

From the Trading Floor

KEY MARKET DRIVERS

- gDT finally rebounds
 - Volatility a concern
 - Russia back for NZ product?
 - Milk continues to grow in USA / NZ
- gDT had a welcome rebound at last weeks auction, with C2 WMP result up over 20%. Of concern is that it took Fonterra reducing volumes by over 35% to achieve it. The missing volume has not been consumed and must still be moved outside the auction platform.
 - The wild ride in the dairy world continues. Prices have fluctuated by double digits in both directions on a weekly basis over the last few months and it is a big concern for the entire industry. Observers from outside the industry marvel at the huge moves. A lot of players are looking at risk mitigation strategies to try and smooth out the price bumps.
 - A lot of reports this week about Russia re-opening their borders to NZ Dairy. Our view is that it has been open the whole time with a lot of NZ AMF / Butter flowing to Russia since the bans hit the EU & others. The lifting of the ban relates more to Proteins (WPC / MPC) from the botulism scare (nothing to do with economic sanctions).
 - Although off a very low base, where small movements can have a big impact, still interesting to note NZ milk was up over 10% YoY in July, indicating a strong lead into Spring. USA milk continues to grow month on month on the back of continued favourable (profitable) conditions for the Dairymen there.

FROM PHILIPPINES

Dairy commodity prices are at an all time low. Trading is very sluggish. More and more dairy companies are launching and focusing on value added products, retail and food service SKUs. EU dairy companies, USDEC (US Dairy Export Council), CMAB (California Milk Advisory Board), etc. are continuously implementing activities locally geared toward end users and niche categories.

FROM INDONESIA

GDT re-bounce brings a positive response from the local market but is still very wary with their demand in case of an unexpected fall in the future.

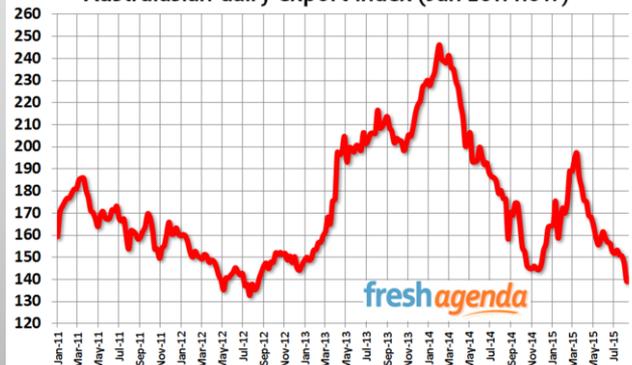
Indonesia's president is reshuffling local Trade and Economic industry. Response has been positive, with hopes the Economy will improve in the long term.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index gains – The Australian dairy export index rose 0.9% this week, underpinned by a slightly stronger commodity market and weaker A\$. In spot quotes for Australasian exporters, WMP gained US\$50/t to US\$1,650/t, while butter, SMP and cheddar were unchanged. The A\$ slid to **US\$0.737**, as the index edged up 1.3 points to **140.1**.

Australasian dairy export index (Jan 2011-now)



AUSTRALIAN INDUSTRY NEWS

Fonterra flags possible step down

While Fonterra Australia maintained its current farmgate milk price at \$5.60 kgMS last week, it advised its suppliers that it has its 2015/16 price and forecast closing range under review due to challenging domestic and global conditions. Fonterra Australia MD Judith Swales said "We have updated the full year commodity price forecasts to model the Australian product mix, and the outlook remains very tough. Suppliers need to be prepared for the possibility of a step down in milk price this season."

MG unit prices rebound

The rollercoaster continues for non-voting unit prices in Murray Goulburn's Unit Trust. After debuting at \$2.24 – at the lower end of the IPO range - in early July, the units jumped to \$2.42 in the first week of trading. However, concurrent with successive drops in GDT unit prices, slid 26% to \$1.77 on 7 August. Since then they have recovered to around \$2 per unit, with the market possibly realising that the product mix on GDT bears very little resemblance to MG's product mix and market exposure.

Bright secures heifer supplies

China's Bright Food subsidiary Tianjin Bright & MengDe Dairy group has purchased a 365ha grazing property in Branxholme in southwest Victoria for \$2.5m, which will be used to raise dairy heifers to 400kg before shipping them to stock Chinese dairies. Tianjing is also aiming to establish a dairy heifer export facility within 70km of Portland. Cattle for the first shipment of 1,500 heifers are being sourced, and the consortium hopes to begin shipments from next year.

Weather highlights

- In Australia, brisk onshore winds are generating patchy showers in Tas and Vic, while a high keeps NSW dry.
- In NZ, wet and cold across both islands.
- In the US, severe stormy weather to hit central plains.
- Argentina hit by heavy rains; Brazil dry.
- Rains easing to dryness in southeastern Europe.

Russia says yes to NZ

Russia's Federal Service for Veterinary and Phytosanitary Surveillance, or Rosselkhoznadzor, has lifted temporary restrictions on importing a list of dairy product ingredients from 29 NZ dairy companies, two years after they were imposed because of the botulism scare. The list of ingredients includes water-free butter fat, WPC, and MPC, which are in very high demand and are not produced in Russia, the Rosselkhoznadzor said.

