

## From the Trading Floor

### KEY MARKET DRIVERS

- E.U. Milk Up
- China Milk Up
- gDT Down
- Sales of UHT / Yog / Mozz Cheese growing in China
- Buyer behaviour at the bottom

- After a subdued Q1 (caused by threat of Super Levies) Reports are starting to come in that Milk in Europe (Mid-Northern E.U.) is now starting to come on strongly. 5-7% YoY growth in April-May in Netherlands and Ireland
- Hard to get firm numbers from China, but anecdotal reports have Chinese domestic milk production up by 3-5% YoY. Seems the new big dairies (5,000+ head) are having the impact we anticipated.
- GDT was down an overall 4.3%, indicating we are still well and truly in the Bears den. Only shining light would be a slight premium creeping back in for the back months and the fact that a 4% fall at these levels is no where near as severe in true dollar terms as a 4% fall when markets were at US5000/MT (US94/MT Vs US200/MT)
- We've heard from a number of sources that UHT sales are tracking ok in China it is just that the market is swamped with new entrants. Yoghurt is another segment showing nice signs of growth and Mozzarella cheese is really looking strong.
- Interesting to see buyer behaviour at the moment with record low prices. Buying activity has been weak over recent weeks which would suggest a lot of buyers are sitting back and waiting to see where this market goes. Funny that at US5000/MT buyers are locking as long as is possible while down at these levels it seems a lot are afraid to commit to long-term contracts.

### FROM PHILIPPINES

Market has become more sluggish with GDT slipping further. Manufacturers and processors are continuously purchasing hand to mouth expecting prices to further come off in the coming months. Traders and wholesalers are starting to discount older high priced inventory fearing that a rebound will not happen any time soon.

### FROM INDONESIA

In response to the continue fall of the GDT, buyers are taking position to get best offers and close deals for Q4. Those who are covered until end of this year can't do much to average pricing as suppliers tend to wait to send offers for 2016. Towards the Eid Mubarak festival in Mid July, there are no new updates from Ministry of Transportation. Policies remain the same, the time frame for clearing the containers is 7 days before festival and 7 days after to start again.

Matt Cooper, Director, Ausfine Foods

## DAIRY EXPORT INDEX

**Index edges up** – The Australian dairy export index rose 2.5% this week, helped by WMP price and a weaker A\$. In spot quotes for Australasian exporters, WMP gained US\$50/t to US\$2,450/t, while other products were unchanged. The A\$ closed the week at a 7-week low of **\$0.764**, as the index rose by 4 points to **161.7**.



### Eastern regions hotter, drier

The Australian Bureau of Meteorology's latest Seasonal Climate Outlook for June to August 2015 points to a drier than normal in southern and inland Queensland, northern and eastern NSW, as well as eastern Victoria and western Tasmania. On the other hand, southern Western Australia is expected to have a wetter and cooler season.

### Fonterra steps up to \$6 kgMS

Fonterra Australia has stepped up farmgate milk prices for its Australian suppliers to an average of \$6 kgMS. Suppliers will receive a step of 12 c/kg fat and 30 c/kg protein, which will be paid on June 15 and backdated to July 2014.

### WCB completes EDC purchase

Warrnambool Cheese and Butter (WCB) has finalized its \$137.5 million acquisition of Lion Dairy and Drinks' everyday cheese business. The purchase of the national milk processor's market-leading was announced in March and includes the cutting, wrapping and distribution operations already located in a building owned by WCB, adjacent to the Allansford plant.

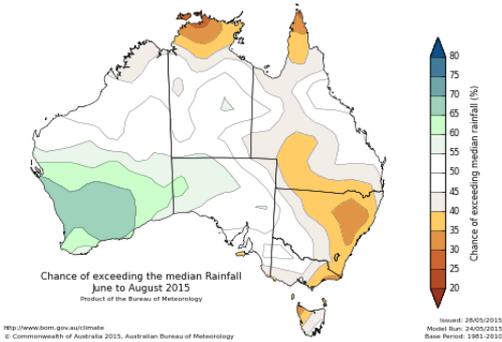
### NZ companies update prices

Fonterra has reduced its forecast Farmgate Milk Price for the 2014/15 season to NZ\$4.40 kgMS, the change amounts to a forecast Cash Payout of NZ\$4.60 - \$4.70 to a fully shared-up farmer. Fonterra also unveiled its opening forecast Farmgate Milk Price of NZ\$5.25 kgMS for the 2015/16 season. The Advance Rate will begin at 70% of the forecast Farmgate Milk Price, with an opening rate of NZ\$3.66 per kgMS.

Meanwhile Westland Milk Products lifted its prediction for the 2015/16 season to NZ\$5.60-NZ\$6 kgMS, and would start the 2015/16 season with a higher than usual advance payout.

