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5 September, 2018

New Zealand Dairy News

Fonterra lowers price to NZ\$6.75kgMS:

Fonterra has lowered its forecast 2018/19 farmgate milk price to NZ\$6.75kgMS, down from NZ\$7.00kgMS due to stronger milk supply in key dairy regions. During the past quarter, milk production in Europe, Argentina and the US lifted according to Fonterra chairman John Monaghan. Production has increased an estimated 100m litres at a time when WMP and fats demand appears to be slowing in parts of Asia, Africa and the Middle East. Fonterra CEO Miles Hurrell said it was still early in the season, but farmers need all the facts, so they can make informed business decisions.

NIWA: Weak El Nino could happen:

New Zealand's weather forecaster NIWA has released its outlook for the September to November period, with near normal (40% chance) or below normal (30% chance) for all regions except the east of the North Island. Soil moisture and river flows are forecast to be near normal (35-40% chance) or below normal (35-40% chance) for all regions of New Zealand except for the east of the South Island, where below normal soil moisture levels and river flows are expected (50% chance).

There is a 65% chance of a transition to El Niño in the next three-month period, increasing to a 78% chance in the March to May 2019 period. Indications are that the event – if it eventuates – will not be strong.

Prod Comm: Special treatment for ag:

The Productivity Commission's report on achieving a low carbon NZ economy continues to recommend agriculture should receive special treatment in New Zealand to ensure agriculture remains viable, along with two new options for methane emissions. The Commission suggests either a dual-cap ETS that sets a separate cap for the price of methane emissions or a methane quota system as well as creation of separate budgets for short and long-lived gases.

New Zealand's climate change minister James Shaw is sympathetic to the argument that methane should be treated differently from long-lived gases but hasn't committed to either suggestion for methane emissions. The report also recommends the Government should provide free allocations within the NZ ETS for a large majority of long-lived agricultural emissions for a transition period.

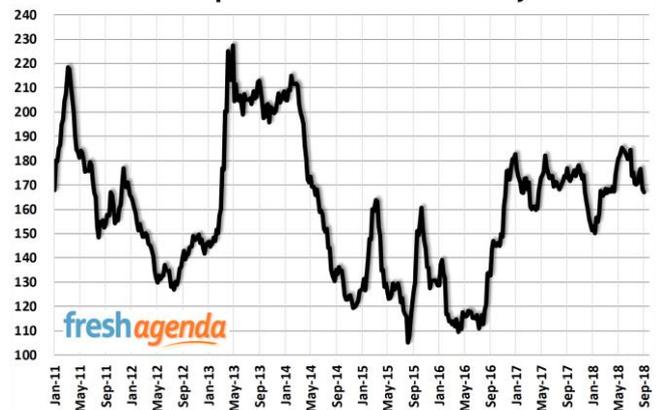
Culling picks up:

There were 32,395 dairy cows culled in July according to StatsNZ, 3.4% more than the same month last year. Dairy cow culling in the first two months of 2018/19 was 16.6% ahead of the comparable. Over the 2017/18 milk production season (June to May),

NZ Dairy Export Index

Index falls – This week, the NZ dairy export index fell due to weaker commodity prices. Quotes for WMP lost US\$25/t to average US\$2,900/t. SMP was unchanged, averaging US\$2,000/t while cheddar averaged US\$3,700/t. Butter fell US\$100/t, averaging US\$4,500/t. The NZ dollar fell marginally to **US\$0.665**, sending the index down **1.16 points** to **166.89**, totaling a drop of **9.59 points** in just two weeks.

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.

total dairy cow slaughter totaled 796,403 head. Limited historical data is publicly available for dairy cow slaughtering data. However, we estimate that aggregate cow culling for the August to July period was 8.1% ahead of the comparable, a difference of 59,852 head.

Fonterra milk supply up 4% in July:

According to the latest Fonterra Global Dairy Update, New Zealand milk collections increased 4.0% YOY in July to 17.9m kgMS. Season-to-date Fonterra milk collection lifted 7.7% to 31.2m kg of milksolids. Milk intake in the North Island lifted 2.5% YOY to 16m kg of milksolids in July, while South Island intake was up 18.9% to 1.9m kg of milksolids. Increases in milk intake were driven by favourable weather and pasture conditions in the North Island as well as a higher number of winter milk contracts this season.

