

## From the Trading Floor

### KEY MARKET DRIVERS

- Increasing EU milk volumes
- Variable weather conditions across the US
- GDT Price Index down
- Very strong global milk prices
- Chinese demand for WMP/SMP

- Driven by WMP/SMP the GDT Price index was down 4%. Interestingly contracts 5 (Aug) & 6 (Sep) saw WMP pricing return to the \$US5000/mt level. Nearby contracts took the brunt of price falls along with NZX futures.
- Milk prices in NZ, US, EU and Australia are very strong and milk production has responded particularly in the EU and NZ. The focus now remains on the progress of spring flush in EU, USA & China.
- California has received some much needed rain but the Mid-West is still facing bitterly cold conditions that are hampering milk production.
- The ONIL Algerian tender has now concluded with reports that approx. 55,000mt of WMP & SMP were sold at prices of \$US5800/mt and \$US5100/mt respectively and primarily from the EU. Given the current market, these prices appear to be on the high side.
- **Philippines update from Alfred Cruz:** Prices are up and supply is down. Powder buyers will seek relief from softening WMP/SMP pricing and hand to mouth cheese buyers are starting to look at and consider more longer-term purchasing strategies to mitigate sustained high pricing.

**Tim Roache, Dairy Trader, Ausfine Foods**

## AUSTRALIAN INDUSTRY NEWS

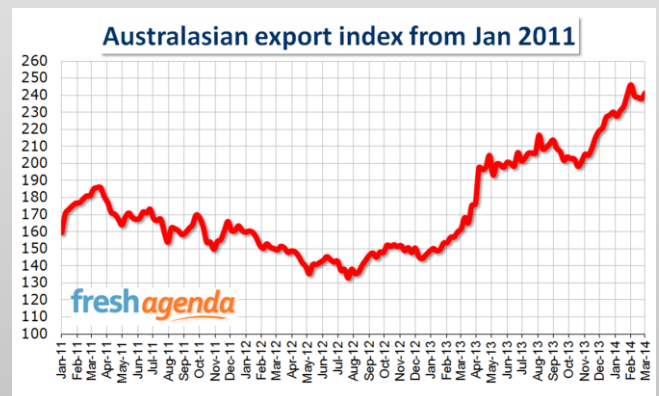
### WCB announces first-half earnings

Warrnambool Cheese & Butter (WCB) reported a 104.7% surge in after-tax profits to \$31.3 million for the first half of 2013/14 compared with the prior-year comparative. The underlying EBITDA was \$59.2m, an increase of 102% over the previous period. Revenue for the half was up 25% on stronger commodity prices to \$289m. In the October 2013 AGM meeting, WCB had forecast normalised FY14 EBITDA of \$51.1m. The result included \$2.1m in costs associated with defending against takeover bids from Bega and Murray Goulburn.

WCB said the outlook for the remainder of the year is positive, with strong demand for dairy commodities globally. However, the company flagged that the strong seasonal factors prevailing in the dairy industry mean it is

## DAIRY EXPORT INDEX

**Index recovers** – The Australian dairy export index picked up some of its lost ground with gains in product prices and a slip in the Australian dollar. In spot quotes for Australasian exporters, butter was the star this week, lifting by US\$100/t, while all other products also moved higher. The Australian dollar was almost half a cent lower at **US\$0.8925** against the US\$, lifting the index by more than 3 points to **241.3**.



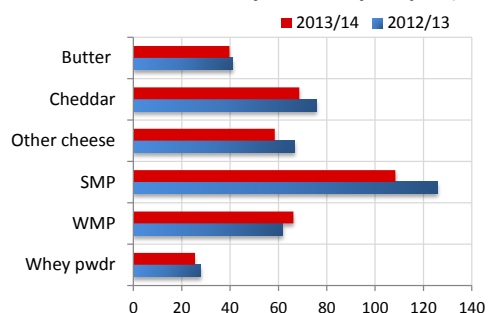
**Take note:** The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2000.

normal for the half-year operating results to exceed that of the full year.

### TDP announces 4<sup>th</sup> step up

Tasmanian Dairy Products (TDP) announced its fourth step up of 18 cents/kg fat and 38 cents/kg protein. TDP chief executive officer, Tony Catania, said that the increase was made possible due to a lower Australian dollar, and that the step up will be paid to current suppliers as of 15 March. The increase in milk price is effective from 1 February 2014, with retrospective payment on premium and base quality milk supplied to TDP from 1 July 2013 to 31 January 2014.

