

## From the Trading Floor

### KEY MARKET DRIVERS

- EU milk responds to lifting of Quotas
- China domestic milk growth supported by Government
- We ponder real El Nino effect.
- Russia asks "Why would we lift bans?"

- EU had a subdued start to the new world without EU milk quotas on the back of lower YoY production through Q1 of this year, however milk flows now appear to be picking up and tracking ahead of last year. EU SMP pricing remain at, or very close to, intervention levels but Fat pricing looks to be holding
- Anecdotal reports from china that their new Mega Dairies (located in and around Inner Mongolia) are receiving support from the Chinese government to ensure they remain profitable and China has strong domestic milk production.
- El Nino is here (according to the Australians) or very close (according to the Kiwis). The real effect of an El Nino appears to be unpredictable. It "could" mean a Dry Eastern Australia, South East Asia (including China) and Eastern New Zealand and wet along Western Seaboard of the Americas (North & South) but then it again it may not. Only time will tell.
- Russia appears to be steadfast in holding existing import bans in place while Western sanctions remain in place. Those sanctions don't appear to be going anywhere so appears we're in for the long haul with Russian bans.

### FROM PHILIPPINES

New Customs Commissioner appointee has implemented further tightening of regulations at Philippine ports. This may again result in port congestion and delays in shipment processing /releasing. Major manufacturers and processors are covered on dairy requirements till Q3. Medium scale manufactures and processors mostly buying short term taking advantage of plummeting prices. EU dairy products continue to be most price competitive.

### FROM INDONESIA

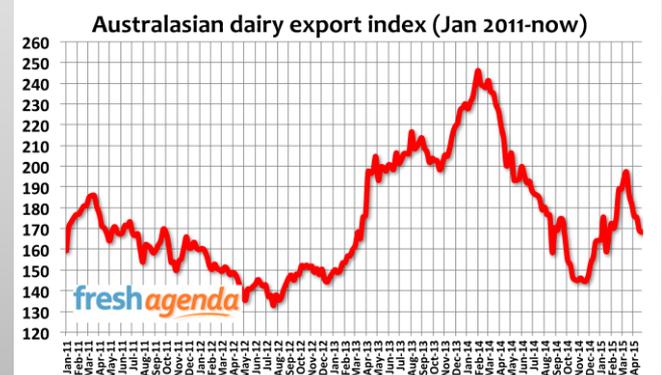
Conditions remain the same as last update, manufacturers are still locking in orders for the short term (uptil until Q3) especially referring to last nights GDT. Buyers prefer to wait and lock in spot buying than play with risk.

The usual increase in demand caused by the Eid Mubarak festival has not occurred this year. Usually after this festival the market will slow for 1-2 months and start to improve in Q4.

Matt Cooper, Director, Ausfine Foods

## DAIRY EXPORT INDEX

**Stronger dollar clips index** – The Australian dairy export index fell by 2.2% this week to a 5-month low, trimmed by a stronger dollar and a mixed commodity market. In spot quotes for Australasian exporters, cheddar fell by US\$50/t. In contrast, butter gained US\$25/t to US\$3,100/t, while powders stayed unchanged. The A\$ closed the week at US\$0.806, clipping the index by 4 points to 155.8.



## AUSTRALIAN INDUSTRY NEWS

### El Nino conditions declared

The Australian Bureau of Meteorology (BOM) has officially declared the existence of a "substantial" El Niño, the precursor to many of Australia's worst droughts. BOM senior meteorologist David Jones said global forecast models suggest this El Niño, the first observed since March 2010, is expected to peak in spring and early summer and will have a significant impact.

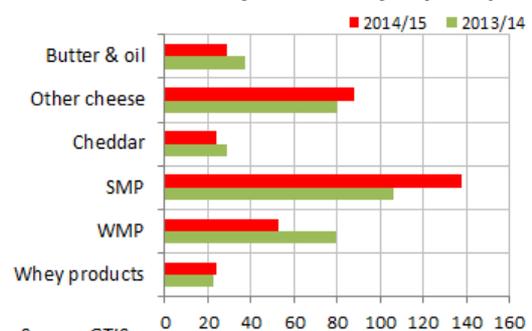
### ADF goes back to the market

ASX-listed Australian Dairy Farms will raise \$15.7m through share placement and another \$2m through share purchase plan to buy three southwest Victorian dairy farms for \$16m. All shares are to be issued at \$0.20 each, a 20% discount to its closing share price of \$0.25 on 27 April.

The share placement is subject to shareholder approval at an extraordinary general meeting around June 15.

### Weather highlights

#### Australian July-March dairy exports (000t)



Source: GTIS

- In Australia, a trough over Victoria and NSW is generating patchy rain, heaviest about central NSW.
- In NZ, settled, cold weather to see temperature fall.
- In US, wet, unsettled weather for the Southern Plains.
- Light rain for western and central-southern Brazil and northern Argentina.
- In Europe, potent storm system to bring showers from UK to Denmark, Norway and Sweden and potentially flooding rains in northern Balkans.