Landcorp earnings boost:

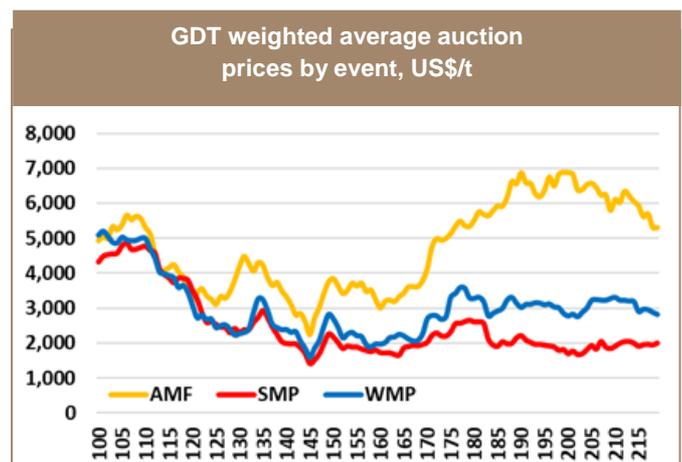
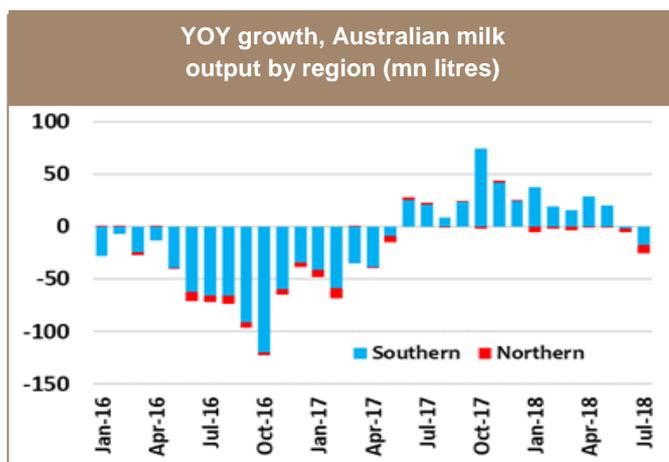
Increased livestock sales boosted earnings for New Zealand's largest farmer Pamu/Landcorp, enabling it to pay its first dividend in four years. Landcorp's revenue rose 7% to NZ\$247.1m and EBITDA met guidance at NZ\$48.5m. Milk revenue declined NZ\$6.7m due to a 20% decrease in production following the exit of a share-milking arrangement. According to CEO Steven Carden, the state-owned company is transitioning Pamu beyond commodity products, to avoid price volatility. Instead, the company is focusing on dairy alternatives, produced from organic milk, sheep milk, deer milk and plant-based beverages. However, these require "an evolution in how farming is done and what is produced". Core premiums lifted NZ\$1m during the year, due in part to a focus on organic, grass-fed and winter-milk dairy programs.

Australian Dairy News

July milk down 4.2%:

After falling 1.2% YOY in June, national production dropped 4.2% YOY in July according to Dairy Australia. July milk production in the southern region fell 3.6% compared to the same month last year – this was driven by weaker supply in Victoria (-4.9% YOY) and despite growth in South Australia (+9.3%) and Tasmania (+1.4%).

Production in two out of three Victorian regions were well down, by 7.1% in the north and 6.7% in the west. Gippsland was up 0.4% YOY for the month. In the northern milk supply region, production was down 6.1% YOY in July as drought conditions continue. NSW supply fell 4.6% YOY for the month, while output in Queensland dropped 10.2% YOY.



Global and Corporate Dairy News

GDT: mixed outcome:

At GDT event 219, the GDT price index fell 0.7% on mixed results for commodities and a product offering of 38,811t. Butter lost 2.8%, averaging US\$4,271/t. Falls were recorded across all contracts, apart from December deliveries which inched 0.1% higher. Meanwhile, AMF averaged US\$5,316/t, down 0.1% with contracts in the short-term increasing, October deliveries rising 7.7%.

but not enough to offset falls recorded for deliveries from December onwards. Cheddar rose 4.2%, averaging US\$3,631/t, with most contracts gaining apart from January deliveries, down 0.7%.