### Australian July-Nov dairy output (000t)



Source: Dairy Australia

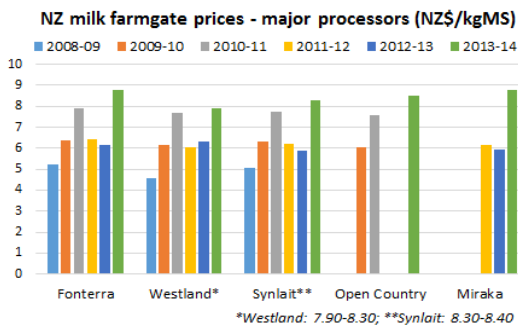
## Weather highlights

- In Australia, a trough over western parts of NSW and QLD is producing thundery showers, while a high-pressure ridge is keeping elsewhere mostly dry.
- In NZ, an active weather week expected with cold, windy and wet weather.
- In the US, wintery weather returns with severe cold continuing over the Upper Midwest, with warnings of a major winter storm for the central and eastern states.
- Rainfall increasing for parts of Brazil, but dryness in the farm belt is putting soybean and corn harvest at risk.
- In Europe, from mid-week, a ridge of high pressure will shift southeast and bring a prolonged spell of tranquil weather to France, Spain and Portugal.

## Fonterra forecasts record payout

Fonterra lifted its forecast Farmgate Milk Price for the 2013/14 season by NZ\$0.35 to a record NZ\$8.65 kgMS – reflecting continuing strong demand for milk powders globally. The increase – along with a previously announced estimated dividend of 10 cents per share - amounts to a forecast Cash Payout of NZ\$8.75.

In lifting the forecast, Fonterra retained the NZ\$0.70 gap in its Dec forecasts between the forecast milk price and the theoretical price, now NZ\$9.35 kgMS as per the Milk Price Manual. The Board also approved an increase in the Advance Rate schedule of monthly payments to farmer shareholders. Payments from March through to June will be 25 cents per kgMS higher than previously published.



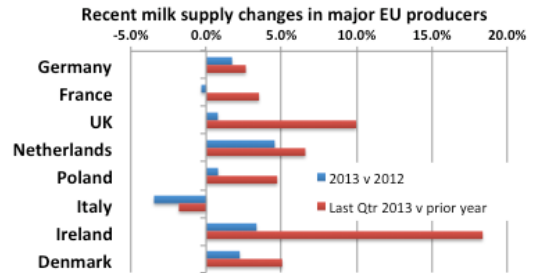
## US farmgate prices hit new high

The average US farmgate milk price is set to rise again after last year's 2nd highest on record. The 2013 average of US44c/litre was slightly lower than the record in 2011. The Feb all-milk price of US54.3cpl is another record high, as is the revenue-over-feed-cost at US33cpl. This year, the USDA has estimated that the average would increase to US45.9-47.4 cpl. The rises have been due to a combination of strong global demand and a modest increase in milk production.

## EU top 8 up 4.5%

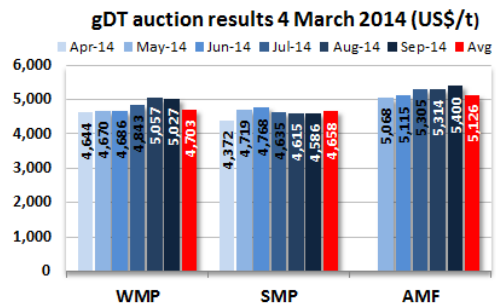
As of Dec 2013, 7 of the top 8 milk producing countries in the EU (representing 72% of milk output) were expanding

milk production, with competitive producers readying for the post-2015 era, and others rebounding from a drop in output in the prior year in response to good production margins.



## Prices down, volumes up at GDT

Dairy products fell for the second consecutive time, as volumes rose in the latest GDT auction – reflecting better milk flows this year in NZ and Europe. BMP and WMP led the decline, sliding 5.8% and 5.7% to US\$4,792/t and US\$4,703/t respectively. SMP and AMF closely followed – down 3.9% and 3.5% to US\$4,658/t and US\$5,126/t. Among other products, butter, rennet casein, and cheddar prices gained 3.9%, 2.9%, and 0.7% this fortnight.



## DAIRY FUTURES

**Dairy futures positive** – Butter posted strongest gains while AMF dipped this fortnight. But most commodity quotes have drifted downwards on late-period contracts. **All prices are quoted in US dollars per metric tonne** with Eurex contract prices converted at 1.3799.

3 Mar 14	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
Mar-14	5070	4468	4533	4990	4769	5330	4034
Apr-14	5000	4450	4470	4900	4482	5310	4034
May-14	4950	4330	4316	4945	4332	5270	3990
Jun-14	4850	4305	4211	4870	4317	5270	3940
July-14	4810	4312	4165	4870	4277	5250	3957
Change	1%	0%	0%	0%	1%	-2%	3%
Op interest	734	105	3245	4219	5155	560	4457

**Take note:** Open interest refers to the number of open contracts for the 5-month period for which futures prices are quoted. This does not indicate volumes to be traded. Change is comparison with previous week, weighted across 6 months based on open interest volume for each delivery date.

2 [www.ausfine.com.au](http://www.ausfine.com.au)

Ausfine Foods International Pty Ltd ■ ABN 12 006 926 129

T +61 3 9583 3588 ■ F +61 3 9583 4344 ■ E sales@ausfine.com.au

Suite 10, Level 4, 205 – 211 Forster Road, Mount Waverley VIC 3149 Melbourne, Australia