €1,230/t - same as the average price achieved during the previous tender but a notably lower volume.

There were bids in the €1,045-€1,350/t range this time around, with 53,325t of product offered. So far, 142,990t of product has been sold through the tendering process. The next tender is scheduled for 2 October with 145,814t of SMP available. After this, there will be twice-monthly tenders with the exception of December. At the current pace, the EC will not clear intervention stockpiles during 2019.

US cheese inventories drop in August:

The USDA's latest Cold Storage report reveals American cheese stocks declined by 16,360t between July and August to 357,093t – still 10.3% above the 5-year average but 1.7% lower in YOY terms. Other-than-American cheese (including Mozzarella) stocks fell 7,908t between July and August – this was still 7.4% higher in YOY terms and 23.6% above the 5-year average. Despite the reported stocks drawdown across all varieties, natural cheese stocks were the highest on record for the month of August at 616,639t, and 1.9% above a year ago.

August butter inventories fell 12,474t from the prior month to 131,916t. This was 3.8% above the prior-year comparable and 16.5% ahead of the 5-year average.

MMO: Milk production forecast lowered:

The latest Milk Market Observatory (MMO) meeting lowered the forecast for EU milk production growth to 0.9% from its previous estimate of 1.2%. Despite the apparent recovery in milk production, as hot and dry summer conditions in many parts of Europe have eased, the MMO expects low fodder supplied in autumn and winter will constrain output in the last quarter of 2018 and into 2019. Based on growth of 1.7% for the first seven months of 2018, this latest forecast suggest production for the remainder of the year will be down 0.2% for the remainder of the year. The MMO is forecasting EU milk growth will be modest in 2019 - between 0.8% and 0.9%.

Beef and Lamb News

US import prices slide further:

In the US, the imported 90CL beef indicator steadied, closing at US\$1.89/lb CIF, unchanged from the prior week and 7.4% behind the same week in 2017. Imported beef trade continues to be patchy as bids in the US market are difficult to cover given ask levels in Australia. According to Steiner Consulting's weekly report, New Zealand supplies are near annual lows at this time and slaughter is not expected to increase significantly until November. Retail demand for ground beef has slowed considerably, which is normal for this time of year.

M. Bovis hits NZ feedlot:

New Zealand's only large-scale beef feedlot ANZCO's Five Star Beef has confirmed a *Mycoplasma bovis* infection. The feedlot is now under a restricted place notice with the disease confirmed in a large number of a single mob of 44 animals. ANZCO's general manager Grant Bunting said the feedlot is working with MPI to manage the infection. The 44 animals suspected of

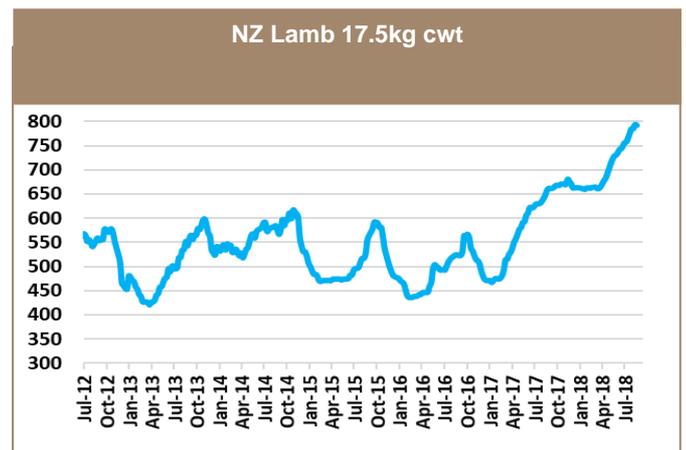
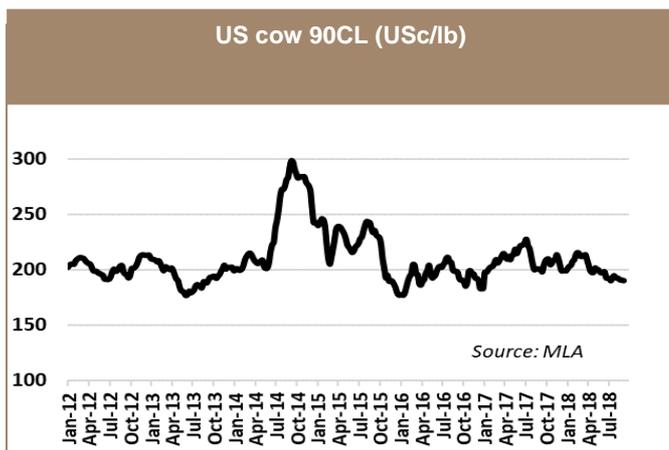
infection are quarantined and may go to slaughter earlier than usual. Bunting said Five Star as an intensive operation had a higher risk of infection. Due to the high number of cattle it handles, it was only a matter of time before the farm got *M. Bovis*.

Aus live exports peak in August:

Australian live cattle exports jumped in August due to strong demand from Indonesia and Vietnam, representing the largest monthly shipment this calendar year. Live cattle exports are up 24% YOY, at 680,000 head year-to-date. According to analysts, Indonesian demand came from the need for feedlots to re-stock following big festivals at the end of August. Northern Territory Livestock Exporters Association chief executive officer Will Evans said the Northern Territory live export season was looking promising as supply increased due to a good wet season.

US beef production up 1.2%:

August beef supplies have increased due to more female cattle coming to market according to US beef production data. Total US commercial beef production in August was 2.430bn lbs, 1.2% higher than a year ago. Beef production from cows and heifers was 6.8% higher than a year ago, while production from steers and bulls was considerably lower than a year ago. Year-to-date beef production is up 3.7% compared to last year. The increase in slaughter was relatively small compared to last year, however, higher exports and no increase in imports means domestic beef availability was likely lower.



Feed and Arable News

USDA: Record yields in the US:

Record yields are on the cards for US crops of corn and soybeans. The US corn production forecast was revised by USDA in its September crop report, up 2% from August to 38mt. In the same report, the US yield forecast was up 2% from August. Meanwhile, the US soybean yield forecast lifted 2% with soybean production expected to hit a record 13mt, up 2% from the month before and 7% ahead YOY. Soybean yields were expected to average a record high 3.6t/ha, up 2% from August and 8% ahead of the year prior.

Aus grain prices surge:

Australian grain markets surged higher last week as pessimism for the 2018 grain harvest continues to build. ASX wheat futures for January delivery ended A\$20 higher at A\$445/t and barley jumped A\$38 to A\$438/t. Prices were pushed higher as average September rainfall and widespread frosts eroded expectations for Australia's grain harvest in recent weeks. Australian crop forecaster ABARES estimated the local wheat crop at 19.1mt in mid-September, but most now see this as optimistic. Yield declines are considered unavoidable with weather forecasts indicating no sign of rain through to early October and many traders pegging the Australian wheat crop at 17 to 18mt.