

## From the Trading Floor

### KEY MARKET DRIVERS

- Fonterra revises milk flow up
- USA in a Dairy world of their own
- China rules on Infant and Nutritionals changing again?
- China milk up.

- It was the Jan announcement of a seriously revised downward NZ milk flow forecast that sent the dairy world into a spin, particularly in the USA where CME futures limit up the day of the announcement when GDT auction prices jump. At the time we questioned whether a negative -3.2% YoY result was possible, as it turns out it wasn't. Fonterra have this week announced they will actually likely be ahead of last year.
- Despite the rest of the world awash with milk, record low prices (in recent memory anyway) and subdued demand from China, USA Dairy prices are looking strong. U.S. Cheese and Butter prices are firming and edging higher on the back of strong domestic demand which up until this point has offset lost export markets. NFDM remains at a premium to world markets and NFDM futures are showing even higher prices going forward. Can it continue?
- We have anecdotal reports this week that rules around Infant formula imports into China are changing again, particularly for "Blenders" and "Canning" operations. Seems there may be a relaxation around strict guidelines on what brands can be packed at an establishment and traceability / ownership back to farm.
- Reports that Chinese domestic milk production continues to grow despite lower milk returns back to farmers and higher cost of production. This will continue to impact Chinese demand for imports.

### FROM PHILIPPINES

Market prices have reached their lowest levels. Manufacturers and food service accounts are taking advantage of low pricing and most companies are purchasing for short term requirements. Traders and wholesalers are also reluctant to commit to forward orders. Everyone is expecting dairy prices to come off further.

### FROM INDONESIA

Milk powder industry is showing cautious demand for Q3-Q4 with low pricing requested to counter further price decreases expected after GDT. With Russia not planning to lift import restrictions in the short term, customers are still looking for European origin.

Cheeses has a better position than milk powder, local market appear to be more creative to develop and find new opportunities.

Matt Cooper, Director, Ausfine Foods

## DAIRY EXPORT INDEX

**Index down** – The Australian dairy export index fell by 2.2% this week, impacted by a weaker commodity market and stronger A\$. In spot quotes, butter led the decline, down US\$300/t, followed by SMP and WMP, which fell US\$50/t and US\$40/t respectively. In contrast, cheddar gained US\$20/t. The A\$ closed the week higher at **US\$0.785**, trimming the index by 4 points to **164.5**.



## AUSTRALIAN INDUSTRY NEWS

### MG confirms prices

MG has confirmed its 2014/15 milk price of \$6 kgMS, and announced a weighted average farmgate milk price of \$6.051 kgMS for 2015/16. Achieving this MG suppliers receive total farmgate returns in excess of \$6 kgMS for the third consecutive year – but the final number remains subject to changes in external factors such as global commodity prices and an average valuation of A\$ of US\$0.76 for 2015/16.

### Australia milk production up 5%

Dairy Australia reported national milk production was up 4.9% in March to 673.7m litres, bringing the year-to-date output to 7.5bn litres, up 2.9%. Tasmania and Victoria led the gain, up 9.6% and 5.8% respectively, while WA output rose 4.8% for the month. Within Victoria, the west and Gippsland gained 9.4% and 8%, while northern Victoria was up 0.8% in March. In comparison, NSW and SA gained 2.6% and 1.9% respectively, while Qld suffered a decline of 6.2% for the month.

### Australia ships more SMP, less WMP

Freshagenda's [Global Dairy Directions \(GDD\) analysis](#) shows for the year-to-date July to March period, Australia SMP shipments jumped 29% to 137,674t from prior-year comparative, underpinned by robust demand from Vietnam and Japan, up 600% and 379% for the period. In comparison, non-cheddar cheese and whey products rose 10% and 6% to 88,031t and 24,215t respectively. In contrast, WMP plunged 34% to 52,495t, while butter & oil and cheddar fell by 22% and 17% respectively for the period.

## Weather highlights

- In Australia, a strong cold front is bringing showers, and potentially damaging winds to SA, Vic, and Tas.
- In NZ, a period of northwesterlies will bring bursts of heavy rain and gales to both islands.
- In the US, severe storms to target central and eastern states.
- Rain for central and northern parts of Brazil; dry weather in Argentina to allow harvest to advance.
- In Europe, thunderstorms, damaging winds, and heavy rain will move across central and eastern regions.

## NZ prices revised

Fonterra has reduced its forecast farmgate milk price for the 2014/15 season from NZ\$4.70 kgMS to NZ\$4.50 kgMS – the lowest since 2006/07, with a dividend of 59c. Combined with the previously announced estimated dividend range of 20-30 cents per share, this amounts to a forecast Cash Payout of NZ\$4.70 - NZ\$4.80 for 2014/15.

