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3 October, 2018

New Zealand Dairy News

Fonterra's August intake up 3.3%:

In its latest production update, Fonterra New Zealand's early season milk collection rose 3.3% YOY to 96.5m kgMS. In the North Island milk collection was in line with August last year at 70m kgMS. Good pasture growth in Northland and improved weather conditions lifted season-to-date milk intake 1.8% in the North Island compared to the same period last year. Milk intake in the South Island jumped 13.4% to 26.4m kgMS due to favourable weather conditions especially in the upper South Island. Total Fonterra intake is up 4.4% for the season, however, volumes are still small in the context of the full season.

Tatua confirms NZ\$8.10/kg:

Tatua Dairy Cooperative announced record annual revenue with earnings for 2017/18 of NZ\$127m, prompting a lift in its farmgate payout to NZ\$8.10kgMS. Tatua chairman Stephen Allen said the company's focus on value-add businesses and bulk ingredient product mix boosted revenue. Allen said the cooperative was looking to make further investments but sought balance between supporting shareholders and the company's requirements for reinvesting in the future. He said the company maintained a healthy level of caution considering the emerging global trade situation that could affect the outlook.

Westland cuts payout forecast:

Westland Milk Products payout for 2017/18 is at the lower end of guidance at NZ\$6.12kgMS, less a NZ5c retention, delivering a net average result for shareholders of \$6.07kgMS. Meanwhile, Westland also cut this year's payout forecast to NZ\$6.50 – NZ\$6.90 due to weak global butter prices – in line with other processors. Westland's chairman Pete Morrison said last year's payout was affected by global commodity prices, the impact of cyclone Fehi and a strike at the Port of Lyttelton. The company also didn't meet its production and processing targets for the year, but Morrison said a new sales team were improving results.

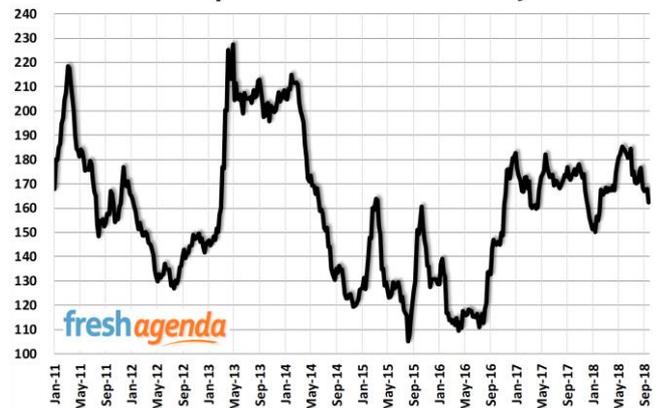
Culling down in August:

There were 25,298 dairy cows culled in July according to StatsNZ, which is 13.2% less than in the same month last year. However, dairy cow culling in the first three months of 2018/19 was 9.7% ahead of the comparable. Over the 2017/18 milk production season (June to May), total dairy cow slaughter totaled 780,447 head. Limited historical data is publicly available for dairy cow slaughtering data. However, we estimate that aggregate cow culling for the last 12 months was 8.7% ahead of the comparable, a difference of 63,236 head.

NZ Dairy Export Index

Index steadies – This week, the NZ dairy export index regained some of the past week's loss due to a slightly weaker NZ\$. Quotes for WMP averaged US\$2,780/t, unchanged from last week, while SMP rose US\$50/t, to average US\$2,050/t. Cheddar sat at US\$3,700/t – same as last week, while butter shed US\$100/t to US\$4,400/t. The NZ dollar lifted more than 1c to **US\$0.6615**, lifting the index by **1.08 points to 163.34**.

