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6 June, 2018

New Zealand Dairy News

Volatile weather ahead:

New Zealand weather forecaster MetService's June outlook shows swinging temperatures and volatile rainfall. The west and south of the South Island are expected to be much drier than normal during June, while the north and east North Island is likely to see above average rainfall. The east coast of the South Island north of about Timaru is also in for a wetter month.

Looking further ahead, NIWA has forecast near normal or above normal rainfall for June through to August in the north and east of the North Island and east of the South Island. Normal or below normal rainfall is expected rainfall is forecast for the west of both islands, with near normal rainfall likely for the north of the South Island.

Processors lift milk price:

South Island processors Westland and Synlait have announced forecast payouts to farmers for the 2018/19 season. Westland forecast a range of NZ\$6.75 – NZ\$7.20kgMS for the coming season, up from last season's range of NZ\$6.10 – NZ\$6.30kgMS.

Synlait matched Fonterra's opening price of NZ\$7.0kgMS and lifted its forecast base milk price for the 2017/18 season to NZ\$6.65kgMS. Synlait chairman John Penno said the lift in last season's base price reflected an increase in dairy commodity prices.

Fonterra milk intake lifts:

Fonterra's milk collection rose further in April, up 2.3% compared to April last year. North Island intake fell 2.1%, while South Island intake lifted 8.1% in April. Season-to-date milk intake was marginally higher for the South Island, up 0.2%, while North Island intake dropped 3% compared to the season prior. Overall, season-to-date milk intake was 1.7% behind the prior season.

Favourable weather conditions resulted in good late season grass growth throughout most of the country with the South Island having a strong autumn compared to last year.

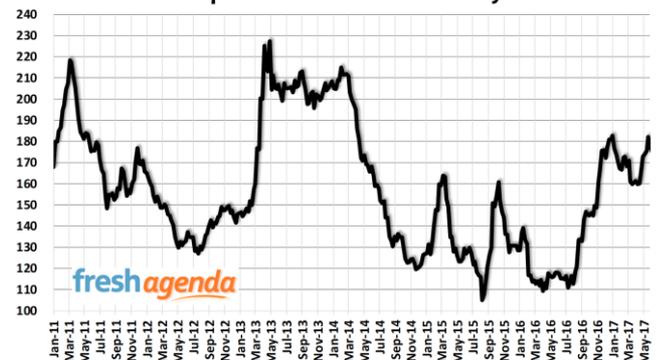
Banks still shaky on dairy:

In its Financial Stability report, Reserve Bank governor Adrian Orr says high dairy farm debts make banks vulnerable to losses from commodity price falls. Orr also cautioned risks from productivity and profit losses from Mycoplasma bovis and regulatory changes. Banks are closely monitoring about 20% of their dairy farm loans due to concerns about the borrowers' financial strength.

NZ Dairy Export Index

Index edges down – This week, the NZ dairy export index fell marginally on a stronger NZ\$. Quotes for butter added US\$125/t to US\$5,900/t while SMP rose US\$25/t to US\$2,100/t. WMP remained at US\$3,250/t, while cheddar rose US\$50/t to US\$4,100/t. The NZ dollar rose 1c to **US\$0.7011**, sending the index down by **0.92 of a point to 183.60**.

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.

The report revealed dairy sector indebtedness has increased in recent years, with a bigger share held by the most indebted farms. Orr said while farm income and dairy debt levels had stabilised in the past six months, M. bovis was an emerging risk. Especially for the most indebted farms, which could also be challenged by regulatory changes such as restrictions of foreign investments and environmental regulations, increasing farm costs. The Reserve Bank governor encouraged banks to remain prudent in lending to the sector.

Winter milking on the nose:

New Zealand processors are paying a premium for milk collected during winter but in the South Island farmers are paying a higher transport surcharge to transport product to Christchurch. In the North Island Fonterra pays an average premium of NZ\$3.15/kgMS for the months of June and July, totaling NZ\$9.90/kgMS and in the South Island, farmers receive an additional NZ\$3.91/kgMS for the months, (totaling NZ\$10.66/kgMS).

