

From the Trading Floor

KEY MARKET DRIVERS

- GDT follows market sentiment - down
- NZ milk & finished product: Market says Up, NZ says Down
- Milk supply steady to up; NZ, EU, US, China, AU & India...
- US cheese & butter inventory build
- Oversupply & buyer sentiment driving the market

- Led by WMP (-13.3%) and SMP (-9.9%) the GDT index was down a significant 10.8%. In broad terms, losses in Mar/Apr have offset gains made in February and the GDT index is essentially back to where it started in 2015.
- NZ weather conditions are now supporting more favourable milk production and Fonterra's revised forecast of -2% from -3.3% still looks conservative, milk production at similar levels to 13/14 (21.3bn tonnes) can be expected. GDT volumes and NZX futures also support this. Watch milk pricing.
- Whilst EU milk production tapered off and Oceania production looked to be falling in late 14/early 15, milk supply in all major regions is now steady to increasing again. A quotaless EU, US, China and Australia should all report milk increases YOY and NZ will be flat. Of interest, India Rating & Research, is forecasting an increase to India's milk supply of 4.6% for FY16 but the dairy sector is forecast to grow at 15.6% - a little ray of sunshine!
- In the US, inventories of cheese and butter are building. Whilst domestic demand is firm, milk production is up (+1.7% Feb15vFeb14), the \$US has firmed substantially against major currencies and exports are down significantly - approx 25% YOY. Cheese stocks are at 500,000mt (+ 5.3% YOY) with over 20,000mt added in Jan-Feb15. Butter stocks have grown 3.7% YOY and almost 20% from Jan15 to Feb15 to over 80,000mt.
- Buyers are undoubtedly in the drivers seat as supply of product is strong, however history suggests these pricing levels represent very good buying and it won't last forever.

FROM THE PHILIPPINES

EU processors, existing and new are increasingly dominating commodity markets, in particular powders. Buyers are maintaining low domestic inventory in anticipation of sustained low prices and further price falls. Forward buying is now limited to 2 - 3 months.

FROM INDONESIA

Demand for consumer goods is down by 10-20% March YOY as fuel price increases by 7% after further subsidies are removed. Due to soft pricing there is no urgency for customers who aren't covered, with most buying now occurring to fulfil Q3 import quotas.

Matt Cooper, Director, Ausfine Foods

AUSTRALIAN INDUSTRY NEWS

WCB steps up

Warrnambool Cheese and Butter (WCB) announced a step-up last week – suppliers will receive an additional 8c/kg of protein and 20c/kg of fat, bringing the average price up to

DAIRY EXPORT INDEX

Index drops again – The Australian dairy export index fell by 2.5% this week, hit by a stronger dollar and weaker commodity market. In spot quotes, cheddar and WMP declined by US\$150/t and US\$100/t to US\$3,500/t and US\$3,100/t respectively, while butter and SMP were unchanged from last week. The A\$ closed the week at **US\$0.78**, trimming the index by 5 points to **181.8**.



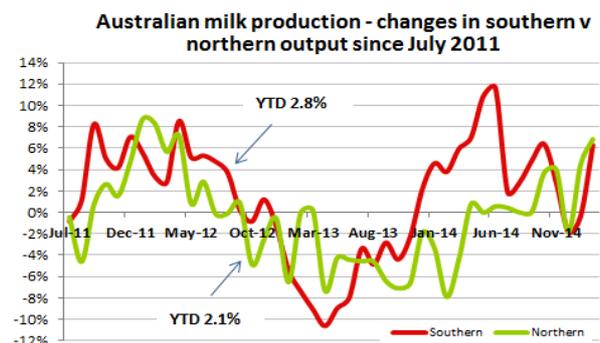
\$6kgMS for the season. Chief executive officer David Lord said the increase was ahead of the company's scheduled April review, "as trading conditions have become clearer since the January review". The milk price will be reviewed again in June.

BOM:75% of chance of wetter autumn

The Bureau of Meteorology's (BOM) latest April-June outlook says wetter days and warmer nights are on the cards for most of the Australian mainland over the next three months while normal rainfall is expected in Tasmania. However, it's not all good news, as the BOM expects further warming in the tropical Pacific, with the climate outlook model suggesting 50% chance of an El Nino pattern likely to form during winter.

Milk production up 6.4% in Feb

Dairy Australia reported national milk production was up 6.4% in February, led by significant gains in Tasmania and NSW, up 11.5% each, followed by WA and SA, where output rose 6.4% and 5.3% respectively. Victoria was up 5.6% - as strong growth of 7.7% and 6.9% in Gippsland and the West and a 2.3% rise in Northern Victoria. Queensland suffered a decline of 3.7% for the month. Nationally, YTD national production is now up 2.8%, tracking ahead of DA's forecast of 2% for 2014/15.



Weather highlights

- In Australia, a low pressure trough is triggering showers over northeastern NSW and QLD.
- In NZ, southwesterly feed of air is bringing showers into western and southern parts of the country becoming fine over the weekend.
- In US, there's a higher probability of rainfall across the southern plains in the next 5 to 7 days. In the midwest, fieldwork is likely to be delayed by rain, while drier conditions will prevail further north.
- More rain for Brazil, with a few showers for northern Argentina.
- In Europe, a storm system to bring strong winds and showers across UK, with rain spreading southward into northern France, Belgium, Netherlands, and Germany.