NZ export index since January 2011

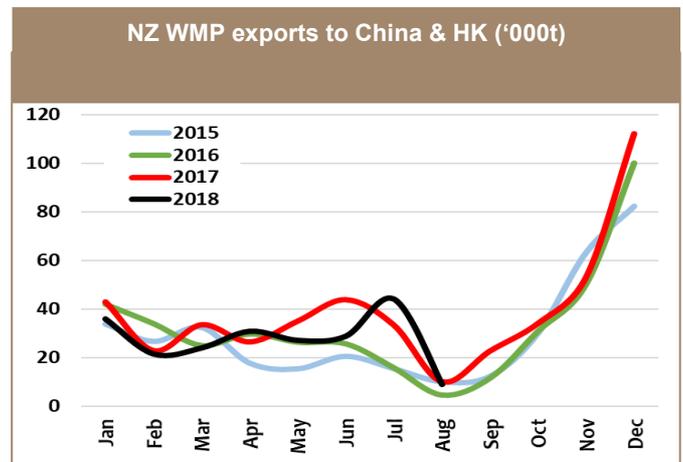
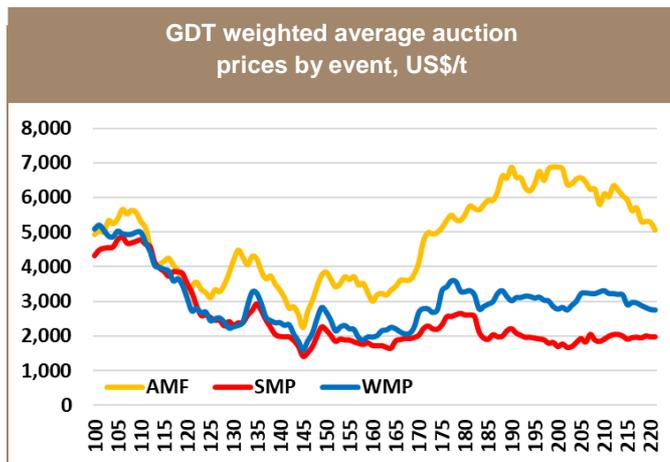


Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted NZ export prices, movements in currency and the total milk usage in exports by the NZ industry. It was set at 100 on 1 January 2000.

Australian Dairy News

Worsening weather outlook:

The Australian Bureau of Meteorology's (BoM) December Qtr climate and water outlook map has a deep brown scar across much of the south and eastern hinterland, deepening the drier, warmer trend that will further squeeze milk production margins and shrink Australia's milk production. September's low rainfall and higher daytime temperatures resulted in below average soil moisture for much of Australia, while water storage levels across the Murray Darling Basin, eastern Victoria and south east coast of NSW are much lower than year before. Cooler night temperatures added to the damage to grain crops with frosts in some parts, damaging crops in WA's wheat belt and in Victoria's Wimmera. Only three of eight climate models surveyed by BoM now forecast an El Nino event, but not until December. This would be a late El Nino, but not unprecedented.



Global and Corporate Dairy News

GDT index down 1.9%:

At GDT event 221, the GDT price index fell 1.9% on a larger offering of 41,981t. WMP shed 0.5%, averaging US\$2,753/t with mixed contracts. December and April deliveries rose 1.1% and 1.3%, while all other contracts fell, most notably January deliveries, which were down 4.6%. SMP averaged US\$1,982/t, a slight increase of 0.1%. Most contracts were down, but December deliveries rose 2.7%. Butter plummeted 5.9%, averaging US\$4,016/t with the biggest fall recorded for December and January deliveries, down 6.4% and 7.9%, respectively. AMF averaged US\$5,069/t, dropping 4.3% with falls across all contracts – the steepest falls recorded for January and February deliveries dropping 5.5% and 5.4%, respectively. Cheddar shed 1.0%, averaging US\$3,468/t with November and December deliveries falling 5.5% and 5.1%, respectively.

NZ August WMP exports flat:

After rising 23% YOY in July, New Zealand's total WMP exports were virtually flat in August at 35,513t, despite an 11% fall in shipments to China & HK alone. For the year to date, total WMP exports were up just 0.5% to 829,383t while shipments to China & HK were 11% below the prior year comparable. The slowdown in China likely reflects a recovery in local supply as well as a different use of milk in the Chinese dairy industry. Buyers are also anticipating lower WMP prices in light of expectations for strong New Zealand milk production during 2018/19.

Meanwhile, butterfat exports continued to recover as prices have fallen with NZ more competitive on the global market. In the first eight months of 2018, exports of butter and AMF rose 15% and 9% respectively. Exports of cheese were also weaker in August and remained 5% lower in the 8 months to August 2018, despite favorable product stream valorization and added manufacturing capacity. SMP exports fell 10% in the 8 months to August to 214,742t, after monthly trade was 16% lower than the prior year.

