

From the Trading Floor

KEY MARKET DRIVERS

- Superlevies & milk prices slow EU milk production
- NZ experiencing dry conditions
- NZ tariff free product for 2015 already in China
- Demand is healthy, but appreciating USD hurting imports

- ...and we're back. A belated Happy 2015 to all our readers. As usual it is looking like another interesting and big 12 months ahead in the world of Dairy!
- On top of falling prices, many EU suppliers / countries are facing Levies because of over-production on quota levels prior to removal in March 2015. The levies were easily absorbed when prices were high but now that prices are below cost of production, these Levies are a bitter pill to swallow. All measures to push milk production out past mid-March are being taken. Likely to result in short-term fall in EU production.
- We are hearing multiple reports that New Zealand is very dry, especially in the South Island. No reports yet of the conditions having a material effect on milk supply but the talk is having an effect on sentiment with more buying activity in the market. Having said that over 70% of NZ milk for this season has already been produced.
- Reports of NZ origin product already in China (in bonded warehouses) taking up majority of the zero Tariff quota in the first few weeks of the year as opposed to product still on the water for Jan/Feb arrival as one would be expecting.
- Demand from most markets, with the exception of China, actually seems to be quite robust but it is simply a case of oversupply combined with USD strength (making purchases in local currencies more expensive) that is seeing a continuation of lower prices.

Matt Cooper, Director, Ausfine Foods

AUSTRALIAN INDUSTRY NEWS

India, Australia to explore dairy ties

Trade and Investment Minister Andrew Robb is leading a group of more than 450 delegates from 14 sectors to India in an effort to strengthen economic ties and is aiming to conclude an India FTA in 2015. Potential benefits to the dairy industry are likely limited as India is a major global milk producer.

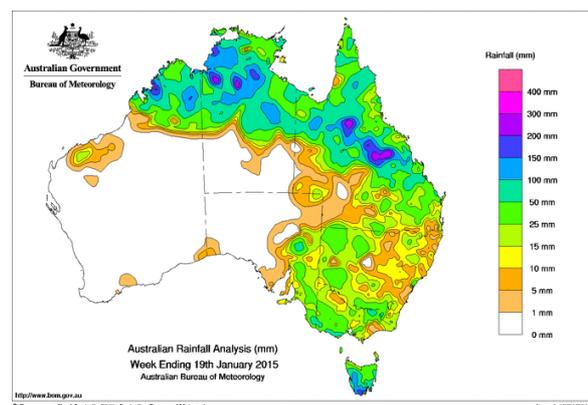
DAIRY EXPORT INDEX

Index falls 9.4% – Major drivers were declines in cheddar and WMP prices, and a stronger currency. The Australian dollar increased at the end of last week to **US\$0.82**. These combined effects pruned the index by 16 points to **159.04**.



Victorians get welcome rain

Dairy farmers in western Victoria and Gippsland saw some of the heaviest rainfall in years last week, effectively reducing the need for irrigation and increasing fodder storages. "This'll get us through summer or a bit more, so we don't have to buy as much hay and feed in," said Macarthur dairy farmer Craig Dettling who received 67mm, the highest daily rainfall since 2008. In the east of the state Denison dairy farmer Graeme Anderson said the rains had eased the need for irrigation and helped boost fodder storage levels.



Weather highlights

- In Australia, a broad area of low pressure is triggering thundery showers over QLD, NSW and VIC.
- In New Zealand, mainly fine conditions with isolated showers inland on the north island. Scattered showers clearing in Canterbury.
- In the US, snow possible from the Northern Plains to the Northern Mid-Atlantic.
- In Argentina's grain belt, hot and dry weather to continue during this week.
- Central-west Brazil has seen a long continuous dry period with little-to-no rain since the start of the year.
- Cold and wet week in southern Europe.

