

From the Trading Floor

KEY MARKET DRIVERS

- Led by NZ, Oceania peak strong
- EU milk & processing capacity to increase in 2015
- Russian bans impacting EU product mix
- GDT auction results weak
- Underlying demand firm - but very competitive

- As NZ and Australia process their spring peak, milk volumes for both key exporting regions are up around 4% YOY. Farmers are increasingly being cautioned on continued fragility in international markets and the effect this may have on milk prices. But seasonal conditions are generally good, cows in good condition & herd numbers strong. Possible declines to milk prices aside, all indicators point to sustained increases in milk production for 14/15.
- Forecast for EU peak (Apr/May15) remains robust and currently up 4.3% YOY. New plants/processing capacity built for post quota EU need to be filled with milk and current milk prices, although under pressure, are generally still profitable for farmers. Further reductions in milk prices as we enter 2015 may reduce milk volumes.
- General consensus from the EU is Russian bans will remain in place for the nominated 12 months. Processors have responded by switching milk from cheese vats to SMP/Fat product mix. EU cheese production is 6% lower and SMP 30% higher than this time last year.
- GDT index was down 0.3% led by Cheddar -9.2% and BMP -6.9%. Whilst the WMP results were up 1.6%, the total volume of WMP on offer was reduced by 11% from the previous auction and 9% less than the same auction last year in what is shaping up as another record milk production season in NZ.
- Demand throughout Asia, Africa, Middle East and the America's remains firm but pricing is extremely competitive. With ageing excess stock competing against fresh production buyers have good access to product at prices far more appealing than 9-12 months ago.
- Supply will continue to exceed demand for the short term but a serious disruption to EU, NZ or Chinese production could lead to a sharp correction of the current market imbalance (NB. There is no evidence to date of one of these scenario's occurring).
- US pricing has bounced after sharp heavy falls, hampering US export competitiveness. Butterfat exports are down 80% & imports up 106% YOY.

Matt Cooper, Director, Ausfine Foods

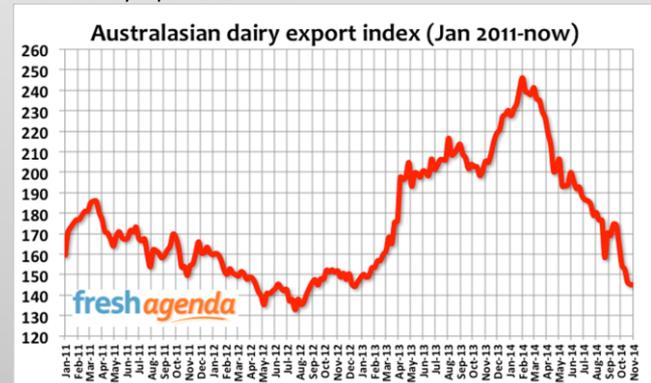
AUSTRALIAN INDUSTRY NEWS

Bega flags flat profit result

Bega Cheese executive chairman Barry Irvin told shareholders at Bega's annual meeting last week that an over-supply of dairy products and uncertainty surrounding Russia's trade sanctions had pushed prices down 45% in the past six months, which would offset improved returns from several of Bega's recent initiatives. As a result, Bega expects its normalised net profit and revenue for 2014/15 to be broadly in line with the \$66 million and \$1bn it recorded last financial year. Mr Irvin emphasized the parts of Bega's business not exposed to commodity prices were growing

DAIRY EXPORT INDEX

Index slips – The Australian dairy export index fell marginally this week, as a steady Australian dollar offset gains from a slightly stronger commodity market. In spot quotes, butter rebounded, gaining US\$100/t to US\$2,900/t, while WMP and cheddar were unchanged. In contrast, SMP dipped US\$30/t to US\$2,490/t. The Australian dollar closed the week stronger at **US\$0.879**, trimming the index by a point to **144.9**.



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.

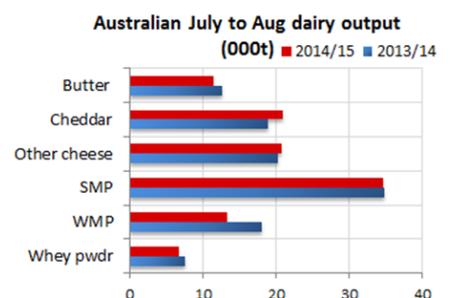
and the company had a strong balance sheet to support expansion.

WCB downgrades season price

Following its scheduled Oct milk price review, WCB advised its suppliers that it was maintaining its milk price at the opening average price of \$5.86kgMS; the average closing price range will now be between \$5.86 and \$6.00kgMS for 2014/15.