Fonterra charges farmers a transport fee of 2.5c/kgMS per 10km straight line distance from a nominated plant in both islands, and as South Island farmers' milk has to travel further to processing plants they are charged more. Some affected suppliers are calling for removal of the transport charge or an averaging across all winter milk suppliers. According to Federated Farmers dairy chairman Chris Lewis, winter milking put a load on infrastructure with extra feed costs, especially following a wet season. He said it could be profitable, but farmers need to take feed costs, transport fees and the impact on staff into account.

Australian Dairy News

BoM: Warm and dry winter ahead:

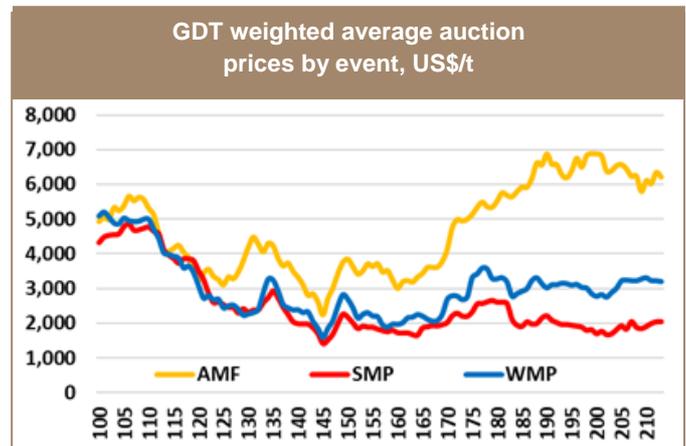
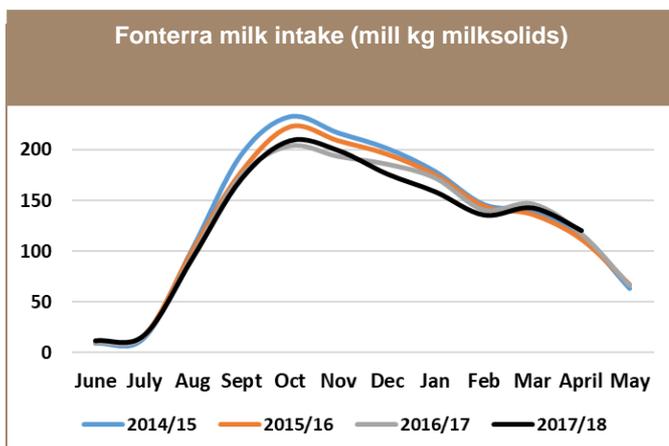
The Australian Bureau of Meteorology's winter outlook is for drier and warmer conditions. Following record heat and dry conditions across southern mainland states, the autumn break arrived in southern Victoria mid-May, however, along the east coast and in the south west of the country, farmers are still waiting for rain.

Below average rainfall is likely for southeast Australia with a particularly dry outlook for June. Water storages across southern Australia usually fill in May, however, some storages are lower than last month. Low streamflows will continue across the south in winter, and any rainfall will soak into soils. Climate drivers are neutral and are likely to stay this way during winter with fewer cold fronts expected to hit Australia, bringing milder days to the east coast of Australia.

Australian cheese, WMP favoured:

Australian manufacturers have favoured cheese and WMP during the season to March. Cheese production up 8%, with cheddar output 7.4% ahead for the period, despite falling in YOY terms the first quarter of 2018. Production of non-cheddar varieties rose 8.6% for the 9-months to March, lifting considerably in the first quarter. As local production cranks up, imports of NZ-sourced cheese have fallen 12% during the 9-month period. Nevertheless, cheese imports are still up 6% for the period, with imports from the EU and US up 10% and 61% respectively

WMP manufacture was also prioritized - production lifted 37.7% for the season-to-date. In contrast, SMP output dropped 21.1% in the 9 months to March. In line with lower SMP production, butter output was behind 13.2% for the season-to-date while butteroil production fell 18.2%. Whey powder output dropped 2.1% for the period.



