

From the Trading Floor

KEY MARKET DRIVERS

- GDT is the Story of the Dairy World this week
- Russia extends bans
- China remains subdued
- Only 4-6 weeks away from new Oceanic season

- Back to back dramatic falls on the most recent two GDT events has caught industry participants of guard by the magnitude of the falls. Whilst most were certainly expecting falls, they were most likely not expecting 8 – 10% falls from levels that were already at 6 year lows. Of most concern was the WMP result of “n.p” prints for contract 2.
- Unsurprisingly Russia has announced they will be extending the bans on Western European, Canadian and Australian dairy imports (USA already banned) by another year through to August 2016.
- Our reports from China show a market that remains very subdued in it’s demand. All the “Big Boys” remain well covered with previous purchases and robust domestic supply. Reports of falling domestic demand exacerbating the issue.
- From a Southern Hemisphere perspective we are officially half way through winter and thoughts turn to spring and a new Oceania season. All reports are pointing toward conditions that indicate a good start. With GDT falls reflecting appetite for forward sales during the Sept–Dec period we can expect tough markets to remain through Q3/Q4 (from a sellers perspective, barring any unexpected weather / disease events).

FROM PHILIPPINES

Markets remains sluggish with GDT and world pricing continuing to fall. Traders are continuously discounting old inventory and in some cases, selling at a loss just to flush out inventory. Entire market expects pricing to dip further in the coming months. Buyers are cautious in purchasing and limiting buys to short term requirements.

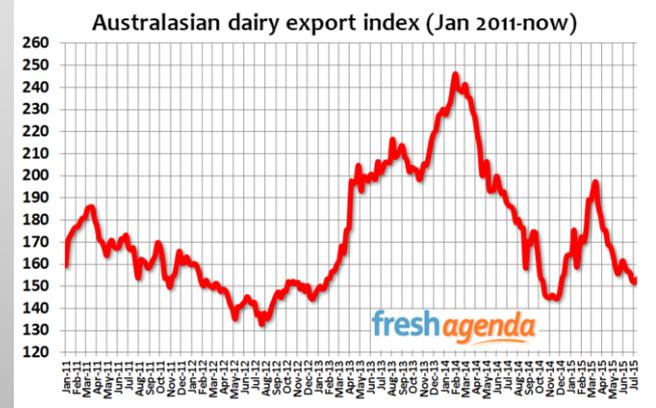
FROM INDONESIA

Eid Mubarak holidays are running from this week until next week, with some manufactures closing during this period. Peak season will end in Mid July, leading to pricing for enquiries in Q4. Due to falling prices, those who are purchasing long contracts are holding their purchases close to the market prices to make sure they are getting the right price at the right time.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index slight gain – The Australian dairy export index rose 1% this week, reversing a 5-week downward trend, helped by a weaker AUD. In spot quotes, WMP gained US\$100/t to US\$2,150/t, followed by SMP, which rose US\$25/t to US\$1,925/t. Butter and cheddar were unchanged. The A\$ closed at **\$0.749**, as the index rose 1.5 points to **153.4**.



AUSTRALIAN INDUSTRY NEWS

Wet, cold snap unfolds

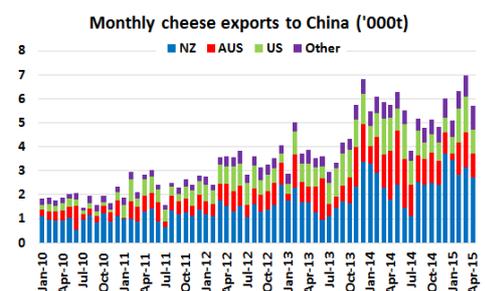
A massive cold front is sweeping through eastern Australia, triggered by the Antarctic vortex, which brought significant rain, snow and wild weather to Victoria and NSW over the weekend. The weather bureau has issued flood watches for the Greater Melbourne and East Gippsland catchments and there is a warning for minor to moderate flooding in the Cann and Genoa rivers in the far east of the state.

Australian dairy exports up 2.4%

Dairy Australia reports dairy exports for the 11 months to May 2015 rose 2.4% year-on-year in volume terms. This was underpinned by higher shipments of SMP and non-cheddar cheese, up 29% and 14% to 165,077t and 98,323t. Whey products were also up by 3.1% to 30,264t, which overall more than offset falls in WMP, mixtures and butter & oil.

Losing China share?

Latest Freshagenda [analysis](#) shows total cheese exports to China totalled 24,071 tonnes in the four months to April 2015, up 3.7% from the prior-year comparative. However, Australia has lost its cheese share, exports down 28% to 4,077t, followed by Argentina and the US, while NZ and EU-28 have increased shipments for the period.



Weather highlights

- In Australia, the Antarctic vortex brings cloud and gusty showers to NSW and eastern Victoria.
- In NZ, heavy falls in the north and west of both islands.
- For the US, a swathe of storms in the Eastern states.
- Dryness continues in Brazil; few showers for Argentina.
- Heat waves spread across eastern and western Europe.

