

From the Trading Floor

KEY MARKET DRIVERS

- Global milk growth continues/Oceania peak strong
- Milk prices under pressure
- Chinese demand remains soft
- US pricing continues to realign with int'l markets
- GDT steadies on reduced volumes

- The seasonal peak for NZ and Australia will arrive over the next 2 weeks and all reports are that volumes will be up YOY around 2-3% and around 4% respectively. Global milk production also remains strong in the face of weak commodity prices, EU super levies and uncertain global markets.
- Whilst milk prices have been reduced throughout the EU and NZ, prices in Australia have held to date, but if international prices remain in this low range for the next 3-5 months it is increasingly difficult to see current milk prices around the \$AU6.00/kgMS being maintained. US milk price look set to hold for the remainder of 2014 before reducing in 2015 and NZ milk price is forecast to fall further below its current \$NZ5.30/kgMS.
- Chinese demand remains soft as continued reports flow through that excess stock levels are still being cleared. However this maybe a short-medium term issue as Euromonitor reports the Chinese market is expected to double in size to \$US70bn by 2019, at this rate China would overtake the US as the largest dairy market in 2017.
- Anecdotally Chinese spot farm gate milk prices have fallen dramatically and are now well below the cost of production. If correct this sharp turn in prices could lead to reduction in domestic production due to reliance on supplementary feeding.
- Led by butter, US prices continue to ease. The spot butter price has plummeted, losing over US1600/MT in under 5 days of trading on the CME, from US6600/MT to US4985/MT!
- From the EU: Eastern EU countries approved for export to Russia, such as Belarus, are buying large volumes of milk concentrate and cream from the EU for conversion into Russian approved product.
- A steady GDT result with the index moving up 1.4% has allowed for the market to take a short sigh of relief. However volumes were reduced and the Oceania peak will have taken place before GDT #127.

Tim Roache, Sales Manager, Ausfine Foods

AUSTRALIAN INDUSTRY NEWS

Production edges ahead in August

Dairy Australia reports national milk production was up 2.3% in August, pushing output for the season to date up 1.9%. Most regions were ahead for the month, with Tasmania recording a particularly strong start. However Queensland and SA were behind in August, a consistent trend for both

DAIRY EXPORT INDEX

Index loses 2 pts – The Australian dairy export index fell further this week as powders lost more ground and the Australian dollar steadied. In spot quotes for Australasian exporters, WMP was the hardest hit, dropping \$200/t to US\$2,600/t – the lowest price since August 2009. SMP prices fell \$50/t to US\$2,600/t while cheddar and butter were steady. The Australian dollar was marginally higher at week's end, at US\$0.869, the index fell 2 points to **152.6**.

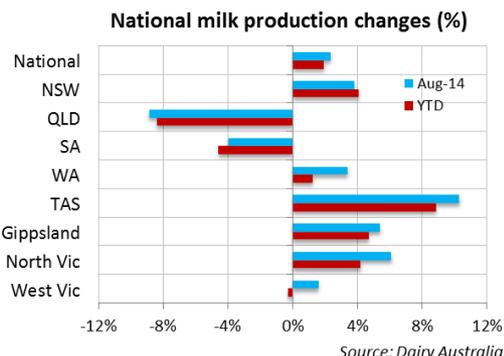


Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January

regions this year. Within Victoria, the northern region and Gippsland were well up on August last year, reflecting good seasonal conditions. Western Victoria recorded a modest improvement in output in August, but remains behind year to date.

Fonterra Aust up 10% in September

In it's Global Update Fonterra has reported a 10.1% increase in September milk collections across Australia. Fonterra reported the mild winter, good cow condition and pasture growth contributed to strong production early in the season in most regions.



GLOBAL DAIRY MARKETS

Weather highlights

- In Australia, a low and cold air is generating heavy rain and strong winds in eastern VIC and southeastern NSW. A high is clearing showers from TAS and SA, while keeping much of WA dry.
- In NZ, mainly fine across the North Island with rain developing later in the week. In the South Island cloudy days with scattered rain over the coming week.
- In US, the Northern Plains will have mainly dry weather for the rest of the week, rain to linger in the mid-west, with heaviest fall in the central and south eastern parts
- Mostly fine conditions across central Brazil for the coming week, before falls of around 100mm in the south east, with scattered showers extending into Argentina
- Light rainfall across most of central Europe, with heavier falls expected in the north. Low pressure bringing bands of rain and strong winds to much of the UK and Ireland

Fonterra powders cleared in Sri Lanka

Last week Sri Lanka's Ministry of Health suspended the distribution and sale of three batches of Anchor milk powder after complaints of illness. The products implicated have since been tested and been passed for consumption.