Cows to Sri Lanka in a new deal

WA-based livestock exporter Wellard has clinched a \$100m deal to supply 22,500 dairy cattle to the Sri Lankan Department of Economic Development. Wellard will source Friesian Jersey-cross heifers from around Australia and ship them to Sri Lanka over the next two years. The deal, financed by Rabobank and backed by Australia's Export Finance Investment Corporation, includes management and veterinary support. Wellard will also set up a farm and build a dairy as Sri Lanka builds on the success of earlier consignments of 2,000 cattle



Source: Dairy Australia

GLOBAL DAIRY MARKETS

Weather highlights

- In Australia, a high across the southeast is leading to generally dry and sunny conditions.
- In NZ, showers are set to become more widespread across the North Island, while an area of high pressure returns some more settled conditions to the South.
- In US, a storm system will move across eastern parts and bring localised flooding from Texas to Maine, but also relief to drought areas.
- Strong thunderstorms and heavy rain are erasing the recent unseasonable warmth across northern Argentina, Uruguay, south-eastern Brazil and Paraguay.
- Severe storm system to bring heavy rain to southeastern France and western Italy, as well as Switzerland.

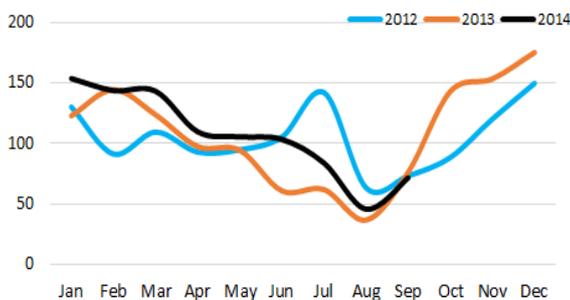
China lifts Fonterra whey ban

Chinese authorities have lifted a temporary ban on the importation of Fonterra's whey powder and dairy base powder used in the manufacture of infant formula that has been in place since last year's botulism scare.

NZ exports more WMP, butter

Latest trade data reveals NZ exported more dairy products in the Jan-Sept period this year. Butter shipments rose 18% to 361,237 tonnes, followed by WMP shipments, up 17% from the prior-year comparative to 960,994 tonnes, as demand from MENA, China, Asia, and Africa-Sub Sahara strengthened significantly. In contrast, SMP and cheese exports fell 7% and 4% respectively.

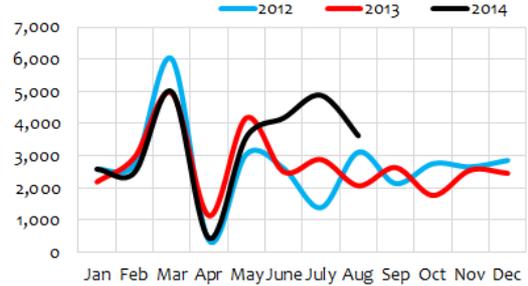
NZ whole milk powder exports ('000t)



Japan ups powder imports

Japan is reportedly set to import 10,000 tonnes of milk powder and 3,000 tonnes of butter over the next two months as the country deals with a shortfall in domestic supply. The ministry of agriculture has been forced to act, due to an anticipated shortage as food companies start planning for the Christmas and New Year holiday season. Tariffs are high - with bound tariff rates for SMP and butter of 217% and 360% - affording significant protection to the local industry. Nevertheless, Japan's SMP imports have increased by 17% for the January to August period.

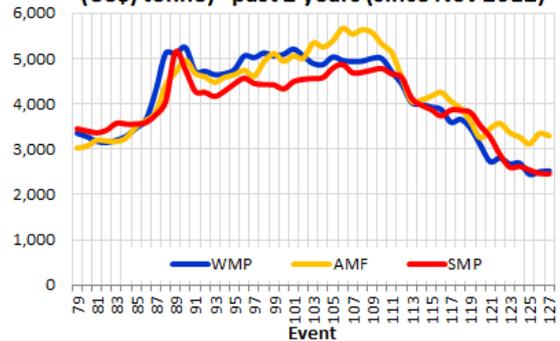
Japanese SMP imports (tonnes)



GDT has a small fall

The GDT price index declined 0.3%, on lower volume sales of 45,499t compared to 50,816t three weeks ago. WMP rose 1.6% to US\$2,522/t, helped by the later March to May 2015 contracts. Cheddar and BMP led the decline, down 9.2% and 6.9% to US\$2,728/t and US\$2,426/t, followed by butter, down 4.1% to US\$2,505/t. In comparison, rennet casein, AMF and SMP recorded smaller losses of 2.2%, 1.6%, and 1.2% to US\$7,608/t, US\$3,292/t, and US\$2,457/t, respectively.

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



DAIRY FUTURES

Dairy futures weaken – Significant falls in NZ and European markets for SMP, with smaller price drops in all other markets. CME cheese was the only exception, registering a small gain. **All prices are quoted in US dollars per tonne** with Eurex contract prices converted at **1.2522**.

3 Nov 14	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
Nov-14	2,450	2,317	3,120	2,580	4,612	3,400	3,924
Dec-14	2,560	2,329	2,982	2,625	4,112	3,500	3,875
Jan-14	2,580	2,329	2,943	2,690	3,926	3,600	3,854
Feb-15	2,620	2,329	2,866	2,770	3,874	3,700	3,831
Mar-15	2,660	2,329	2,863	2,950	3,874	3,950	3,831
Apr-15	2,655	2,329	2,844	3,040	3,807	3,900	3,836
Change	-3%	-6%	-2%	-1%	1%	0%	-1%
Op interest	894	262	3,183	8,994	12,374	10	3,901

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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