Fonterra extends global reach

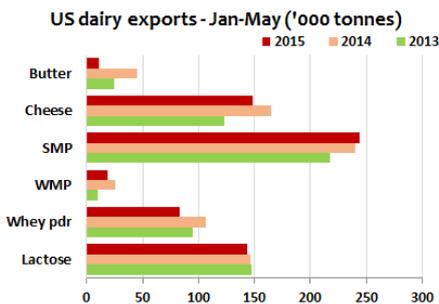
Fonterra's new state-of-the-art ingredients factory in Netherlands was officially opened last week. Developed in partnership with Dutch A-Ware Food Group, which has built a major new cheese plant next door, the 25ha site processes 1bn litres of milk annually, producing 5,000t of whey protein and 25,000t of lactose to be further processed into specialty ingredients for use in high-value paediatric, maternal, and sports nutrition products for sale in the EU and beyond.

Japan steps up SMP imports

Japanese SMP imports rose 21% year-on-year in May 2015, tracking 72% ahead at 24,159 tonnes January to May period. NZ and Australia accounted for 51% and 18% of the keenly contested market at 12,314t and 4,235t respectively, though bigger gains were also made by European exporters. In contrast, the US continued to lose share, as shipments crashed 69% hit by a stronger US\$.

US dairy shipments falter

US dairy shipments dipped 10% in volume terms (due to the stronger US\$) in the first five months of 2015 and 26% in value from prior-year comparative. But the surge in SMP volumes in May pushed the 2015 total past last year's comparative. Butter continues to struggle, down 75% to 11,382t, followed by WMP and whey powder, which dipped 27% and 22% respectively. Cheese fell 10%, as shipments to MENA, Japan and Indonesia trailed last year's numbers.



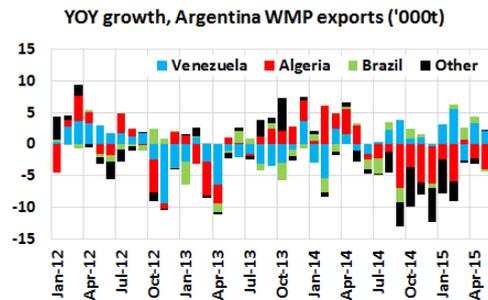
EC's short-term dairy outlook

The European Commission's Short-term Outlook Report sees only a 1% year-on-year increase in milk deliveries in 2015, in spite of quotas ending, as gains in some member states are offset by slowdowns or decreases in others – in response to current price signals. For 2016, milk supplies are expected to increase by no more than 1%, assuming a continuation of the Russian import ban. SMP output is expected to rise 8% in 2015, as additional milk is diverted to this product line rather than cheese, and exports to climb

17%, underpinned by increased EU competitiveness, as the Euro has depreciated against the US.

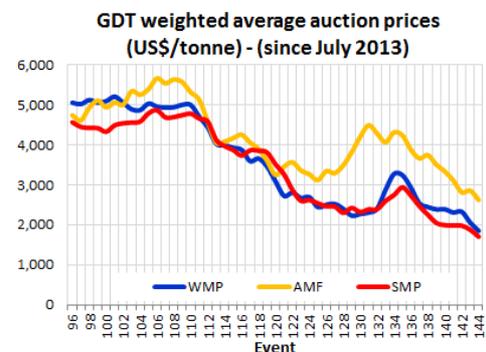
Argentina's WMP shipments hit

Argentina's exports of major dairy commodities dipped 12% year-on-year to 107,064 tonnes in the first five months of 2015, weighed down by a 73% plunge in AMF, followed by cheese, down 27% for the period. WMP shipments took a 14% hit as well – as shipments to its second-most important market, Algeria, dipped 56%. Whey and butter were down 13% and 3% respectively, while SMP rose 52% for the period.



GDT tumbles 10.7%

The latest GDT price index tumbled 10.7% to a fresh six-year low, weighed down by significant falls across all commodities. Cheddar and WMP suffered the most, down 15% and 10% to US\$2,613/t and US\$1,848/t respectively. Prices plunged for all WMP contracts, though the sharpest fall was recorded by contract 3 (Sept-15). SMP, butter, AMF and rennet casein dipped 9.2%, 8.7%, 8.2% and 8% to US\$1,702/t, US\$2,460/t, US\$2,621/t and US\$5,430/t, while BMP was down 4.4% to US\$1,794/t for the period.



DAIRY FUTURES

Futures weaker – Prices fell for all powder products this week, with NZX WMP posting the largest decline this fortnight, followed by CME NDM and NZX SMP. However prices are tracking higher for year-end contracts.

13 July 15	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
July-15	1,930	1,926	1,910	3,779	2,900	4,244
Aug-15	1,900	1,896	1,830	3,794	3,010	4,321
Sept-15	1,970	1,918	1,800	3,816	3,050	4,305
Oct-15	1,960	1,946	1,865	3,838	3,100	4,321
Nov-15	2,000	1,984	1,995	3,869	3,250	4,275
Dec-15	2,055	2,017	2,065	3,869	3,350	4,084
Change	-4%	-6%	-8%	0%	0%	0%
Op interest	2,040	3,881	13,825	20,119	1,074	5,544