## Fonterra expands mozzarella output

Fonterra has completed construction of its NZ\$72m mozzarella plant at Clondeboyne in south Canterbury – an investment that doubles its production of individual quick frozen (IQF) grated mozzarella, "creating enough mozzarella to top more than 300 million pizzas a year". The plant commenced 24-hour production from 14 May, with farmers supplying winter milk. The cheese is destined for global pizza and pasta restaurant chains across China, Asia and the Middle East.

## Algeria stocked to the end of 2015

Algeria's state buyer ONIL says it has enough milk powder to cover the country's liquid milk needs until the end of 2015 – including the peak buying season of Ramadan next month. ONIL has set aside about 84,907 tonnes of imported milk powder for liquid milk production – set to be converted into milk subsidised for sale at an official rate of €22/l. 'Surplus' milk powder goes to manufactures of other, unsubsidised products.

## Belarus fires up

Freshagenda's [Global Dairy Directions](#) shows Belarus' exports of major dairy products for the nine months to March 2015 increased by 12% in volume. Cheese and butter were the best performers, rising 29% and 27% to 134,267t and 41,628t respectively, followed by SMP, which increased by 18% to 77,378t. In comparison, whey rose by 2%, while WMP shipments plunged by 37% to 20,955t for the period.

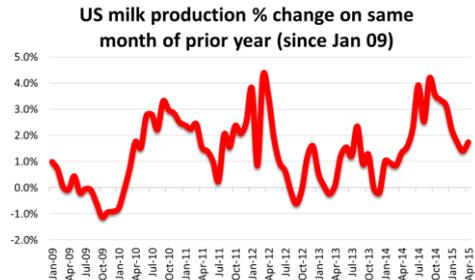
## EU milk output up 2.6% in quota year

EU milk production in the 2014/15 quota year was strong with key dairying nations growing significantly. Output across Germany, France, UK, Netherlands, Poland and Ireland grew around 2.6% from 2013/14, an increase of nearly 2.5 billion litres. EU milk growth is expected to continue at around 1% in 2015/16, according to the EU Commission. But a large jump in output in the first quota-free year looks unlikely as low milk prices hamper growth.

## US milk production up 1.7%

US milk output rose 1.7% in April to 8.1bn litres – higher than the 1.4% growth of March. Cow numbers were estimated at 9.3m head, up only 1,000 head from previous

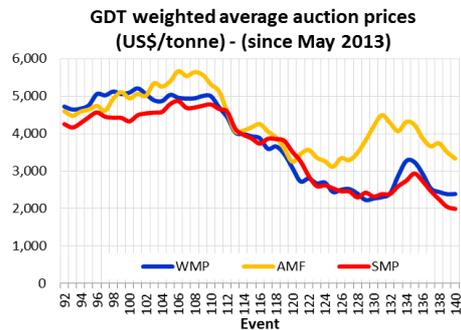
month but 65,000 head up on a year ago. Output per cow at 869 litres was up 1% from prior-year comparative though dipped 1.6% from March this year. Milk output was weighed down by a sharp decline in California – as drought takes its hold - and New Mexico, down 2.1% and 1.4% year-on-year. In contrast, Wisconsin recorded strong growth with output



up 4% year-on-year, followed by Idaho and New York, up 2.4% and 1.9% for the period.

## GDT prices fall 2.2%

The GDT price index fell 2.2% on a smaller offering of 26,535t, 3% less than the previous event and down 21% year on year. Cheddar and AMF led the decline, down 7.1% and 4.8% to US\$2,745/t and US\$3,337/t, followed by SMP and butter, which fell by 3.6% and 3.2% to US\$1,992/t and US\$2,911/t respectively. In comparison WMP and casein fell



## DAIRY FUTURES

**Futures weaken further** – CME futures fell across the board, with NDM leading the decline. In contrast, NZX SMP and WMP gained, while AMF was steady this week. All prices are quoted in US\$/t with Eurex contract prices converted at 1.145. Please note that the Eurex Exchange has terminated trading of butter, SMP, and European whey powder futures on 8 May 2015, after the end of trading.

18 May 15	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
May-15	2,130	2,083	2,280	3,651	3,370	4,145
June-15	2,170	2,099	2,325	3,737	3,300	4,366
July-15	2,170	2,205	2,530	3,803	3,320	4,399
Aug-15	2,250	2,318	2,580	3,876	3,300	4,420
Sept-15	2,250	2,425	2,610	3,968	3,425	4,406
Oct-15	2,300	2,513	2,645	4,010	3,425	4,410
Change	2%	-5%	1%	-2%	0%	-2%
Op interest	1,194	3,958	9,125	20,703	900	5,242

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## GLOBAL DAIRY MARKETS

by 0.5% and 0.4% to US\$2,390/t and US\$6,067/t, while BMP and lactose rose 3.2% and 0.9% to US\$1,930/t and US\$580/t.

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