

From the Trading Floor

KEY MARKET DRIVERS

- Is the market bottoming?
- NZ milk production stable-to-up for 14/15 v 13/14
- Oceania milk prices for 2015/16
- US exports down, inventory up
- Risk mitigation

- As global pricing continues to weaken, SMP hits sub USD2000/mt and EU intervention levels seriously come into play, history suggests we are at, or very near to the bottom. Current market conditions and sentiment point to a slow ground out recovery versus a 'V' shaped bounce when it does turn, but both conditions and sentiment can change quickly. What is undeniable is current buying levels present very good value against historic price levels.
- Fonterra NZ milk production for Feb (-6.8%) and Mar (-3%) have been significantly less dramatic than forecasted and YTD production is up 1%. To reach the revised forecast of -2% YOY production will need to fall by around 33% for Apr-Jun15. Modelling suggests seasonal volumes for total NZ milk production will be very similar to slightly up on 13/14.
- Oceania processors are preparing opening prices/forecasts for 15/16 and it's difficult to see strong numbers given the bearish market. However competition for milk between processors in NZ and Australia and the domestic market (Australia) will be key factors weighed against international market conditions. We watch these price signals and their pending impact on milk supply with great interest.
- US exports are down almost 20% YTD. Currency, high prices and the ripple effect of major west coast port closures are all contributors. With milk production up, the net result is increased volumes on domestic market, some consumed by higher demand, but mostly into inventory build.
- It's unlikely any manufacturer, trader or end user has not been adversely effected by the sharp down turn and prolonged bear market - now coming up to 15 months. Risk mitigation will be the hot topic for all global dairy players as we prepare for what lies ahead in 2015/16.

FROM PHILIPPINES

Manufacturers are taking advantage of all time low dairy commodity prices and are not entering into long term contracts. Traders are also cautious in stock piling inventory as they expect the market to remain soft.

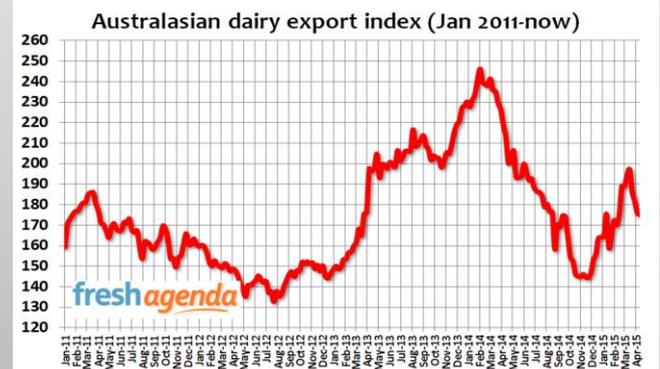
FROM INDONESIA

Low global pricing + government policy instability = A cautious industry not willing to take unnecessary purchasing risks. Due to product availability and consumer sentiment demand is generally soft and EU product is becoming far more prominent as registration for Q3 and Q4 import licences/quotas approaches.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index falls – The Australian dairy export index was shaved this week, with mixed commodity price movements and a marginally stronger dollar. In spot quotes, butter performed best, up US\$325/t to US\$3,725/t, while SMP was unchanged. In contrast, WMP and cheddar fell US\$125/t and US\$50/t. The A\$ closed the week higher at **US\$0.768**, as the index fell by a point to **175.3**.



AUSTRALIAN INDUSTRY NEWS

More cheese, SMP

Australia makes more cheese, SMP – Dairy Australia data shows for the year-to-date July to January period, cheddar and SMP output jumped 15% and 13% to 113,689t and 169,714t respectively, while non-cheddar cheese rose 8% to 87,557t. WMP and whey powder output were down 26% and 9% to 65,541t and 34,601t, while butter dipped 1% 56,780t.

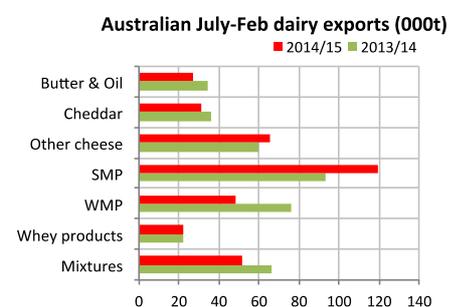
Fonterra goes for growth

Speaking at this week's Global Food Forum, Maury Leyland, Fonterra's managing director of people, culture and strategy highlighted the co-op's belief that there is significant growth capacity Fonterra in Australia's milk pool. Fonterra SupportCrew and GroPlan programs have returned more than \$2m to farmers' bottom lines. The co-op's Australian intake was up 8.6% for the month and is 5.9% ahead for the nine months season to date.

Exports up 1.3%

Dairy exports for the 8 months to February rose 1.3% in volume but fell 14% in value terms year on year. SMP led the way, up 28.3% to 119,095t, reflecting the movement in product mix away from WMP,

followed by non-cheddar cheese and whey products. The gains were offset by large falls in WMP and mixture volumes.



Weather highlights

- In Australia, gusty southerlies moving up the NSW coast are bringing showers.
- In NZ, severe weather warnings for heavy snow across parts of Southland, southern Fiordland and Otago.
- In US, rain across northern Texas and western Oklahoma will provide some relief for the ongoing drought.
- Rain for north eastern and western portions of Brazil, dry weather for Argentina's main soy-growing area.
- In Europe, warm temperatures (low to mid-20s C) to return to western and central parts.

