

From the Trading Floor

KEY MARKET DRIVERS

- Fonterra NZ milk price forecast – could be NZ1.50/kg either way*
- ONIL tender looks to NZ
- Price markets now full?

- An interesting comment on recent 2015/16 milk price forecast made by Fonterra CEO Theo Speirings that final payment could fluctuate by as much NZ1.50/kg either way*. With a forecast price of NZ5.25/kg, a NZ1.50kg above would be welcome news for cash strapped farmers but a NZ1.50kg on the downside (resulting in NZ3.75/kg) would be disastrous for some highly leveraged farmers.
- Algeria's ONIL tender has long been the domain of E.U. supply due to it's geographical position, but we have reports that a large quantity of the ONIL powder requirements in the recent tender were filled with lower priced New Zealand origin powder. This would be disappointing news for EU suppliers who rely on that market as a backstop during times of oversupply.
- A lot of product originally ear-marked for China (during 2014/15 Oceania season) has been subsequently sold to more price sensitive markets in the Sub-continent, Middle East and Africa. However we have reports that even those markets are becoming heavy on supply and we expect demand will be more subdued from those markets going forward.

*The New Zealand Herald, 10/06/2015

FROM PHILIPPINES

More and more EU commodity dairy products are entering the market. Pricing locally continues to go down. Traders and wholesalers are continuously discounting prices. Manufacturers and processors continue to purchase hand to mouth.

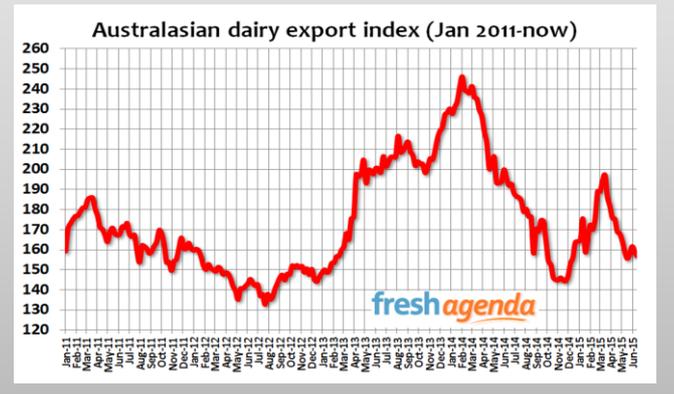
FROM INDONESIA

Entering the peak sales season of the year, government has applied new policies to ensure supply security and price stability. Weakened buying power versus weakened IDR leaves economic activity stagnant. Consumers are leaning towards finding cheaper alternatives to fuel their primary and secondary necessities.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Stronger dollar trims index – The Australian dairy export index fell 1.3% this week, as a stronger A\$ offset returns from a stable commodity market. In spot quotes for Australasian exporters, all commodities were unchanged from last week. The A\$ closed a **\$0.773**, trimming the index by 2 points to **156.9**.



AUSTRALIAN INDUSTRY NEWS

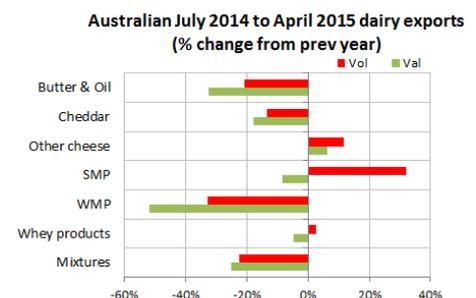
CDI outlines plan

Camperdown Dairy International (CDI) has finalized the takeover of a 3,000ha property at Neuarcurr, on the SA-Vic border, where it has received approval to build a \$40 million dairy operation. This farm helps kickstart the project that will eventually see CDI purchase five more similar properties, milking almost 40,000 dairy cows.

DA expects 1.8% growth

In its June Situation and Outlook report, Dairy Australia (DA) has pegged the current season's output at between 9.45 and 9.5 billion litres, an increase of 2.5% on last year. Looking ahead to the 2015/16 season, DA expects production to expand again, at a lower rate of 1.8%. While stable farmgate prices – most manufacturers in exporting regions indicate a full year price of \$6kgMS again next season – and good seasonal conditions so far this year are positives, DA does foresee headwinds. Expected increases in feed costs associated with the expectations of an El Nino are expected to tighten farm margins in exporting regions over the coming year.

DA's latest farmer survey shows farmers remain confident, 74% feel positive about the future, 79% expect to make a profit, and just over half are planning on-farm investment in the coming year.



Weather highlights

- In Australia, a low pressure trough is producing areas of rain in eastern NSW and Victoria.
- In NZ, a combination of wet weather and cold air for Southland, Central Otago and southern Canterbury.
- For the US, tropical storm Bill brings torrential rain and flooding concerns in the South Central states.
- Rain for north-eastern Argentina; dry in Brazil.
- In Europe, high pressure system brings warm weather.

