

## From the Tradina Floor

### KEY MARKET DRIVERS

- Consecutive strong GDT auction gains
- NZ Drought/NZ milk intake down
- Reduced global milk prices working
- US port delays

- Another large increase in GDT auction 134 (index +10.1%), albeit off reduced volumes, has really lifted market sentiment and initiated buying activity. EU domestic prices have also started gaining ground and US CME class III was up strongly overnight in response to GDT/NZ production.
- Fonterra's January milk intake was down 2.9%, -1.9% in the North & -5.2% in the South. Drought has been declared in the South Island and whilst there was good rains last week the forecast is for continued dry conditions & milk volumes will decrease if this occurs, the extent of the decreases will be monitored closely against forecast YOY fall of 3.3%.
- Milk prices, assisted by weather conditions have seen milk volumes curtail and drop in EU and NZ. The US is expecting YOY growth of around 2-3% with more upside possible as supported farmers continue to produce milk with the MPP guarantee. Australia is still forecasting 2% growth largely due to favourable milk prices.
- The partial shut down of 29 US West Coast Ports is significantly impacting exports/delivery of US product. This will add major logistics costs & delays for the industry & also impact the domestic market.

### FROM THE PHILIPPINES

Local traders and manufacturers are still indecisive on long-term purchasing decisions. The market is currently flooded with competitively priced product, mostly EU origin. Philippines always takes 1-3 months before world prices impact the local market. We watch with interest the impact last night's GDT result will have on buyers who have continued buying hand to mouth, and the impact it will have on pricing of EU origin product.

### FROM INDONESIA

Most manufacturers have locked in purchases out til Q2 and will start purchasing for Q3/Q4 in Apr-May when they apply for new import permits/quotas. Pending their licenses/quota's traders are still buying for Q2 and some are applying for additional volumes.

Tim Roache, Sales Manager, Ausfine Foods

## AUSTRALIAN INDUSTRY NEWS

### Revenue rises, profit falls at WCB

Warrnambool Cheese and Butter Factory reported a half-year statutory net profit after tax (NPAT) of \$25m, down 20% from the prior-year comparative, despite a 5.3% revenue increase to \$304.6m.

WCB chief executive officer David Lord said that was due to a change in the accounting treatment for raw milk costs. WCB has applied a full-year milk cost pricing estimate methodology at the half year, a departure from the actual milk cost pricing methodology applied at the half year in FY2014. Application of the milk cost-pricing model applied in FY2014 would see half year FY2015 NPAT increase to \$38.6m. WCB remains cautiously optimistic in its outlook for the balance of the financial year ending 31 March 2015.

## DAIRY EXPORT INDEX

**Index climbs back** – The Australian dairy export index rose 3.1%, boosted by a stronger commodity market, despite a firm Australian dollar. In spot quotes for Australasian exporters, cheddar gained US\$200/t to US\$3,400/t, followed by butter, up US\$50/t to US\$3,800/t, while powders were unchanged. The A\$ closed the week at **US\$0.78**, while the index rose 5.3 points to **175.4**.

Australasian dairy export index (Jan 2011-now)



### Fonterra invests \$31m in Cobden

Fonterra has announced it will recruit more than 30 staff over the coming months for its \$31 million upgraded milk plant in Cobden. The installation of a state-of-the-art processing facility in the south west Victorian plant will process Victorian Woolworths Select fresh milk for the next 10 years.

### DA stick with 2% forecast

Dairy Australia released its Situation & Outlook February Update report last week. The report noted season to date (July to December) milk production reached 5.33bn litres - 2.6% above the same time last year. Dairy Australia milk production forecasts for the 2014/15 production season remain at 2% growth to 9.3-9.5bn litres given the outlook for a hotter and drier than average summer.

### ADFG to add more farms to portfolio

Directors of Australian Dairy Farms Group, with dairy farms at Brucknell in Victoria's southwest, have said the group was "actively" looking for more dairy farms, including dairy farms at Mt Gambier, which could give them exposure to irrigation, and in Tasmania. Australian Dairy Farms Group chairman Michael Hackett and director and project manager Nathan Leman also confirmed that the group would be acquiring its fourth farm at Brucknell later this month. The new farm, which supplies Fonterra, borders two properties at Brucknell and is near the company's run-off block at Glenfyne, it will increase the group's herd numbers to about 1400 cows.

## Weather highlights

- In Australia, a front and trough passing over eastern Vic and southern NSW is bringing a cooler change.
- In NZ, a ridge of high pressure for much of the week.
- For the US, winter storm develops over South Central.
- In Brazil, isolated heavy thunderstorms to produce 25-75mm of rain and localised flooding to northeast parts.
- In Europe, wet weather returns to much of western and southern Europe.