Global and Corporate Dairy News

Fats ease on GDT:

The small zig-zag effect of overall GDT results continued in the latest event, but the biggest news was the buyer pushback from high butterfat prices in last night's auction, weakening both butter and AMF prices. The forward price curve for both leveled out, but butter is slowly rising while AMF trended weaker. Increased offerings of WMP with the unexpected late season rally in Fonterra's milk collections weakened prices on average, but prices trended firmer through to December.

The GDT price index fell 1.3% on a larger product offering of 21,580t. Average butter prices fell 3.6% to US\$5,581/t as all contracts were down. AMF averaged US\$6,222/t, falling 2.1%, dragged down by a 4.6% drop for contracts with April delivery and a 1.6% fall for October deliveries. Cheddar recorded a 4.9% fall to US\$3,998/t, hit by a 7.1% drop for July deliveries. Powders were mixed with SMP up 0.2%, averaging US\$2,051/t and WMP down 0.7% to US\$3,205/t, recording falls across all contract, apart from December deliveries which rose 0.2%.

Meanwhile, Fonterra has adjusted its Global Dairy Trade (GDT) forecast offerings over the next 12 months, increasing it by 2,770t to 628,830t. The change reflects optimization of late season milk with an additional 1,600t of WMP, 610t of AMF and 560t of cheese on offer.

US April cheese output up:

US cheese output rose 2.6% in the first four months of 2018 according to the USDA. American cheese (Cheddar, Colby, Monterey Jack) production grew just 1.6%, while output of other cheese varieties such as Mozzarella increased 3.3% relative to the same period last year.

SMP production was down 12.6% for the year to date. However, NFDM production was up 5.1% - increasing combined SMP/NFDM output by 0.9% for the period. This was despite April NFDM output falling 3.8% YOY – reflecting falling reduced Californian production (-5.7% YOY).

Whey production remained robust – output of dry whey rose 7.3% for the year to date while WPC output increased 4.7% relative to the same period in 2017. This masked a 3.5% drop in WPC 25-49.9% production and a 9.8% expansion in WPC 50-90% output. Butter production rose 4.7% between January and April, while lactose output increased 1.7%.

Ireland down 5.9% YOY in April:

According to official Eurostat data, Irish milk deliveries fell 5.9% YOY in April. Year to date supply was 0.9% behind the prior year comparable. Dutch and UK production fell 1.7% and 0.8% YOY respectively. Polish production rose – up 3.6% relative to the same month in 2017.

The most recent data to week 20 (ending 20 May 2018) indicates German production rose 2.3% YOY while French output was flat relative to the same week in 2017. In Germany, high summer temperatures are causing cow heat stress and also affecting milk composition. Conditions in the north are dry which negatively impacts feed quality. UK milk deliveries continued to track lower – after falling in April, dropped 0.5% in the first 26 days of May but were flat in the last week of available data.

Beef and Lamb News

US 90CL import price slides:

US imported beef prices continue to drift as large end users hold off on buying due to perceived downside risk for prices in July and August. The imported US90CL beef indicator closed at US\$1.97/lb CIF, down 9.6% on the same week a year ago. US domestic 90CL prices are firm due to strong retail ground beef demand. According to the Steiner Consulting Group's weekly report, New Zealand bull slaughter is up 15% for the season but current supplies are limited. Locally, poor pasture conditions are pushing more non-fed cattle onto the market, with bull/cow slaughter for the week ending 2 June 13.6% higher than the 5-year average.

China beef demand still robust:

While Chinese demand for beef may have cooled, it's still large and robust according to Meat & Livestock Australia's (MLA) general manager international markets Michael Finucan. A changing economy has increased Chinese incomes and the country relies on imports as it represents 20% of the world's population, but only holds 6-7% of the world's water and agricultural land.