NAFTA is dead, USMCA born:

Canada has agreed to sign on to a trade deal between the US and Mexico just hours before the US-imposed deadline Sunday. The agreement will give US dairy processors greater access to Canada's dairy market and address concerns about potential US auto tariffs. The new deal is called the United States-Mexico-Canada Agreement. Canadian foreign affairs minister Chrystia Freeland and US trade representative Robert Lighthizer said the agreement will "strengthen the middle class and create new opportunities for everyone across North America".

The increased US access (by year 6 of the new USMCA) includes 12,500t of cheese (year to July 2018 trade was 9,700t); 7,500t of SMP (4,200t), and 50,000t of fluid milk. The US will provide reciprocal access for imports of Canada dairy products through tariff rate quotas.

Canada seems to have buckled on some key US dairy sector priorities, although changes will be slow. It has agreed to eliminate the controversial milk price classes 6 and 7 within six months after USMCA takes effect, while Canada will also ensure effective export prices for skim milk solids used to produce NFDM, MPCs, and infant formula will be no lower than the US price for nonfat dry milk. Canada has committed to adopt measures designed to limit the impact of any surplus skim milk production on external markets; resumption of use of skim milk as domestic animal feed and a commitment to cap exports of SMP, MPCs, and infant formula. For SMP and MPCs, the aggregate export cap will be 55,000t in the first year of USMCA and 35,000t in the second. Exports exceeding this threshold will face an export surcharge of C\$540/t. The cap will be increased by 1.2% a year. Both countries will review the agreement five years after USMCA starts and every two years thereafter.

Not surprisingly, Canadian dairy farmers have reacted angrily to the new trade deal. In a statement, Dairy Farmers of Canada (DFC) said granting US dairy additional market access to its domestic dairy market, eliminating competitive dairy classes and limit export possibilities will impact the entire Canadian dairy industry. DFC president Phil Lampron expressed disappointment with the Canadian government in a later statement, calling the announced concessions a 'willingness to sacrifice domestic dairy production to make a deal'. Other Canadian dairy lobby groups, The Dairy Processors Association of Canada and the Union des producteurs agricoles also spoke out against a deal that would allow further access for US dairy.

EU butter stocks still low:

According to the 25 September Milk Market Observatory (MMO) Economic Board meeting report, butter stocks remained relatively low through to the end of July, despite local consumption falling during the hot summer period. SMP inventories have gradually decreased, with some stocks passing from public into private hands before reaching end users. Cheese inventories are building further however, reaching a seven-year high with stagnation in exports and an expansion in production.

According to the updated European Commission (EC) Short Term Outlook, milk production growth estimates for 2018 were revised downward from the previous report due to the impact of hot weather and herd numbers. For the 2018 calendar year, the EC expects a 0.8% growth in milk output, with a further 0.9% expansion next year. For the rest of 2018, milk supply in Germany, France and the UK are expected to fall in YOY terms but with growth in Ireland and Poland.

The EC expects SMP production to increase 0.4% in 2018 to 1,536mt. With exports and domestic use also increasing by 2% and 4% respectively, 2018 ending stocks are projected at 366,000t – of this total, 211,000t are expected to be into intervention and 155,000t into private hands at the end of the year.

Beef and Lamb News

US import prices fall:

In the US, the imported 90CL beef indicator drifted lower, closing at US\$1.89/lb CIF, down 2.6% from the week prior and tracking 9.1% behind the same week in 2017. Imported beef prices in the US are dragged down by weaker domestic grinding beef prices. According to the weekly report from Steiner Consulting, end users remain reluctant to cover needs for later in the year. There is an expectation that New Zealand will have more meat to sell at lower prices later in the year. Australian offers are still priced above US bids, making trading difficult as Australian packers receive better prices in Asian markets.

MLA: dry drives sheep slaughter:

In its Australian sheep September update, Meat & Livestock Australia (MLA) revises its 2018 sheep slaughter forecast to 9.3m head, up 23% on 2017. Dry conditions across Australia has elevated sheep slaughter for the most part of the year with