Slowing IMF sales bite

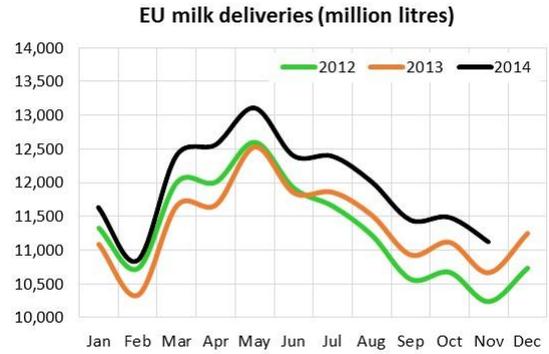
Growth in Chinese IMF imports of just 1% last year highlight the stagnation in demand that has ramped up competition between foreign and local brands, hitting profits as companies spend more on marketing. Tougher manufacturing regulations that took effect in 2013 and 2014 have also raised costs. Yashili, one of China's top 10 IMF companies by sales, has issued a profit warning, estimating a 40% drop in profit over the past year. The company says it has been hit by slowing demand for baby formula and higher marketing and compliance costs. Competitors have also been hit, Beingmate said in its half year report that adapting to sector reform had slowed sales and it was spending more to stave off market rivals. The firm saw profit in the first half of the year drop 72%.

USDA reduces milk forecasts

The January WASDE report revised the US milk production estimate for 2014 and 2015 down, due to slower growth in yield and cow numbers. The 2014 estimate was reduced by 0.1%, while the 2015 estimate was down 0.2%. The all-milk price forecast range for 2015 was reduced from US\$18.45c/l – US\$19.25c/l to US\$17.75c/l – US\$18.55c/l. Skim-solids export forecasts are raised for 2014 and 2015 primarily on stronger sales of whey and nonfat dry milk. Fat basis exports are unchanged for 2014 but slightly higher in 2015. Estimated ending stocks for 2014 were raised as domestic demand has been weaker than expected.

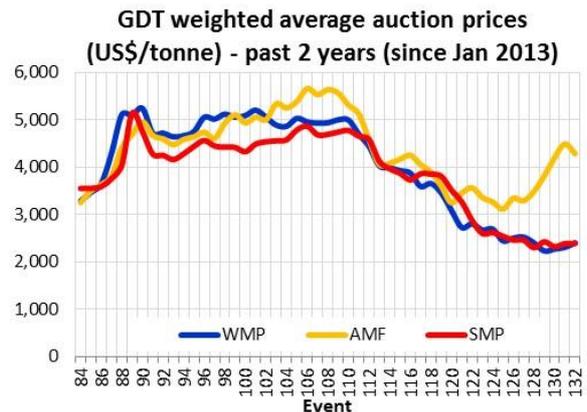
EU milk deliveries rise 4.3% in Nov

Latest ZMB data shows that November 2014 EU milk deliveries increased 4.3% when compared to the same month last year. This unexpectedly large increase betters the 3.4% YOY increase reported in October. YTD EU milk deliveries total 131,429 million litres 5% higher than the prior-year comparative.



GDT rally continues

The GDT price index rose 1%, on lower sales of 31,326t, down 7% from last fortnight and 24% from prior-year comparative. WMP and rennet casein posted the largest gains, up 3.8% and 3.3% to US\$2,402/t and US\$8,159/t respectively. SMP and butter followed, rising 1% and 0.1% to US\$2,389/t and US\$3,564/t respectively. The gains were offset by BMP and AMF, which fell 6.4% and 5.0% to US\$2,559/t and US\$4,286/t. In comparison, cheddar fell 4.3% to US\$2,961/t.



DAIRY FUTURES

Futures remain fragile – Latest data reveals mixed results with a negative short-term outlook for some products. Healthier gains for WMP can be expected between March and April. All prices are quoted in US dollars per tonne with Eurex contract prices converted at 1.1560.

19 Jan 15	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
Jan-15	2,390	2,139	2,315	2,300	3,479	4,440	3,433
Feb-15	2,480	2,121	2,217	2,400	3,280	4,500	3,494
Mar-15	2,510	2,121	2,205	2,600	3,289	4,530	3,549
Apr-15	2,520	2,168	2,260	2,620	3,298	4,500	3,616
May-15	2,450	2,121	2,298	2,730	3,386	4,550	3,674
June-15	2,500	2,121	2,411	2,775	3,508	4,550	3,742
Change	-1%	%	-5%	2%	-2%	1%	-2%
Op interest	1,729	287	3,664	8,829	23,401	342	4,589