China still stocked-up?

Anecdotal reports suggest China's imports of dairy powders may be limited for most of the coming 12 months as the latest indicators suggest the country is still sitting on more than 350,000t of WMP stocks. Imported stock is being replaced by domestic product as processors are forced to purchase high priced milk from local farmers – despite quality concerns - turning it into powders.

LatAm raises tariffs

Mercosur's highest decision-making body, the Common Market Council (CMC), will extend the higher 28% Common External Tariff (CET) for 11 dairy product groups – up from the normal 14-16% tariffs – from non-Mercosur countries until December 31, 2023. Argentina and Uruguay are the main supporters of this extension, and have, together with Brazil, already temporarily implemented the higher rates in the first half of 2015. The decision needs to be incorporated in the legislative framework of member states before September 1, although it can be applied immediately. However given the possibility that Paraguay and (more importantly) Venezuela could suffer market shortages, they have been granted opt-outs from the higher rates.

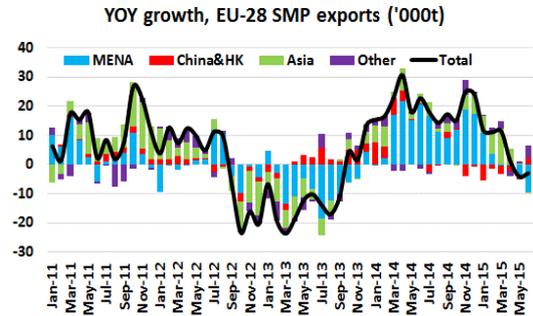
Less milk in 2016: USDA

USDA's latest World Agriculture Supply & Demand Estimates (WASDE) report has left the 2015 milk production forecast unchanged from last month at 92bn litres, up 1.3% from 2014, but downgraded 2016 milk output on the back of weaker milk prices in late 2015 and 2016 to 94bn litres, 2.1% more than 2015. The all-milk price is forecast at US\$36.85c/l – US\$37.29c/l for 2015 and US\$36.08c/l – US\$38.28c/l for 2016. Larger domestic supplies – as a result of increased imports and reduced exports in both 2015 and 2016 – are expected to pressure product prices into 2016.

EU dairy exports fall YTD

Freshagenda's [analysis](#) shows EU-28 dairy exporters shipped a total of 1.3mt of major dairy products, down 0.2% year-on-year for the first six months of the year. AMF and butter

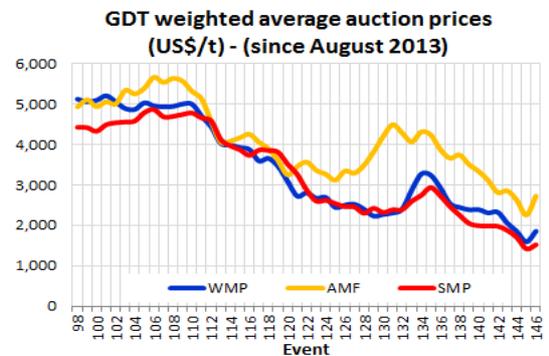
led the gain, up 43% and 17%, while whey rose 4%. In comparison, SMP jumped 8.5%, as sales to Asia rose 34%. MENA was a mixed bag – as SMP shipments to Egypt picked up (+66%) but to Algeria dipped 32% - while China&HK stayed 26% below last year. Meanwhile cheese and WMP



shipments fell 10% and 8% for the period.

GDT bounces back 14.8%

Dairy prices bounced back at the latest GDT event, the index jumped 14.8% - breaking a run of 10 consecutive falls since mid-March. Volumes traded were 21% lower than the prior event on 4 August, and 20% down year-on-year. AMF was the best performer, up 21% to US\$2,724/t, followed by WMP, which rose 17% to US\$1,856/t. Prices surged for all WMP contracts, though the sharpest rise was for contract 3, which was up US\$338/t. Butter and SMP increased 11% and 7% to US\$2,541/t and US\$1,521/t respectively, while cheddar and rennet casein rose 4% and 3% to US\$2,778/t and US\$5,441/t respectively. In contrast, BMP tumbled 18% to US\$1,400/t, while lactose lost 6% to US\$502/t.



DAIRY FUTURES

Futures positive – Prices strengthened across the board, with NZX WMP and CME butter posting the largest increase. Futures – with the exception of CME butter - remain weaker in nearby periods but firmer up for later contracts.

17 Aug 15	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Aug-15	1,430	1,624	1,500	3,834	2,180	4,431
Sept-15	1,560	1,707	1,840	3,851	2,450	4,659
Oct-15	1,700	1,775	1,975	3,865	2,550	4,674
Nov-15	1,770	1,836	2,140	3,829	2,600	4,519
Dec-15	1,805	1,962	2,120	3,788	2,560	4,222
Jan-16	1,835	2,094	2,210	3,715	2,660	3,902
Change	1%	0%	16%	0%	0%	5%
Op interest	4,622	4,221	19,013	18,463	1,424	5,427