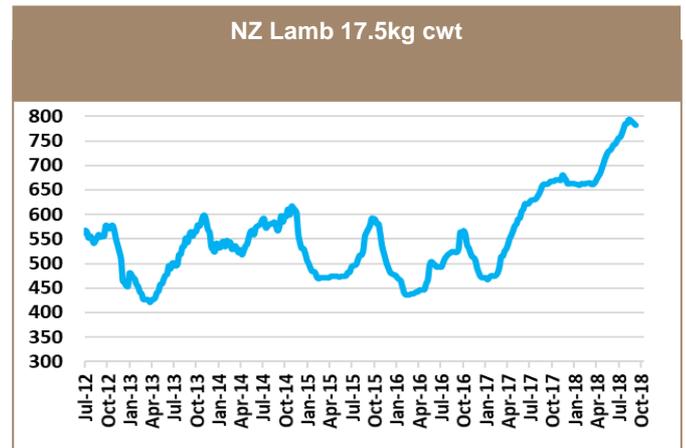
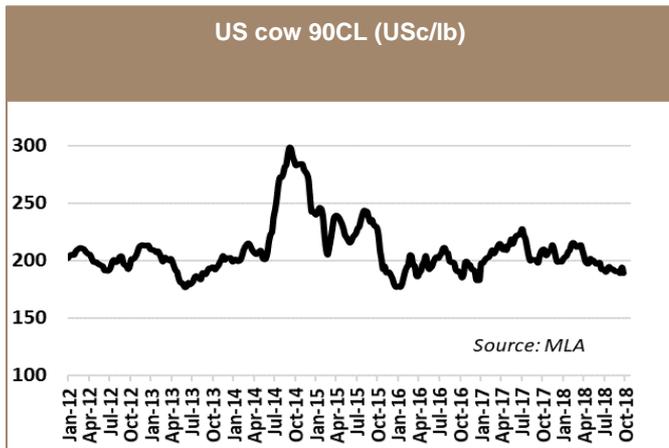
widespread rainfall deficiencies in southeast Australia, while placing downward pressure on carcass weights. Sheep carcasses have been significantly lighter than the year before, and in recent months dipped below the five-year average. Dry conditions is also driving lamb slaughter, however, this fell in recent months due to the delay in new season lambs entering the market. MLA projects annual lamb slaughter at 22.9m head, up 2% on 2017. Meanwhile, through the year Australian lamb prices broke records through A700c and A800c cwt marks for the first time. Poor seasonal conditions and high feed costs led to a waning supply of finished lambs through the year. The recent delay in new season lambs has put further pressure on prices.

Large Australian cattle operation for sale:

One of Australia's largest integrated beef and cropping businesses Ceres Agriculture has been listed for sale with a price tag of A\$200m. The business is offered for sale by CBRE and due to changes to foreign investment rules, the property is offered to Australian buyers first. Ceres produces more than 100,000 Meat Standard Australia graded cattle and 40,000t of grain on a yearly cycle. According to the newspaper *Australian Financial Review*, cattle operator North Australian Pastoral Company (NAPCo) and a separate group, including the Ontario Teachers' Pension Plan were some of the interested parties, when the company was quietly shopped around last year.

US beef exports halted:

Weekly US beef exports have slowed but continue to increase year-on-year. In the four weeks, ending 20 September, weekly exports of fresh/frozen beef cuts averaged 16,602t/ week, up 5.8% YOY. Exports to Hong Kong and Japan were about 6% lower compared to the same period a year ago, while exports to Mexico declined 4%. Shipments to South Korea continues to be strong, 22% higher than the year-ago comparable. Exports to South Korea were up 41% in July compared to a year-ago to 127,785t.



Feed and Arable News

US corn growers happy with trade deal:

US corn growers are breathing easier as a new three-way trade agreement between the US, Mexico and Canada was reached on the weekend. Prices have tumbled through the year, December futures dropping 13% since 1 May, partly due to trade concerns. Last year, the US exported US\$3.2bn of corn and corn products to Mexico and Canada according to the National Corn Growers Association. Since the deal was announced, futures have recovered some of their previous losses.

Aus grain production down 4mt:

Total grain production estimates for Australia in 2018/19 is wound back 4mt as a higher percentage of cereal cut for hay and increased number of crops damaged by frost. Rabobank senior grains and oilseed analyst Cheryl Kalisch-Gordon said Australian wheat exports for 2018/19 could be just 10mt, a 10-year low as frosts hit crops. Kalisch-Gordon said the possibility of further losses from frost remained and pricing were affected by the outlook of prolonged dry conditions in Australia. In Dairy Australia's latest Hay and Grain Report hay prices are A\$600/t, a doubling since January in some regions. Grain prices have increased 50% since January to at least A\$400/t.