Powders were mixed with WMP prices down 2.2% to average US\$2,821/t, weighed by signals of a good NZ season ahead. All contracts fell, the biggest falls recorded for October deliveries, down 4.3% and January deliveries down 4.2%. SMP averaged US\$2,005/t, following firmer US and EU trends, rising 2.8%, with all contracts lifting, October delivered prices jumped 8.8%.

Irish July production down 3.1%:

Irish milk production fell 3.1% YOY to 874mt in July, according to the Irish Central Statistics Office. This was the third YOY fall in the past 4 months for which data is available, bringing supply for the year to July down 0.6% on the comparable at 4,812mt. According to local sources, grass growth was severely affected in July due to hot and dry weather while culling lifted sharply due to feed shortages.

Meanwhile, milk deliveries in the UK rose 1.5% YOY in July according to Eurostat. This was the third consecutive monthly expansion and brought supply for the year to date 0.6% ahead of the comparable to 9,075mt. In more recent local data, daily deliveries rose 0.6% YOY for the first 25 days of August.

US July milk prices at 5-month low:

USDA's Agricultural Prices report indicates the all-milk price fell 90 cents between June and July to US\$15.40/cwt or US\$0.35/litre. The July all-milk price was 11% lower in YOY terms and 4.3% below the 2016 comparable. According to the Margin Protection Program (MPP) formula, producer margins fell 8.8% from June to a 3-month low. Farmgate margins are expected to improve through to October however, with dairy prices projected to rise faster than feed costs.

US and Canada try to save NAFTA:

After US and Mexican negotiators reached consensus on a bilateral trade, the pressure on Canada has mounted to join a renewed North American Free Trade Agreement (NAFTA). Despite Canadian prime minister Justin Trudeau's 'constructive conversation' with Trump last week, no agreement was reached before the deadline to present changes to the US congress passed. The US reportedly wants Canada to open access to US dairy products and abandon its dairy supply management system in its current form. Canada's minister of foreign affairs Chrystie Freeland said she will continue to work for a trade deal that is in the country's best interest.

Canada SMP stocks shrinking:

Canadian SMP inventories were 39,557t in July, according to official government data, 3% lower than in the previous month and 34% below the prior year comparable. Canada's SMP stocks have now declined in every month since February – falling 51,872t over the period. The stock drawdown reflects stronger exports in the first half of 2018 which rose 14% to 35,344t, despite YOY declines in both May and June. Local milk production has risen strongly and processors have moved away from SMP – output fell 1.2% in first half of 2018 to 57,625t.

Beef and Lamb News

US import prices steady on limited trading:

In the US, the imported 90CL beef indicator was steady, unchanged from last week closing at US\$1.915/lb CIF, 5.0% behind the same week in 2017. Labor Day production schedules were front of mind for US end users who had no desire to secure forward orders. Australian product is limited in the US due to robust demand and higher bids from Asian markets. 90CL boneless beef prices in the US have been firm as demand for lean beef was sustained during the summer. US fat trim values are under pressure, prices down as much as 30% from earlier in the month.

Swine Fever drives up Chinese beef demand:

Chinese beef demand is increasing at a faster pace than domestic production after the sixth African Swine Fever outbreak was registered, meaning the country is increasingly relying on imports to fill growing demand for beef. China is the second largest beef importer in the world, but is expected to become the largest importer in 2019 ahead of the US. Currently, 13% of Australian exports and 25% of New Zealand exports are going to the Chinese market. There is still no certainty as to how African Swine