NZ milk intake down 3% in March

Fonterra's March milk collections were down just 3% year on year, putting season-to-date collection 1% above the corresponding period. This is a rain-fed reversal after February recorded a fall of 6% on the same month in 2014. North Island monthly intake was fractionally ahead of last year, while the drought-affected South Island was 6.8% down behind 0.7% for the year to date. The latest word on the full year outlook was a fall of 2%, which will now require the closing two months of the season to be down 30%.

Foreign UHT dominates local brands

A Chinese study of UHT sales says foreign imports account for two-thirds of all online UHT milk sales, and of the Top 10 selling online imports, five are produced in Germany, and almost all are cheaper than domestic high and middle-end brands. A one-litre carton of Hochwald's Weidendorf imported full UHT milk, the best-selling imported brand, goes for CNY9.25 (US\$1.52) on womai.com, a popular online store owned by COFCO, while Sanyuan's high-end full fat UHT milk sells at CNY12.9 (US\$2.10), making Hochwald's brand almost 30% cheaper. On other Chinese websites Hochwald is reported to be cheaper still. MG's Devondale UHT milk is third in online sales rankings of imported products behind Hochwald, while Fonterra's Anchor is 7th.

US dairy exports down 19% YTD

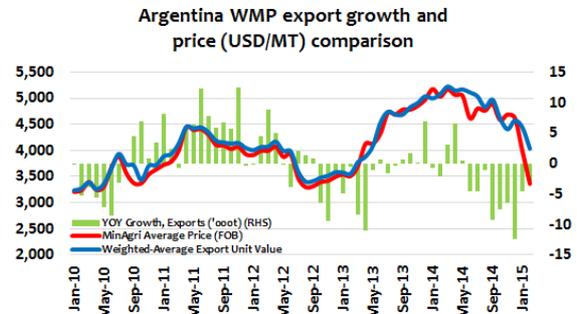
In the first two months of 2015, US dairy shipments dipped 19% in volume terms and 29% in value year on year. Butter continued to struggle, down 74% to 4,975t, followed by whey powder and WMP, which dipped by 27% and 23% to 27,690t and 7,745t respectively. In comparison lactose, cheese and NDFM declined 17%, 16%, and 6% to 47,133t, 53,345t, and 70,557t for the period.

Argentina exports slump

Freshagenda's [Global Dairy Directions](#) (GDD) analysis shows Argentina's exports in the 8 months to February dipped 24% to 199,814t, due to the decline in total industry production, instability in production conditions and export regulations. Domestic demand soaked up more milk despite the economic turbulence in the country, aided by export controls to keep domestic prices as low as possible.

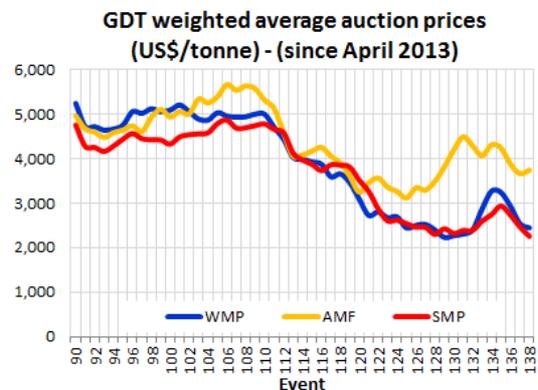
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The slump in international prices has made exports unattractive. WMP exports led the decline, dipping 35% to 91,369t, followed by SMP, down 25% to 16,050t, while cheese and whey products were down by 4% and 3% to 37,447t and 46,862t respectively.



GDT prices fall 3.6%

The GDT price index fell 3.6% on an offering of 25,596t, up 11% from the previous event but down 30% year on year. SMP and butter led the decline, down 7.8% and 6.6% to US\$2,253/t and US\$3,026/t, followed by casein, down 0.6% to US\$6,949/t. WMP fell 4.3% to US\$2,446/t, with contracts 3 (July15) and 5 (Sept15) recording the sharpest falls of 6% and 5.1% respectively. In contrast, cheddar, AMF, and BMP gained 2.7%, 2.3% and 2.1% to US\$2,888/t, US\$3,744/t, and US\$2,208/t respectively.



DAIRY FUTURES

Futures mostly down – NZX and Eurex SMP and WMP led the decline, while CME butter and cheese gained this week. All prices are quoted in US\$/t with Eurex contract prices converted at **1.0597**.

13 April 15	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
Apr-15	2,600	2,086	2,188	2,390	3,527	3,625	3,836
May-15	2,400	2,038	2,150	2,400	3,567	3,370	3,972
June-15	2,400	2,014	2,205	2,400	3,580	3,370	4,001
July-15	2,450	2,014	2,298	2,425	3,715	3,500	4,024
Aug-15	2,500	2,040	2,376	2,500	3,858	3,450	4,058
Sept-15	2,575	2,146	2,486	2,530	3,920	3,450	4,086
Change	-4%	-1%	-3%	-3%	1%	-4%	1%
Op interest	1,329	184	4,047	8,703	22,336	900	4,541

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