## Weather highlights

- In Australia, a high moving over the southeast is bringing largely settled but cold conditions.
- In NZ, heavy rain for parts of North and South Island.
- In US, severe thundersorms with damaging wind gusts to affect parts of Northern Plains.
- Rain for most regions of Brazil; dry in Argentina.
- In Europe, high pressure to build over northwest Europe, bringing tranquil weather and warmth.

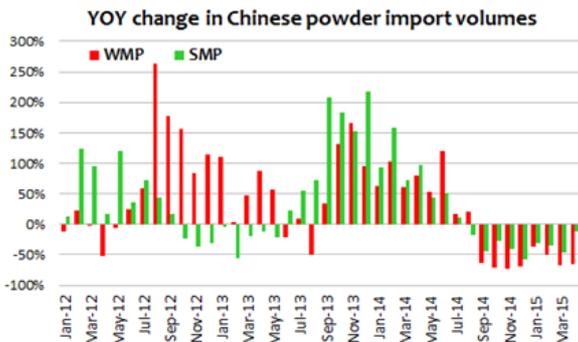


## Trade position worsens

latest [Global Dairy Directions](#) analysis indicates the outlook for balance of international has worsened over the past month. An improvement in net demand in the coming months (import demand over export availability) will be small and short-lived, and not sufficient to provide impetus for sustained upward price improvement. While demand is improving, Chinese stocks remain high and SMP is plentiful ensuring availability will be more than adequate through to the end of calendar 2015.

## Chinese imports in doldrums

Chinese WMP imports fell to 31,359t in April, down 65% from April last year, recording the eighth consecutive month of year-on-year decreases. For the Jan-April period, imports were down 53% from prior-year comparative. In comparison, SMP imports at 19,314t suffered a smaller fall in April, down 13% from April last year. For the YTD period, imports are down 33% year-on-year.



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## Wave of milk coming

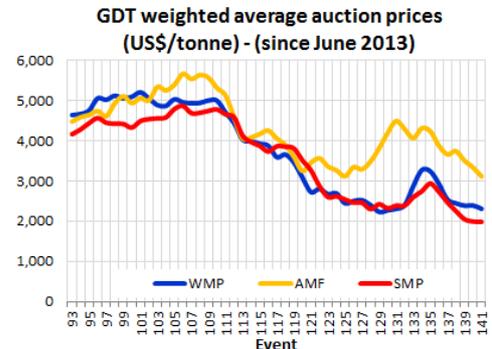
There are early signs of stronger milk growth in key areas of the green belt across northern Europe from April onwards. April milk deliveries in Netherlands were just over 5%, while delivery for the first three weeks of May were tracking 7.5% ahead from last year. Meanwhile Germany is gradually catching up on last year. In the UK, daily milk deliveries reached a peak of 44.8m litres on the 26 April, up 2.2% from the peak in 2014. Elsewhere official statistics show Ireland milk output lifted 14.5% in April from same time last year.

## Japan plans to avoid butter meltdown

The Japanese government has announced plans for emergency imports of butter following a warning from the Japan Dairy Association of a 7,000t shortfall in supply. The government's focus is to have sufficient quantities to meet demand and there are reports suggesting the government will import 10,000t of butter and 5,000t of SMP.

## GDT prices fall 4.3%

The GDT price index fell by 4.3%, the sixth consecutive fall. Butter and AMF led the decline, down 10% and 7.4% to US\$2,619/t and US\$3,112/t respectively. BMP and lactose fell 7% and 6.9% to US\$1,795/t and US\$540/t, while Rennet casein, WMP and SMP fell 4.4%, 3.1% and 1.3% to US\$5,789/t, US\$2,309/t, and US\$1,982/t. WMP values for all contracts declined but the biggest falls were for September and October contracts, down more than 4%.



## DAIRY FUTURES

**Futures track higher** – Both CME and NZX futures firmed over the past fortnight with prices for butter leading the increase, followed by cheese and WMP. AMF and SMP were unchanged. Futures for August to November contracts are tracking higher than the nearby contracts.

1 June 15	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
June-15	2,150	2,097	2,400	3,651	3,300	4,156
July-15	2,170	2,211	2,575	3,803	3,330	4,453
Aug-15	2,250	2,304	2,610	3,951	3,410	4,575
Sept-15	2,250	2,381	2,670	3,975	3,435	4,580
Oct-15	2,300	2,425	2,700	4,019	3,425	4,586
Nov-15	2,415	2,491	2,700	4,012	3,530	4,575
Change	0%	0%	1%	1%	0%	3%
Op interest	960	3,587	7,870	20,706	790	5,305