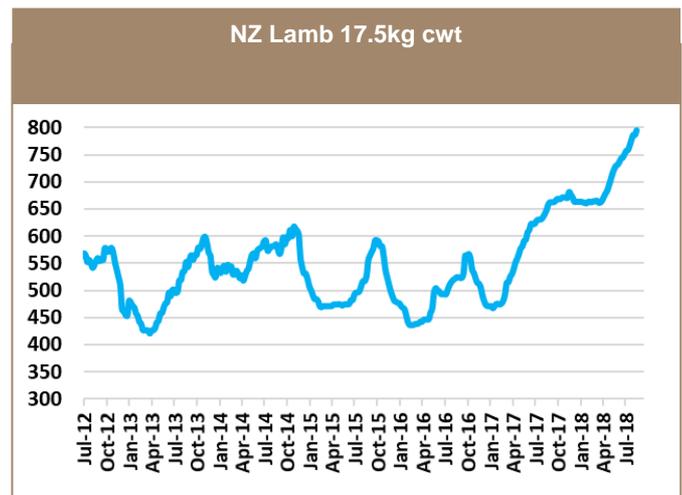
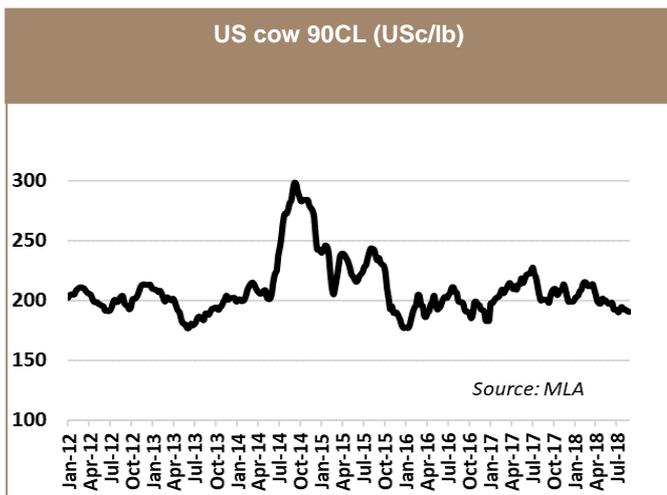
Flu will impact Chinese pork production, but it is expected to exceed losses incurred during the 2007 spread of blue ear disease, which led to an 8% decline in pork production.

Macquarie to buy Hassad farms:

According to the *Australian Financial Review* Macquarie Group's agricultural arm is closing in on a deal to acquire the remaining farm assets from Hassad Australia for close to A\$300m. Qatar Investment Authority will be a part investor in a Macquarie-controlled fund that will own Hassad assets, involving more than 100,000ha of prime farming land across Australia. Among the assets Macquarie is expected to buy are several grain producing properties in Western Australia and Victoria, along with mixed farming operations in Victoria and NSW.

Drought delays new season lambs:

There are reports of lower lamb marking and weaning rates, significantly impacting supply of lambs coming onto the market in NSW. New season lambs out of NSW are delayed due to lower marking rates and many producers struggling to finish stock to sale-ready weights due to ongoing drought. Over a third of Australian lambs are sourced from NSW, which has experienced the driest January to July period since 1965, and the warmest on record for daytime temperatures. New season lambs typically come onto the market from NSW first, with slaes beginning to ramp up at the beginning of August. For the first three weeks of August this year, just under 57,400 new season lambs had been sold through MLA reported saleyards in NSW – down 51% from the same time last year



Feed and Arable News

El Nino could impact crops in Central America:

An already fragile food situation in Central America could be affected even further if El Niño develops in the region before the end of 2018, according to the United Nations Food and Agriculture Organisation (FAO) and the United Nations World Food Programme (WFP). So far this year, 280,000ha of beans and corn has been lost across Central America due to severe drought, increasing the cost of food. FAO and WFP said even a weak El Niño, likely to occur between September and December, would significantly impact the outcome of the second crop cycle in the region.

Russia: No export limits for grains:

After meeting with grain traders and exporters, the Russian ministry of agriculture announced that they will not impose export taxes or take any other measures to reduce shipments out of Russia. In a statement, the Russian agriculture ministry said the Russian grain market is stable and that it saw no factors that would lead to growth in the pace of Russia's exports or change the supply-demand balance significantly. Russia's 2018 wheat crop is forecast to decline from a record 85mt in 2017 due to dry weather. While it's still a large crop compared to the five-year average, traders said there was pressure for some form of grain export restraint from regions hit by the dry.