

From the Trading Floor

KEY MARKET DRIVERS

- EU Milk Quota's & Superlevies
- GDT holds with increased volumes
- Market stability as global prices converge
- NZ v Australia: Farmgate milk prices

- EU milk volume was up 4.5% in 2014, but as supply usually starts to increase coming out of winter, milk quota's and the threat of additional superlevies have halted production – at least til the 1st April – then peak production arrives.
- After consecutive ~10% gains, opinions on GDT 135 were mixed based on increased volumes offered. Cheddar (+10.8%) and SMP (+5.9%) advanced whilst WMP (-1%) was pretty steady resulting in the overall index +1.1%. A stabilising result.
- After a lengthy period of volatility, it appears global prices are re-aligning again across EU, Oceania and the US. One of the last to follow suit has been cheddar, but recent NZ/GDT price increases are eroding the discrepancies. Key to market pricing will be inventories in the US for NFDM/Cheddar and EU for SMP as they head towards peak production.
- Whilst the Kiwis showed the Aussies how to play cricket (just!) farmgate milk prices tell another story. At NZ4.70/kgMS & AUD6.00/kgMS it appears Fonterra & Murray Goulburn will hold their current milk prices for the remainder of the season. On a basic/crude comparison using today's spot USD rate, Australian milk is trading at 22.5% premium to NZ milk.

FROM THE PHILIPPINES

Local pricing is under pressure as traders wait for one another to start lifting prices domestically to take advantage of their positions as world prices recover to more profitable levels.

FROM INDONESIA

The IDR:USD has depreciated to 13000:1, its lowest in 6 years. However demand remains firm as importers & manufacturers look to secure bookings for Q3-Q4.

Matt Cooper, Director, Ausfine Foods

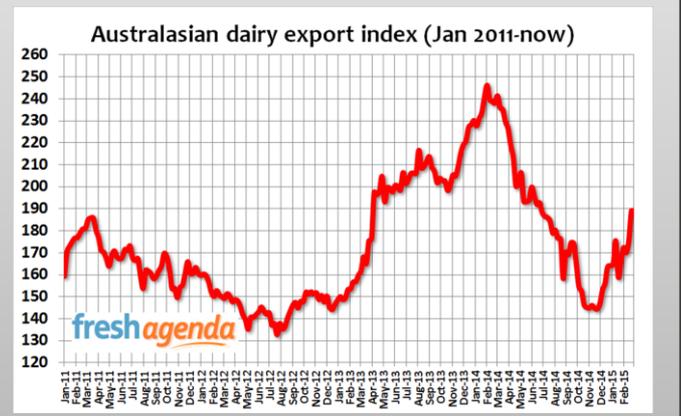
AUSTRALIAN INDUSTRY NEWS

WCB nabs Lion's cheese

Warrnambool Cheese and Butter (WCB) is set to pay to acquire Lion's "everyday cheese business" for a A\$137.5m. The EDC business operations include cutting and wrapping, distribution, sales and marketing and intellectual property, housed in a building owned by WCB which is adjacent to its Allansford factory. The business generates annual sales of about \$160 million, employing about 170 people. The EDC business will be purchased on a debt free basis and the price includes \$106.5 million which represents the value of the inventory net of a minimal amount of assumed liabilities. Lion is now expected to sell its 10.2% stake in WCB to Saputo to allow the full takeover to be completed.

DAIRY EXPORT INDEX

Stable dollar trims index - The Australian dairy export index fell 0.1% this week, as a firmer Australian dollar offset gains from a stable commodity market. In spot quotes for Australasian exporters, prices were unchanged from last week – butter US\$3,925/t, SMP US\$2,800/t, WMP US\$3,400/t, and cheddar US\$3,700/t. The A\$ closed the week at **US\$0.781**, trimming the index by a point to **188.9**.



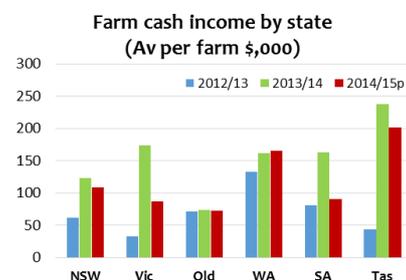
MG maintains price, drops profit

Murray Goulburn reported a half-year net profit of \$12.9 million, down from \$61m in the prior-year comparative. But as Managing Director Gary Helou explained the figures were not comparable because of the higher milk price paid to suppliers at the beginning of the financial year. Revenue dropped 1% to \$1.3bn. MG expects to deliver a full-year net profit after tax of \$20-\$30m, in line with last year's result.

MG also confirmed its full-year forecast farmgate price of \$6 kgMS farmgate price – the third highest MG farmgate price on record – which has also helped MG grow its milk collection to 2bn litres in the six months to December 31, up 6.8% from prior-year comparative.

ABARES projects 2014/15 income drop

ABARES is projecting a 41% decline in average farm cash income for Australian dairy farmers in 2014/15, reflecting lower farmgate prices in all regions apart from northern NSW, Qld and WA. The \$97,000 farm cash income figure for 2014/15 is 14% below the 10 year average (2003/4 to 2013/14). The ABARES survey also found dairy industry debt increased by around 4% during 2013/14 to average \$783,700 per farm, and has doubled over between 2000/01 and 2013/14.