Westland has also scaled back its predicted payout range to NZ\$4.90-NZ\$5.10 kgMS for 2014/15. Westland is aiming for a milk payout of NZ\$6 kgMS for 2015/16.

## Fonterra's swing from loss to gain

Fonterra has revised its 2014/15 milk collection estimate from a fall of 2.1% to a 1.5% increase on last year, based on improved pasture conditions on farm. This means milk production will top 1.6bn kgMS for the season, a little over the 1.58bn kgMS it collected last season.

## NZ dairy exports up 6.5%

Freshagenda's [Global Dairy Directions \(GDD\) analysis](#) reveals NZ shipments of dairy products rose 6.5% in volume between June and March, underpinned by higher shipments across all products, except butter which dipped 8% for the period. SMP led the gain, up 20% to 364,433t, followed by AMF, cheese and whey, which rose 16%, 13% and 12% to 175,269t, 249,910t and 71,157t respectively.

In comparison, WMP rose just 3% to 1,186,026t, weighed down by a 50% plunge in exports to China for the period. While China still holds the lion's share of NZ's shipments for this product, exports have significantly increased to other countries – led by Algeria and UAE – up 74% from prior-year comparative.

## US farmgate milk prices tumble

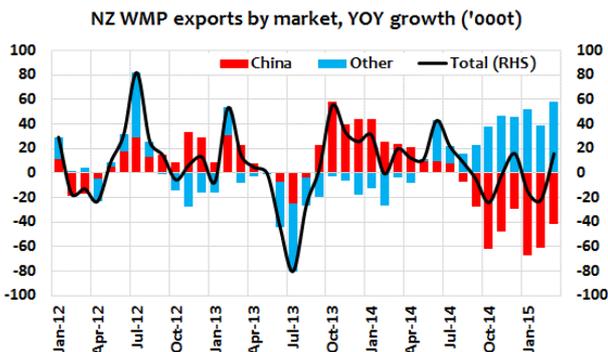
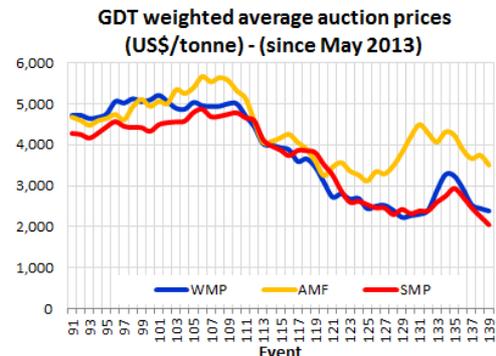
US farmgate prices have fallen 34% from the highs of March last year to an all-milk price of US\$36.5c/l in March. An increase in milk production combined with sharply lower exports and declining fresh milk sales have combined to depress milk prices paid to farmers from a 2014 high. But positive dairy futures with no weakness in milk prices ahead and anticipated high corn glut and weak demand, the pressure on margins could finally ease in the coming months.

## Moscow likely to extend embargo

Russia has suggested food trade barriers could remain in place beyond the 7 Aug deadline, if western powers do not lift sanctions imposed on Russia over its role in the Ukrainian conflict. The EU has already suggested it will extend sanctions until a peace deal, struck in Feb, is implemented.

## GDT prices fall 3.5%

The GDT price index fell 3.5% on an offering of 27,369t, up 7% from the previous event but down 28% year on year. BMP and casein led the decline, down 14% and 11% to US\$1,748/t and US\$6,094/t, followed by SMP, AMF, and butter down 7.5%, 6.3%, and 0.8% respectively to US\$2,048/t, US\$3,505/t, and US\$3,005/t. WMP fell 1.8% to US\$2,386/t, with contracts 2 (July15) and 6 (Nov15) recording the largest falls of 2.7% and 2.8% respectively. In contrast, cheddar rose 9.1% to US\$3,012/t.



## DAIRY FUTURES

**Futures fall further** – NZX WMP and AMF fell the most, followed by CME butter and cheese this week. SMP was steady across both NZX and Eurex platforms. All prices are quoted in US\$/t with Eurex contract prices converted at **1.1193**.

4 May 15	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
May-15	2,380	2,147	2,150	2,280	3,653	3,370	4,068
June-15	2,350	2,155	2,315	2,330	3,710	3,300	4,167
July-15	2,390	2,141	2,380	2,430	3,757	3,305	4,178
Aug-15	2,440	2,155	2,469	2,445	3,832	3,300	4,172
Sept-15	2,475	2,155	2,557	2,560	3,924	3,450	4,200
Oct-15	2,475	2,267	2,596	2,640	3,979	3,500	4,238
Change	0%	0%	-1%	-5%	-2%	-3%	-2%
Op interest	1,019	192	3,753	8,680	20,738	952	5,027