

From the Trading Floor

KEY MARKET DRIVERS

- Pressure on world milk prices
- Buyers forward contracting
- Chinese milk production strong
- WMP weighs down GDT
- Russia; from bad to worse

- As milk production continues to grow in major dairy markets (with the exception of Russia) and no disruptions to milk supply in the short term, manufacturers from EU, Oceania, and China are turning to milk price to stem the supply.
- Whilst underlying demand is stable to firm, international buying, particularly spot buying, remains subdued as many volume customers have covered forward requirements for Q1 2015 with some covered well into Q2/Q3 and even out to Q4. Seems customers like pricing in the USD2000s!
- On the back of rapid modernisation and impressive large-scale dairy operations, Chinese milk production is strong, anecdotally up around 10% for 2014. It appears the volume lost in 2013 has been recovered after a mild summer and no significant FMD outbreaks.
- As evidenced in last night's GDT, cheese and butter fat products are actually holding OK but WMP is weak and its impact on the GDT price index is strong.
- The US Class III milk price is falling and spot cheddar blocks/barrels have fallen by an average of USD0.26/lb over the last fortnight. Domestic demand is firm, particularly for cheese, but whether it can offset export losses remains to be seen. Appreciating USD and increasing milk production will not assist.
- The news from Russia is bleak. The Ruble is plummeting on back of falling oil prices/trade sanctions which coupled with diminishing domestic demand is hurting importers. Watch this space for far reaching ramifications.

Tim Roache, Sales Manager, Ausfine Foods

AUSTRALIAN INDUSTRY NEWS

MG sticks to \$6 kgMS

MG has confirmed its opening and forecast of a weighted-average milk price of \$6 kgMS in its southern milk pool, subject to change in external factors such as global dairy prices and the Australian dollar.

Milk production up 6% in October

Dairy Australia reports national production was up 6% in Oct, pushing season-to-date output ahead 3.8%. There were strong gains in Tasmania, NSW, and WA up 17.8%, 6.5%, and 5.8% respectively. Victorian production rose 5.3%, with Gippsland recording the largest gain of 9.6%, followed by the Northern and Western regions at 3.9% and 2.4% respectively. In comparison, SA output rose marginally by 0.5% in October, while Qld suffered a decline of 3.4% compared to the same month last year.

DAIRY EXPORT INDEX

Index rises – The Australian dairy export index rose this week, helped by a stable commodity market and favourable currency movements. In spot quotes, all products were unchanged – butter at US\$2,850/t; SMP US\$2,400/t; WMP US\$2,560/t; and cheddar US\$3,350/t respectively. The Australian dollar closed the week at **US\$0.849**, lifting the index by 2 points to **146.9**.



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.

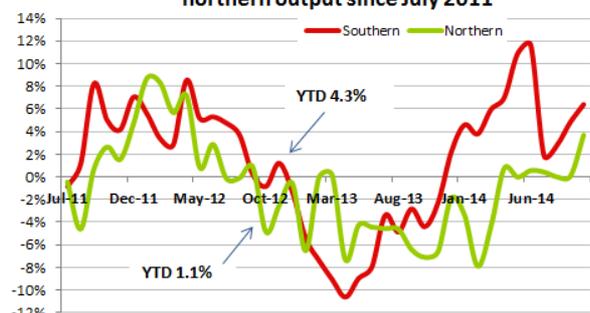
Camperdown Dairy wins accreditation

Camperdown Dairy is looking forward to exporting dairy products to China, after gaining the China Inspection Quarantine accreditation last week. Milk will be the first product exported, but Camperdown Dairy hopes to include yoghurt in the future. Volumes are expected to build to 500,000 litres a month in the next six months. Camperdown Dairy is one of 174 entities registered to export dairy from Australia to China.

Confidence down among dairy farmers

The latest Rabobank Rural Confidence survey shows confidence among dairy farmers has slipped, with 46% reporting worsening rural sentiment, up from 25% previously, dented by the pressures of easing prices, flow-on effects of oversupply in China and Russian ban. A total of 17% expected improved conditions ahead.

Australian milk production - changes in southern v northern output since July 2011



Weather highlights

- In Australia, cool south westerlies are bringing cloud and isolated showers to southern SA and Vic.
- In NZ, more settled weather this week.
- In the US, drenching rain will spread across California, bringing some relief to the ongoing drought. Snow and ice to develop over the mid-Atlantic.
- After a few dry days, northeastern Argentina, Uruguay, and southeastern Brazil could face thunderstorms and flooding and risks of mudslides due to heavy rainfall.
- In Europe, high pressure to bring largely dry and settled weather in UK. Storm systems will unfold from along the southeastern coast of Spain to northwestern Italy.