Weather highlights

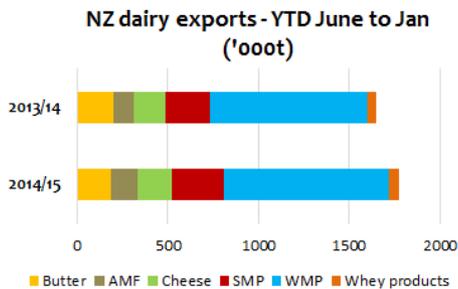
- In Australia, a high is keeping southern NSW, Vic, Tas, and SA dry and settled.
- In NZ, a humid northeasterly flow will bring a few showers to parts of North Island. Front moving up the South Island to bring a period of rain to the west.
- For the US, a winter storm will target the Northeast and Midwest this week with some snow, flooding, and ice.
- In Brazil, isolated rainfall. Argentina remains dry.
- In Europe, heavy snow and floods to affect Italy and Balkans. Warning for snow storms in UK.

Fonterra sticks with NZ\$4.70 payout

Fonterra maintained its current forecast Farmgate Milk Price for the 2014/15 season at NZ\$4.70 per kgMS. Fonterra chairman John Wilson said that although dairy commodity prices had gone up, the increase was not sufficient to raise the forecast Farmgate Milk Price at this time.

NZ dairy exports up 8%

Freshagenda's Global Dairy Directions analysis reveals NZ shipments of dairy products rose 8% in volume between June and Jan underpinned by higher shipments across all products, excluding butter. AMF led the gain, up 25% to 146,599t, followed by SMP and whey products which rose 15% and 14% to 286,428t and 56,903t respectively. In comparison, cheese and WMP increased by 11% and 5% to 190,474t and 905,492t. In contrast, butter fell 5% to 188,318t



China producers feel the pinch

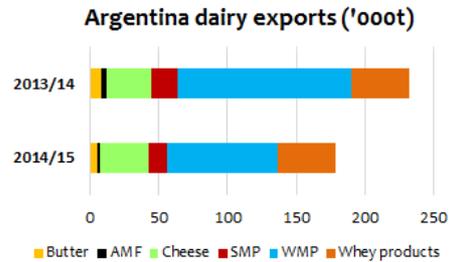
Chinese dairy farmers have dumped excess milk and are culling cows as a boom in the demand for their products has swung to a bust over the course of the last three years. "There was a miscalculation toward the end of 2013 among the milk industry that domestic milk supply was going to remain very tight," Sandy Chen, a dairy analyst for Rabobank Group NV, said of the Chinese market. Investors and farmers counted on strong demand.

But as milk prices spiked to record levels in mid-2013, China's small dairy farmers began to re-enter the market and grow. Toward the end of 2014, Chinese milk processors, who resumed importing milk powder began to cancel contracts with farmers, or declined to renew them.

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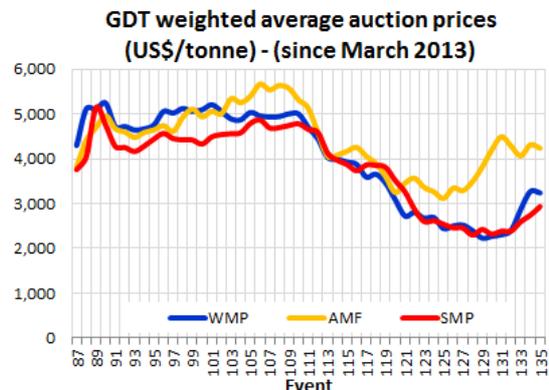
Argentina exports drop 23%

Argentina's dairy exports fell 23% to 178,376t for the July-January period from the prior-year. Butter & oil and WMP dipped 38% and 36% to 7,082t and 80,678t respectively, while SMP fell 28% to 14,090t. Cheese was up 6% to 35,101t.



GDT prices edge up 1.1%

The GDT prices index climbed 1.1% on lower offerings of 22,094t, down 4% from the previous event and 46% from this time in 2014. Cheddar led the way, up 10.8% to US\$3,377/t, followed by BMP and SMP, which rose 6.8% and 5.9% to US\$2,681/t and US\$2,935/t respectively. Butter gained 2.5% to US\$3,912/t while AMF and rennet casein dropped 2.2%, and 0.7% to US\$4,237/t, and US\$8,694/t respectively. The WMP index fell 1% to US\$3,241/t, with contract 5 and 6 prices down 3% and 5% respectively.



DAIRY FUTURES

Futures mixed – Cheese posted the strongest gain, followed by NDM in the CME futures, while SMP and WMP quotes fell in NZX this fortnight. All prices are quoted in US dollars per tonne with Eurex contract prices converted at 1.1191.

2 March 15	SMP		NDM	WMP		Cheese	AM	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME	CME
Mar-15	2,750	2,449	2,536	3,460	3,472	4,280	3,946	
Apr-15	2,775	2,462	2,668	3,570	3,541	4,325	4,029	
May-15	2,850	2,462	2,767	3,610	3,638	4,400	4,018	
June-15	2,925	2,462	2,866	3,600	3,832	4,450	4,007	
July-15	2,950	2,602	2,943	3,600	3,966	4,520	4,067	
Aug-15	2,950	2,630	3,053	3,520	4,057	4,450	4,007	
Change	-3%	-2%	2%	-2%	3%	1%	1%	
Op interest	1,074	200	3,552	8,043	22,496	922	3,978	

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