

## From the Trading Floor

### KEY MARKET DRIVERS

- NZ milk production & product availability
- GDT gives up some recent gains
- EU exports & removal of milk quotas
- US production up – Exports down
- Buyers in the box seat

- Whilst it's dry in the South Island, the extent of the NZ drought is being widely questioned. With very good recent rainfall and February milk intake down only 7%, Q2 milk supply will need to drop by around 25% from 2014 to meet Fonterra's forecast of -3.3% for 14/15. This forecast appears very conservative.
- As expected GDT 136 followed futures markets down as large increases to forecasted offered volumes and easing drought concerns in NZ allayed fears of product shortages. All products were down, WMP (-9.6%) & SMP(-5.5%) led the index to -8.8%.
- EU exports, particularly SMP are very competitive and increasing their presence in non-traditional Asia Pacific markets. Milk quota's are removed on the 1<sup>st</sup> April... business partners can read our take on this in the 'Sealed Section'.
- The worsening Californian drought is now entering its 4<sup>th</sup> year and whilst production is down 2.6% in Jan, US production as a whole is up 2.1%. California represents about 20% of US milk production. Monthly exports were down 23% in January YOY, the lowest since Dec 2012.
- The market balance appears tilted towards buyers, many of which are well covered into 2015. With NZ supply shortages allayed, production up in EU, US & AU, China/Russia largely out of the market and Northern hemisphere spring upon us, stock will need to keep moving so inventories stay at manageable levels.

### FROM THE PHILIPPINES

With GDT down buyers are assuming hand to mouth attitude again. Traders with forward positions into Q3/Q4 are wary about price as rumours of dairy prices reaching all time lows again start to circulate. EU dairy products continue to enter the local market at very competitive prices.

Tim Roache, Sales Manager, Ausfine Foods

## AUSTRALIAN INDUSTRY NEWS

### Higher costs trim Parmalat's earnings

Parmalat group reported results for its Australian operations (before currency effects in group accounts) which showed that net revenue increased 2.1% to \$1.26bn but EBITDA decreased 31% to \$79.3m, due to the higher cost of raw milk and other ingredients, which could not be recovered due to strong competitive pressure. However results improved in the second half of the year, helped by decreasing raw milk prices.

### Fonterra lands Beingmate deal

Fonterra has confirmed that it has completed the partial tender offer Beingmate Baby & Child Food Company Ltd and

## DAIRY EXPORT INDEX

**Weaker dollar boosts index** – The Australian dairy export index rose 1%, helped by a weaker dollar despite a dip in the commodity market. In spot quotes, WMP and SMP lost US\$50/t and US\$30/t to US\$3,300/t and US\$2,900/t respectively. This was slightly offset by a US\$50/t gain in cheddar prices, while butter was unchanged. The A\$ closed the week at **US\$0.762**, as the index rose almost three points to **197.1**.

Australasian dairy export index (Jan 2011-now)

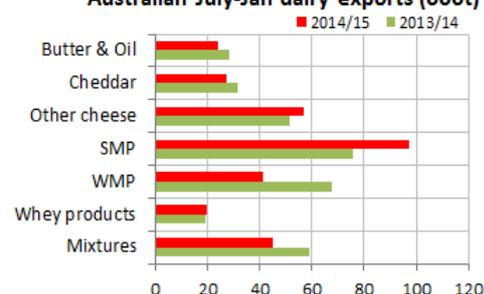


will acquire 18.8% of the Chinese infant formula manufacturer, just short of its 20% goal. "Over the next few weeks, Fonterra and Beingmate will now move ahead with the next phase of our partnership, which includes establishing a joint venture to purchase the Darnum plant in Gippsland and finalising a distribution agreement making Beingmate Fonterra's exclusive Annum™ distributor in mainland China," said Lucas Paravicini, Fonterra's Chief Financial Officer.

### Australian exports up 0.7% YTD

Latest Dairy Australia statistics show national dairy exports for the July to January period rose 0.7% in volume but fell 14% in value terms from prior-year comparative. SMP shipments led the way, up 28.4% to 97,451 tonnes, followed by non-cheddar cheese and whey products, which rose 10.4% and 0.7% to 56,692t and 19,606t respectively. The gains were offset by big falls in WMP and mixtures, down 39% and 24% to 41,342t and 45,132t. In comparison, butter & oil and cheddar fell 16% and 13%.

Australian July-Jan dairy exports (000t)



## Weather highlights

- In Australia, a trough is triggering showers and isolated thunderstorms over southeastern SA, Vic, NSW, and Tas.
- In NZ, tropical Cyclone Pam is bringing heavy rainfall in excess of 150mm to areas around Gisborne. Strong southeast winds and rain expected over much of North Island. Wet conditions for the west of South Island.
- In US, rain targeting South Central US states midweek will provide some with drought assistance.
- More rain for north-east and south Brazil, with a few showers for northern Argentina.
- In Europe, mild weather for this week. Freezing conditions with odd showers in the UK.