Fonterra interim profits down

Fonterra suffered a 16% drop in net profit after tax to NZ\$183m for the six months to Jan 31 from prior-year comparative, on a 14% revenue decrease to NZ\$9.7bn. Normalised EBIT was also down 7% to NZ\$376m. Performance was mixed across Fonterra's three divisions – normalised EBIT was up 2% to NZ\$299 million for ingredients and up 23% to NZ\$116 million for consumer and foodservice but hit also by the NZ\$29 million loss for the international farming division (on sales of just NZ\$67m).

Fonterra now expects 2014/15 milk production to be down just 2% from last season, instead of its more conservative 3.3% estimate announced on 29 January. USDEC says Fonterra's production will grow by 1-1.5%, while local bank ASB projects a dip of 1% for this season.

NZ milk prices on the radar

Fonterra has held its forecast farmgate milk price for 2014/15 at NZ\$4.70 kgMS, with guidance for dividends trimmed to a range of 20-30c/share, resulting in a forecast cash payout of NZ\$4.90-NZ\$5.00 kgMS. Meanwhile, Synlait Milk has raised its forecast milk price from NZ\$4.40 kgMS to a range of NZ\$4.50 to NZ\$4.70 kgMS, following a faster than expected market recovery.

NZ YTD dairy exports up 5.1%

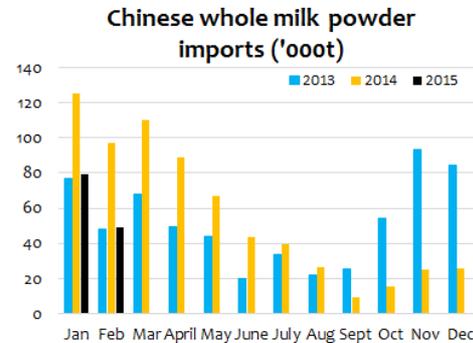
Freshagenda's [Global Dairy Directions](#) (GDD) analysis reveals NZ shipments of dairy products rose 5% in volume between June and February underpinned by higher shipments across all products, excluding butter. AMF led the gain, up 19% to 158,373t, followed by SMP and whey products which rose 17% and 13% to 323,954t and 63,915t respectively. In comparison, cheese and WMP rose 10% and 2% to 214,904t and 1,027,833t while butter sales fell 11% to 205,395t.

Chinese powder imports well down

Chinese WMP imports reached 48,645t in February 2015, down 39% from January, and 50% from the prior-year comparative. In comparison, SMP imports totalled 17,342t,

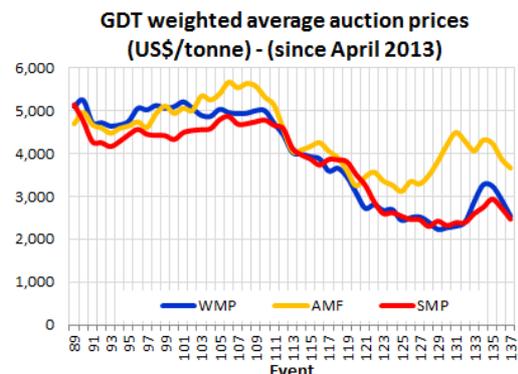
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down 26% from the prior month, and 35% from February last year. But could this be a return to normal rather than cause for alarm? While imports are well down compared to the frenzied buying of early 2014, compared to 2013, SMP imports actually rose 67%, while WMP shipments were almost flat, up 2% from February 2013.



GDT prices fall 10.8%

The GDT price index fell 10.8% on an offering of 23,162t, up 14% from the previous event but down 42% year on year. BMP led the decline, down 25% to US\$2,130/t, followed by cheddar and SMP down 10.5%, and 9.9% to US\$2,787/t and US\$2,467/t respectively. In comparison, casein, butter and AMF dipped 8%, 7.6%, and 5.3% to US\$6,980/t, US\$3,259/t, and US\$3,663/t. WMP sank 13.3% to US\$2,538/t, with contracts 2 (June 15) and 4 (Aug 15) recording the sharpest falls of 13.6% and 13.5% respectively.



DAIRY FUTURES

Futures mixed – Heavy falls for NZX futures prices – with WMP leading the decrease, followed by AMF and SMP. In contrast, CME prices gained, while Eurex was stable this week. All prices are quoted in US dollars per tonne with Eurex contract prices converted at **1.0817**.

30 Mar 15	SMP		NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	Eurex	CME	NZX	CME	NZX	CME
Apr-15	2,600	2,259	2,270	2,520	3,505	3,710	3,836
May-15	2,520	2,205	2,282	2,400	3,516	3,700	3,935
June-15	2,600	2,205	2,380	2,450	3,563	3,550	3,985
July-15	2,600	2,109	2,491	2,450	3,682	3,600	4,029
Aug-15	2,600	2,232	2,560	2,650	3,812	3,490	4,015
Change	-5%	0%	1%	-9%	1%	-7%	3%
Op interest	1,249	194	3,482	10,340	19,230	750	3,737

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