## Fonterra down 3% in Jan

Fonterra's milk collection was down 3% in January 2015 to 178m kgMS, bringing season-to-date output up 3%. Fonterra has pointed to worsening dry conditions in the North Island with limited rainfall and above average temperatures, which were impacting pasture growth rates. Dry conditions and irrigation restrictions are likely to force South Island farmers to dry off early – production was down 5% in January. Fonterra has maintained its forecast for a 3% fall in output for the full season, which would require production in the remaining months of the 2014/15 season to be 18% lower.

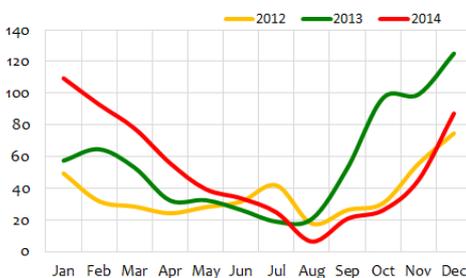
## Drought declared in South Island

NZ's Minister for Primary Industries Nathan Guy has officially declared a medium-scale adverse event for half the South Island, which means extra funding would be made available to Rural Support Trusts to support farmers and provide rural assistance payments for struggling families. The govt is also monitoring Wairarapa and southern Hawkes Bay in North Island, which are suffering from very dry conditions.

## China's WMP shipments climb in Dec

Freshagenda's Global Dairy Directions (GDD) analysis shows WMP shipments to China reached 87,534t in December 2014, up 94% from November, but still down 30% from the previous year. SMP exports totalled 26,752t, up 79% from prior month but down 20% from Dec 2013. Full-year shipments of WMP and SMP at 619,612t and 241,105t were down 9% and 7% from 2013.

China WMP imports ('000 tonnes)



## Russia's embargo ending soon?

According to sources in the Russian Presidential Administration, in addition to peace talks with Ukraine, the Minsk talks will include discussion on lifting the year-long

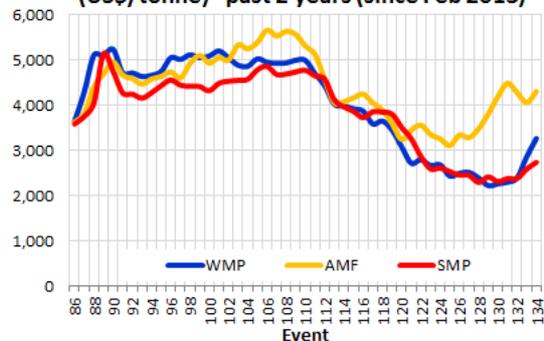
ban on the import of dairy products. Some Russian media reports state the EU may consider suspending the imposition of new sanctions against Russia. The possibility of at least partial lifting of the ban has also been confirmed by Sergey Dankvert, head of Rosselkhozadzor. Such a possibility has already been discussed, he said, with colleagues from Germany, the Netherlands, France, Belgium, Italy and Hungary.

The Russian Union of Dairy Producers (Soyuzmoloko) says re-opening of the market will result in multi-million dollar losses and even bankruptcies of some leading Russian dairy producers, who have invested in expanding production after the introduction of the ban, as many will be not able to compete with imported products.

## Prices jump at GDT

The GDT prices index increased for the fifth consecutive time this week, up a significant 10.1%. Offerings at 22,957t were 18% lower than the previous event and 34% down on the same event in 2014. Cheddar led the way, up 16.8% to US\$3,054/t, followed by WMP, which rose 13.7% to US\$3,272/t. AMF and SMP rose 6.4% and 5.7% to US\$4,314/t and US\$2,744/t, respectively. In comparison, BMP, rennet casein, and butter recorded smaller gains of 1.9%, 1.2% and 1.1% to US\$2,674/t, US\$8,897/t, and US\$3,823/t.

GDT weighted average auction prices (US\$/tonne) - past 2 years (since Feb 2013)



## DAIRY FUTURES

**Futures mixed** – SMP was the only bright spot this week, posting the largest gains in NZX, and remaining stable in Eurex and CME trade. In contrast, quotes fell for butter and cheese futures this fortnight. All prices are quoted in US dollars per tonne with Eurex contract prices converted at 1.1384.

16 Feb 15	SMP		NDM	WMP	Cheese		AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME	
Feb-15	2,600	2,647	2,359	3,000	3,426	4,050	3,753	
Mar-15	2,750	2,590	2,579	3,150	3,450	4,025	3,874	
Apr-15	2,810	2,590	2,712	3,400	3,428	4,100	3,961	
May-15	2,800	2,590	2,756	3,450	3,510	4,150	3,968	
June-15	2,775	2,675	2,855	3,600	3,657	4,200	3,951	
July-15	2,850	2,675	2,921	3,600	3,803	4,200	4,012	
Change	5%	0%	1%	-2%	-2%	-1%	-1%	
Op interest	1,230	227	3,551	7,304	23,932	622	4,232	

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