## China ups security on 1080 threat

China's General Administration of Quality, Supervision, Inspection and Quarantine has tightened NZ IMF import measures, requiring each batch to have test certificates confirming they are free of 1080. AQSIQ also warned consumers to report any damaged formula packaging to the local food and drug administration department or the police.

NZ's Infant Formula Exporters Association said NZ\$1.5m worth of IMF was denied entry to China last week and held at a port in Shanghai, pending a 1080 test certificate. Association Chairman Michael Barnett said small NZ companies marketing formula in China were already seeing a cut in orders, some of them by up to 70%.

## Fonterra collection down 6.8%

Fonterra NZ milk collection in February totalled 141m kgMS, down 6.8% from February last year, bringing the total June to February 2014/15 collection to 1,291m kgMS, up 1.5% from prior-year comparative. North Island's collection reached 83m kgMS, down 6% from last year, as scattered rain in early February failed to alleviate dry conditions across most dairying regions, while South Island's collection reached 58m kgMS, 8.3% lower than February last year. Soil moisture remains extremely dry across most dairying regions in the South Island and irrigation restrictions have been put in place for suppliers in Canterbury. Fonterra maintained its milk supply forecast for 2014/15 at 1,532m kgMS, down 3.3% from 2013/14 - implying its last quarter collections will be 23% down on the same period last year.

## US exports dipped in Jan

US dairy exports recorded their biggest monthly slump since December 2012, with exporters shipping 125,876t of product in Jan, down 23% from a year ago. Butter plunged 75% to 2,503t. Whey powder, cheese, and lactose followed, dipping 27%, 26%, and 23% to 13,552t, 23,767t, and 22,633t respectively, while WMP and SMP posted smaller decreases of 12% and 10% to 4,020t and 34,948t.

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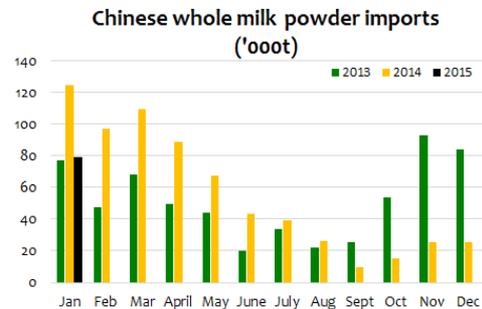
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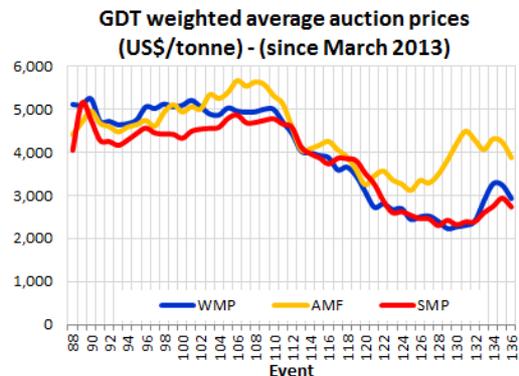
## Chinese powder imports edge up

Freshagenda's analysis shows Chinese WMP imports totalled 79,138t in January 2015, up 210% from December 2014 but still down 37% from prior-year comparative. SMP imports reached 23,379t in Jan, up 58% from Dec 2014, but still down 32% year-on-year.



## GDT prices fall 8.8%

The GDT price index fell 8.8% on an offering of 20,258t, down 8% from the previous event and 48% year-on-year. Thinly traded rennet casein and BMP led the decline, down 15.2% and 11.6% to US\$7,507/t and US\$2,635/t. Butter and AMF fell 9.4%, and 8.4% to US\$3,555/t and US\$3,877/t, while cheddar and SMP were down 7.4% and 5.5% to US\$3,130/t and US\$2,731/t respectively. WMP fell 9.6% to US\$2,928/t on higher offerings, with contracts 2 (May 15) and 5 (August 15) recording the sharpest falls of 11.3% and 9% respectively.



## DAIRY FUTURES

**Futures negative** – Prices fell across the entire board, with NZX WMP posting the largest decline, followed closely by CME SMP futures. All prices are quoted in US dollars per tonne with Eurex contract prices converted at **1.0493**.

16 Mar 15	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
Mar-15	2,800	2,203	2,315	3,015	3,461	4,280	3,770
Apr-15	2,800	2,230	2,320	2,850	3,490	4,200	3,803
May-15	2,750	2,125	2,375	2,850	3,439	4,200	3,857
June-15	2,800	2,151	2,447	2,890	3,567	4,200	3,858
July-15	2,800	2,203	2,513	2,760	3,735	4,200	3,924
Aug-15	2,800	2,413	2,612	2,815	3,858	4,200	3,935
Change	-3%	-3%	-5%	-6%	-2%	-1%	-2%
Op interest	1,384	219	4,080	10,228	22,906	892	4,324