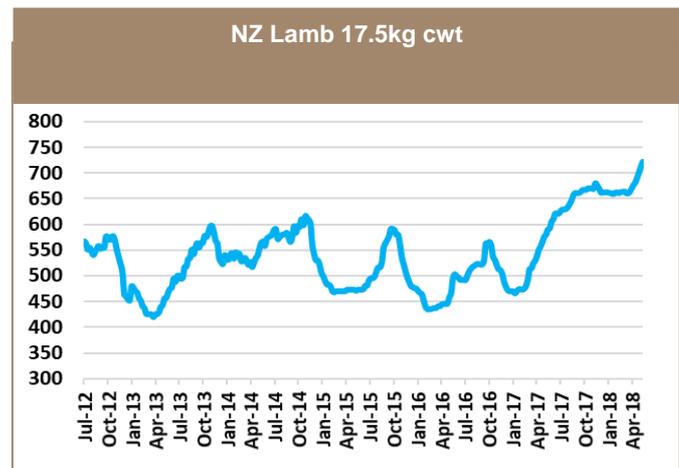
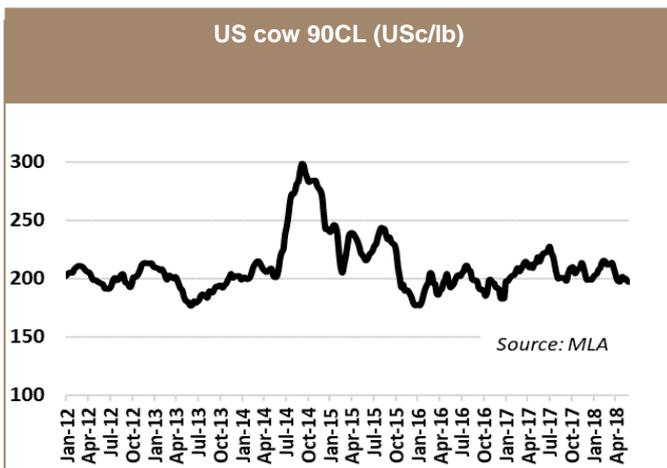
However, Finucan said the Chinese-Australian trade relationship is frosty at the moment. A deal between China and Australia to increase plants and cold stores approved to export to China has only increased chilled beef exports modestly. Finucan said a good trading relationship with China was important as it's Australia's number one trading partner. Issues with short term bans and labelling disputes are a direct result of that relationship.

Brazil beef industry adds up strike cost:

Brazil's beef industry came to a standstill as truckers went on strike, protesting a hike in diesel fuel prices, which hit deliveries and disrupted exports. BRF and Marfrig Global Foods experienced shortages of raw materials such as animal feed with both firms halting or paring back production. According to the Brazilian Beef Exporters Association (ABIEC), a total of 107 plants were paralysed while two others operated at less than 50% capacity. The industry body estimates 40,000t of beef was prevented from being exported and suppliers missed out on US\$170m in revenues. ABIEC said total losses could amount to as much as US\$3bn. The strike ended on the weekend as Brazil's president Michael Temer lowered diesel prices.

Australian sheep slaughter driven by dry:

Meat & Livestock Australia's Sheep Industry Projections was revised upwards in its May update with national sheep slaughter expected to reach 7.8m head, up 4% on 2017. National lamb slaughter is forecast to reach 22.85m head, up 2% YOY due to a dry summer and the absence of an autumn break across many key supply regions. With the upwards revision to slaughter, production forecasts for 2018 were also adjusted. Lamb production is projected to reach 524,000t cwt, up 3% YOY, while mutton output is set to lift 2% to 192,000t cwt.



Feed and Arable News

Brazilian dry concerns:

Delayed spring rains across Brazil means the early crop of soybean was planted in dry soil or delayed causing a domino effect for crop planting and harvesting in the country. The delay in soybean harvesting has pushed back corn plantings, making corn and cotton fields more dependent on late season rainfall to support yield. April rainfall has been well below normal, and the southern interior of the country has been persistently dry, and significant rainfall will be needed for late-planted corn. The situation is raising market concerns that production of second-season corn – which will already be reduced due to smaller planting – will be further reduced.

Rabo warns of poor harvest:

Demand for feed grains has spiked during recent months, driving domestic prices to four-year highs. Prospects for the Australian winter cropping season are worsening with no strong indication from the Bureau of Meteorology that rain is on the horizon. Dry conditions are limiting pasture, with producers looking to the growing lot-feeding sector to absorb excess supply of livestock. Since the beginning of April, feed grain prices have lifted A\$62/t on average to A\$397/t in response to higher demand.