Belarus re-exports test Russian ban

A total Of 128,700 tonnes of milk and cream to be used in processing were imported in a two and a half week window last month, as 15 Belarusian companies won approval from their authorities to purchase European products. The products were sourced from Poland, Lithuania, Latvia and France.

USDA forecast: 2014 down, 2015 up

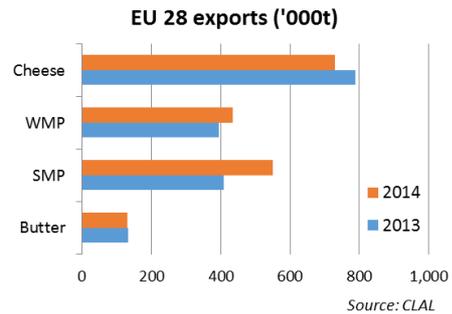
The USDA's latest WASDE report has reduced its milk production forecast for 2014, based on slower growth in milk output per cow. However, the forecast was raised for 2015, as growth in output per cow is expected to be higher due to relatively low-priced feed. Export forecasts for 2014 were down as US prices are less competitive internationally, but import forecasts were raised as relatively high US prices encourage inflows. Trade forecasts for 2015 are unchanged. The all milk price is raised to US53c/l for 2014, and was lowered for 2015 to US41.7c to US43.7c/l.

EU output to slow in 2014/15

A report from CLAL foreshadows a slowdown in EU milk production growth toward the end of 2014/15, as producers seek to avoid super levy payments.

CLAL expects the Russian import ban to consolidate the already established trend toward milk powder production within the EU, which has been building in response to higher Chinese import demand. With the Chinese demand outlook uncertain, CLAL expects increased supplies of SMP will be

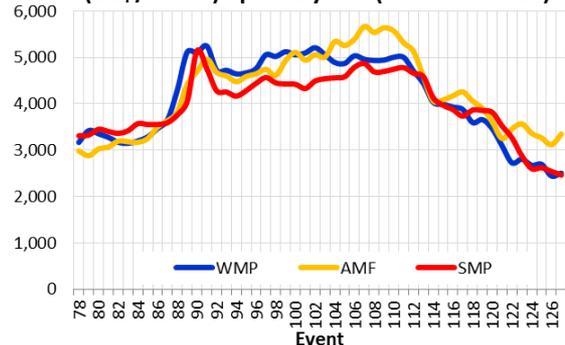
taken into stores under the EU support scheme for private stocks which is scheduled to run through December.



GDT moves up

The GDT average rose 1.4% this week, on lower sales of 50,816t of product. WMP was up 3.1% to US\$2,503/t, butter rose 3.9% to US\$2,462/t and AMF was up 7.4% to US\$3,346/t. However SMP price continued its slide, down a further 3.6% to US\$2,462/t, while rennet casein fell 5.3% to US\$7,780/t, and cheddar lost 1% to US\$3,007/t.

GDT weighted average auction prices (US\$/tonne) - past 2 years (since Oct 2012)



DAIRY FUTURES

Dairy futures mixed – NZ markets steadied this week as CME prices started to tumble. European SMP futures were also slightly weaker. **All prices are quoted in US dollars per tonne** with Eurex contract prices converted at **1.2719**.

13 Oct 14	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
Oct-14	2,600	2,618	3,263	2,480	5,104	3,150	6,063
Nov-14	2,620	2,601	3,197	2,650	4,616	3,200	4,740
Dec-14	2,675	2,618	3,153	2,720	4,279	3,300	4,079
Jan-15	2,700	2,620	3,142	2,800	4,050	3,200	3,924
Feb-15	2,750	2,620	3,111	2,900	3,955	3,465	3,825
Mar-15	2,800	2,620	3,109	2,950	3,922	3,495	3,825
Change	0%	-1%	-4%	0%	-2%	0%	-8%
Op interest	751	274	3,248	9,648	11,206	10	4,125

Take note: Open interest refers to the number of open contracts for the 6-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.

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