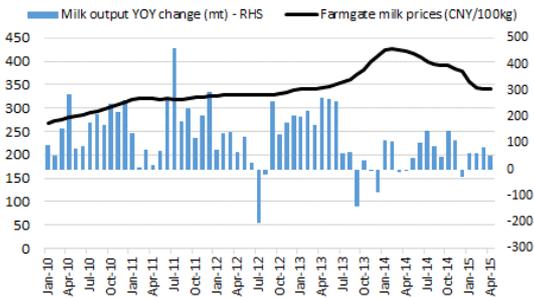
NZ forecast views

Lots of views on NZ production prospects for 2015/16 this week: NZ Ministry of Primary Industries forecast a 1.3% fall, AgriHQ NZ milk production predictor projects growth of about 2.5%; Rabobank expects a 2.3% increase while Dairy Australia has tipped a 1% rise in output.

China milk flows edging up

Despite the current surplus, Chinese production has reportedly expanded at a solid rate this year. Milk output grew for the fourth consecutive month, up 3% year-on-year to 1.91 million tonnes in April, bringing the total output for January to April to 7.5 million tonnes, up 4% from prior-year comparative. Farmgate milk prices on average have fallen 18% this year, as the market responded oversupply.

China milk production vs farmgate prices since Jan 2010



Commission sees modest milk growth

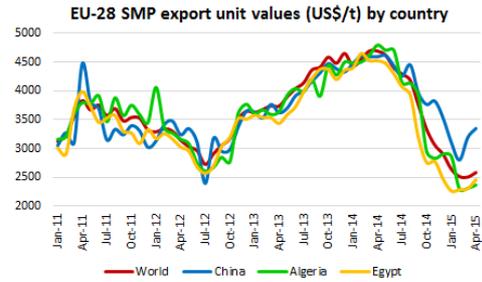
The European Commission forecasts EU milk production to increase further in 2015 and 2016. Estimated figures for the top 10 EU producers including Belgium, Denmark, Ireland, Spain, Italy, Poland, Netherlands, the UK, France and Germany, presented at the latest Milk Market Observatory meeting, account for 85% of milk output, and indicate production could grow by nearly 1.5bn litres annually for the next 2 years in those countries.

US dairy exports down 11%

In the first four months of 2015, US shipments dipped 11% in volume terms and 26% in value from prior-year comparative. Butter continues to struggle, down 75% to 9,896t, followed by whey powder and WMP, which dipped 25% and 22% to 62,979t and 15,526t respectively. In comparison, cheese declined 11% to 119,303t, while SMP and lactose gained 2% and 1% to 182,980t and 118,558t.

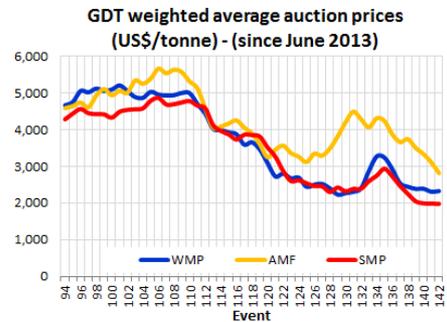
EU losing out to NZ in Algeria?

EU is concerned its biggest SMP market of last year, Algeria, would purchase much less powder from it in 2015. NZX Agri has reported a significant portion of Algeria's latest SMP tender was awarded to Fonterra, whose product was more competitively priced at US\$2,150/t, US\$100/t lower than EU. If exports to Algeria do fall and alternative markets prove difficult to find, EU SMP stocks would build, adding more downward pressure to prices. Freshagenda [analysis](#) shows that EU SMP shipments to Algeria fell to 40,492t in the first four months of 2015, down 26% from prior-year comparative



GDT's mixed message

The GDT price index fell 1.3% on a lower product offering of 24,047t. AMF led the decline, falling 10% to US\$2,814/t, followed by lactose and SMP, down 2.8% and 0.2% to US\$525/t and US\$1,978/t respectively. In contrast, BMP rose 10% to US\$1,975/t, followed by rennet casein and cheddar, up 5.8% and 2.4% to US\$6,126/t and US\$3,128/t, while butter was up 3.4% to US\$2,707/t. WMP rose 0.8% to US\$2,327/t, with values for August and September contracts tracking at higher 2.8% and 0.4% respectively.



DAIRY FUTURES

Futures weaker – Prices fell for almost all products, with NZX WMP posting the largest decline this fortnight, followed by NZX SMP and CME butter. In contrast, CME NDM was unchanged, while cheese posted a small gain.

15 June 15	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
June-15	2,000	2,073	2,260	3,801	3,130	4,233
July-15	2,170	2,123	2,350	3,946	3,330	4,311
Aug-15	2,170	2,172	2,395	4,012	3,325	4,376
Sept-15	2,250	2,227	2,470	4,034	3,420	4,350
Oct-15	2,280	2,253	2,580	4,052	3,425	4,349
Nov-15	2,325	2,320	2,630	4,079	3,450	4,277
Change	-1%	0%	-2%	1%	-1%	-1%
Op interest	1,530	3,788	11,640	19,437	990	5,293