

## From the Trading Floor

### KEY MARKET DRIVERS

- NZ Drought/Fonterra revised milk forecast
  - Appreciating USD
  - Global milk supply turning off
  - EU milk quotas & super levies
  - Demand in Russia/China/Oil dependant markets?
- Fonterra's much publicised milk forecast revision for 14/15 (-3.3% YOY) and subsequent reduction of forecast GDT volumes (WMP reduced by 25,000mt to Jul15) grabbed the markets attention (see below). For this reduction in milk forecast to be realized, NZ will need to produce very similarly monthly volumes as the 2012/13 drought (Feb-Jun15), or an average of over 15% decline for the remainder of this season vs 13/14. Milk price, at NZD4.40-4.70/kgMS, and rainfall will largely determine if this is realised.
  - Sentiment and perceived scarcity arising from these announcements drove the GDT up significantly, with WMP (+19.2%) and SMP (+6.7%) leading the way to the index rising an eye catching 9.4%. This is welcome news for manufacturers.
  - This CME was also impacted, going limit up and continuing to rally across Class III/IV, taking many participants by surprise given the adverse response NZ/GDT results had on the CME in the previous 4-6 months when US markets significantly decoupled with global prices.
  - The USD is significantly appreciating against global currencies as QE eases, and fiscal policies in EU/Australia shift to stimulate their respective economies. Along with firming US dairy prices, EU and Oceania product is gaining attractiveness. In addition major congestion and maritime strikes in West Coast ports is causing havoc for US exporters out of these ports.
  - As milk prices in all major exporting and dairy producing markets are falling, in particular EU, NZ, US and China, milk flows are slowly starting to respond. Monthly YOY declines for Dec14 and Jan15 in many EU markets and Oceania are leading the way, albeit off record production to date for many of these countries.
  - As Mar15 quickly approaches, farm gate milk prices drop rapidly and pending super levy fines are enforced, EU dairy farmers are winding back milk supply to minimize upcoming financial pain.
  - Which leaves us contemplating dairy market equations...  
*How much product is there and where is it = (Record global production - Forecast scarcity of milk/dairy product - buying from biggest global importers)^GDT???* If there are any 'Beautiful Minds' out there maybe you can help us out!!

Chris Scarlett, Managing Director Ausfine Foods

## AUSTRALIAN INDUSTRY NEWS

### December milk output down 1.6%

Dairy Australia reports national milk production declined 1.6% in December, bringing the YTD output down to 2.6% above the same period last season. QLD saw the largest monthly decline of 6.1%, followed by a 3.2% fall in Victoria and a 1.3% decline in SA. NSW output was flat, while WA and Tasmania production increased, 6% and 7.2%, respectively. In Victoria, Gippsland and Northern VIC saw increases of 1.8% and 0.5% in December, respectively while output in Western VIC declined 11.6% for the month.

## DAIRY EXPORT INDEX

**Index rises 4.1%** – Major drivers were a decline in the Australian dollar and stronger milk powder prices. The Australian dollar nosedived at the end of last week to **US\$0.777**. These combined effects helped the index increase by 6.7 points to **172.4**.



### Sharp decline in WMP

Dairy Australia's latest dairy product manufacturing indicates July to November 2014 production of butter, other cheese, cheddar and SMP was greater than in the same period in the previous year: up 3.1%, 10.1%, 12.7% and 13.2, respectively. WMP and whey powder production was down for the period, by 25.9% and 8.7% respectively.

### Parmalat reduces payout

Parmalat has told its Victorian and South Australian suppliers their farmgate milk price will be reduced this season from \$6.32 per kgMS to \$6.09 per kgMS citing declining global prices. "It is important to note that the Parmalat guaranteed price for 2014/15 is equal to or better than the opening price of the five major milk processors," said Vince Houlihan, Supply Chain General Manager in a letter to suppliers.

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



## Weather highlights

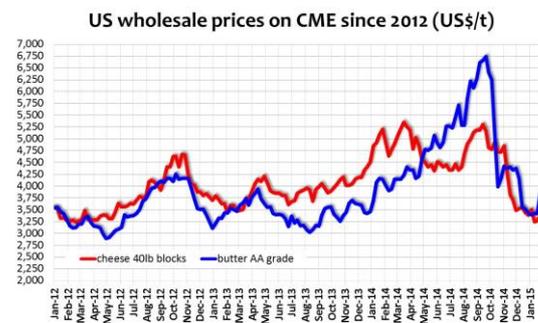
- In Australia, a set of troughs in the east and northwest are generating isolated showers and thunderstorms in WA, NT, QLD and northeastern NSW. South is mostly dry
- In New Zealand, next week is shaping up to be warm and dry. A storm system in the Southern Ocean will cause windy weather this week.
- Another snowstorm has hit US northeast.
- Central Argentina is excessively wet, southwest is drier.
- In Brazil dry conditions persist but may be relieved somewhat by late week rains in the south-east.
- Southern Europe to be affected by heavy rain and snow.