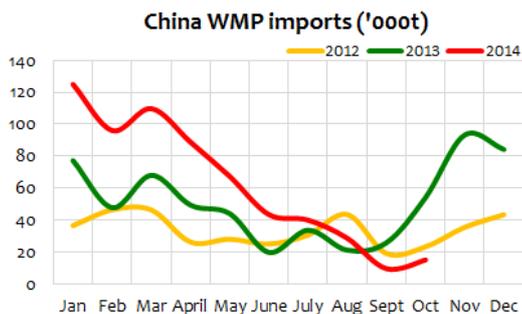
Westland trims forecast payout

Westland has trimmed its forecast milk payout for 2014/15 by NZ40 cents to a range of NZ\$5 to NZ\$5.40 kgMS, from a previous range of NZ\$5.40 to NZ\$5.80 kgMS, due to continuing global oversupply of dairy products and the impact of a relatively high NZ dollar on returns.

China WMP imports dip 72%

China's Oct WMP imports were 15,000t, up 58% from Sept 2014, but down 72% from last year. YTD imports at 621,000t are already ahead compared to the full year imports of 619,000t recorded in 2013. China continues to source the majority of its WMP from NZ - current YTD share of imports from NZ is 91% - identical to 2013. Other countries such as Australia, Uruguay and Argentina have shipped more this year, but volumes remain relatively small, with YTD volumes ranging 10,000-15,000t for each of the individual countries.

... Meanwhile, China's SMP imports in Oct reached 15,900t, down 1.2% from Sept and 28% from Oct last year.



New futures products on the way

New futures products are being launched by both the NZX and Euronext, the European exchanges operator in 2015. Euronext will launch a range of dairy futures and options, including derivatives for butter, SMP and whey powder, next year, betting the abolition of production quotas will spur demand for hedging and pricing tools in the industry. NZX will launch a Global Butter Futures contract on the 12th of December, following the successful testing of the service

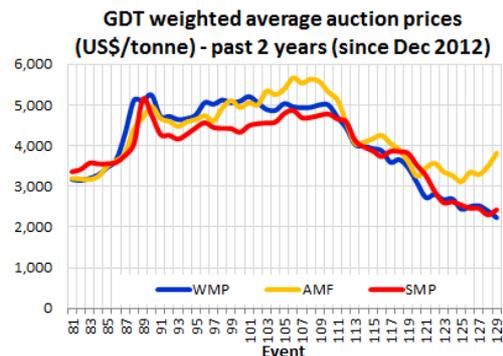
and receipt of regulatory approval from the Financial Markets Authority.

Growth slows in Netherlands, Poland

Latest ZMB data shows Oct milk deliveries in Netherlands rose 0.5% from last year, bringing the Jan-Oct 2014 output 2.5% ahead of prior-year comparative. In Poland output rose 6.3% lifting its YTD output by 7.7% from last year. European Commission data shows dairy farmer gross margins dropped sharply during Q3 2014. During the latest quarter farmgate milk prices declined slightly while the cost of operating a dairy farm increased.

GDT falls by 1.1%

The GDT price index fell 1.1%, on marginally lower sales of 39,273t compared to 39,613t a fortnight ago. WMP was took a major hit, down by a 7.1% to US\$2,229/t. Contracts 2 and 3 for February and March delivery fell 9.2% and 8.4%, respectively, only contract 6 was up 2.7%. In contrast, rennet casein and AMF led the gains for other commodities, up 9.3% and 9% to US\$7,255/t and US\$3,817/t, followed by BMP and butter, which rose 8.8% and 7.3% to US\$2,560/t and US\$2,849/t. In comparison, SMP and cheddar rose 5.7% and 5.2% to US\$2,423/t and US\$3,017/t respectively.



DAIRY FUTURES

Dairy futures mixed – CME cheese had the largest fall, while smaller price drops were recorded across the board. The exceptions were in NZ futures, where SMP gained while AMF was stable. **All prices are quoted in US dollars per tonne** with Eurex contract prices converted at **1.2447**.

1 Dec 14	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
Dec-14	2,230	2,178	3,031	2,350	3,860	3,410	3,880
Jan-14	2,260	2,269	2,771	2,360	3,699	3,410	3,742
Feb-15	2,300	2,272	2,679	2,400	3,693	3,450	3,683
Mar-15	2,330	2,272	2,588	2,580	3,737	3,500	3,687
Apr-15	2,440	2,272	2,623	2,585	3,728	3,550	3,709
Change	1%	-1%	-1%	-1%	-2%	0%	-1%
Op interest	1,255	279	2,931	8,463	13,509	212	3,276

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 5 months based on open interest volume for each delivery date.

2 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