## Fonterra forecast down 3.3%

Due to dry weather in recent weeks, Fonterra has now revised its milk forecast for the 2014/15 season down to 1,532m kgMS, 3.3% lower than the previous season. "In some regions where pasture quality has declined markedly since mid-January, we are seeing some farmers drying off cows early. There also appears to be a reduction in feed supplements, as the economics do not support their widespread use this season," said Group Director Co-operative Affairs Miles Hurrell. He added daily output was now 6.1% lower than at the same time last season, as farmers appear to be using more traditional practices to manage their farm businesses with the low payout forecast.

## US wholesale markets recover

There were gains in latest CME cash prices across all products last week. Block cheese finished at \$US3,378/t, up 3.5% from the prior week. Butter gained the most, up 12.9%, and finishing the week at \$US3,857/t. Finally, NFDM reached \$US2,358/t, 8.9% higher than the prior week. Local analysts expect the all-milk price to be about \$17.45 per cwt in January and in the \$16-17 per cwt range between March and May. By September, the all-milk price is expected to climb to more than \$US18 per cwt, delivering a milk price that is \$US7 per cwt lower on average than 2014.



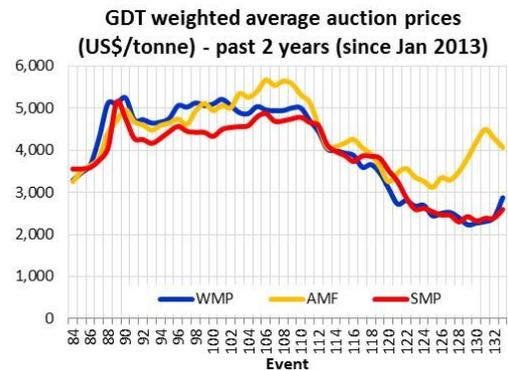
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## EU milk deliveries rise 4.3% in Nov

Milk output expansion is slowing in some EU countries as lower prices filter through to producers. Latest data suggests December production in the Netherlands and Austria has fallen 0.3% and 0.5% respectively compared to the same month in 2013. Production in the UK and Poland has remained strong in December (3.6% monthly growth each), but is quickly falling from prior-month levels as well. November data is available for France and Ireland which saw a 2.1% growth and a 13.3% decline respectively. Finally, Germany's official output increased 1.7% YOY in November, but most recent January data cates production is behind by 1.4% compared to the same month in 2014.

## Strong GDT result

The GDT prices index increased for a fourth consecutive time this week, up a significant 9.4%. Offerings were 11% lower than for the previous event at 28,000t, and 21% behind the same period last year. WMP led the surge, increasing 19.2% to US\$2,874/t. Butter, SMP and rennet casein also posted large gains of 6.1%, 6.7% and 7.7% to US\$3,783/t, US\$2,598/t and US\$8,776/t, respectively. Cheese and AMF prices were lower, down 11.1% and 5.4% to US\$2,636/t and US\$4,067/t, respectively.



## DAIRY FUTURES

**Futures turn positive** – Latest data reveals price increases across all products with only AMF staying flat. CME futures moved up strongly. All prices are quoted in US dollars per tonne with Eurex contract prices converted at 1.1278.

2 Feb 15	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
Feb-15	2,530	2,509	2,416	2,600	3,497	4,440	3,864
Mar-15	2,550	2,509	2,491	2,870	3,512	4,450	3,990
Apr-15	2,520	2,323	2,624	2,950	3,558	4,450	4,012
May-15	2,550	2,256	2,623	3,050	3,611	4,450	4,045
June-15	2,600	2,256	2,723	3,000	3,680	4,500	4,057
July-15	2,650	2,256	2,806	3,050	3,792	4,600	4,034
Change	2%	7%	10%	7%	5%	0%	10%
Op interest	1,099	267%	3,586	7,434	23,487	602	4,278

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