

From the Trading Floor

KEY MARKET DRIVERS

- gDT powder gains continue
- September NZ milk down sharply YoY
- Russian tensions continue
- El Nino
- Anuga

- The gDT results last night showed another up-tick in the all important powders sector - WMP & SMP. The continued reduction of WMP volumes are the catalyst for WMP firming as demand remains soft. Fonterra has stated that the loss of volume is a result of a lower milk forecast, along with the switch out of WMP and a deliberate reduction in quantities put through the gDT platform. Butter & AMF fell and firmed respectively to get closer to parity on a Fat \$/kg return.
- Reports that NZ milk was down sharply YoY in September (anecdotally -5% to -8% down) The fall was caused by a Cold / Wet start to Spring, which is ironic amid the forecasts for an El Nino caused drought later in the season. Conditions have now improved and expect to see milk bounce back in Oct / Nov but processors will argue the lost production in Sept will not be recovered.
- Tensions between Russia and the "West" remain over the Ukraine and if anything, could be rising with the Russian intervention in the Syrian conflict. One would conclude that the economic and import sanctions between the West & Russia are not going to be resolved anytime soon, which will continue to impact on Dairy exports to Russia (particularly from the E.U.)
- El Nino – a lot of talk and predictions around the effect of El Nino on Oceania and US milk production. Please see attached our report on the El Nino and it's potential impact for your reference.
- To all our friends, Ausfine will be exhibiting at Anuga Oct 10th – 14th. We are located at Hall 10.1 Aisle G No. 61 feel free to call past and say Hello, and if later in the day we can share a well earned German beer.



TASTE THE FUTURE
COLOGNE 10. – 14.10.2015



Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

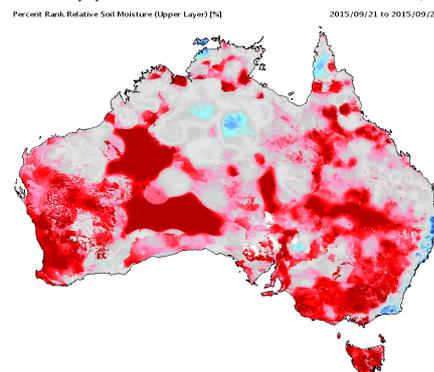
Index jumps again – The Australian dairy export index jumped 5.3% this week, underpinned by a strong commodity market despite a firm A\$. In spot quotes for Australasian exporters, butter and cheddar performed best, up US\$200/t each to US\$3,400/t and US\$3,300/t respectively, followed by SMP and WMP which rose by US\$100/t and US\$50/t to US\$2,200/t and US\$2,700/t. The A\$ closed at US\$0.705, as the index rose by 9 points to 178.9.



AUSTRALIAN INDUSTRY NEWS

BOM: wetter west, drier east

BOM's latest three-month climate outlook projects October to December will likely be wetter than average in southwestern and central Australia, and drier than average in parts of the southeast and northeast. Climate models suggest the El Nino will likely peak towards the end of 2015, weakening in Q1-16. With current warm weather prevailing in the south east, the outlook is alarming - at the end of September soil moisture had already dipped to 10% of average for the month.



TPP signed

After negotiations commenced in 2008, the Trans-Pacific Partnership involving 12 nations and around 40% of world trade has been concluded. For Australian dairy exporters, tariffs to Japan will be cut on a range of cheeses, with new preferential access on an extra A\$100m of trade, and new quota access for butter and skim milk powder. Mozzarella for blending with Japanese cheese will enter duty-free. There is access for 9,000 more tonnes of cheese to US, tariff cuts on milk powders and Swiss cheese; as well as new preferential access into Mexico and Canada. More details will follow in coming months.

Weather highlights

- In Australia, hot, then cool southwesterly winds in Vic, SA, and Tasmania. Dry conditions across the country.
- In NZ, severe gales affecting South Island, showers late in the week.
- In the US, rain to sweep through Midwest, Northeast.
- Dryness persists in Brazil; heavy rains for Argentina.
- Hurricane Joaquin to bring heavy rain and damaging winds to Western Europe.

Drier outlook for NZ

In its monthly rural outlook forecast, MetService projects a drier than usual October is likely for the entire North Island, as well for the north and east of the South Island. Near normal October rainfall is predicted for the west and south of the South Island. Meanwhile NIWA's three-month outlook to December 2015 projects rainfall at near normal or below normal (40-45% chance) ranges in the north and east of the North Island and in the north of the South Island. The rest of the country will receive either normal rainfall or above normal.

Chinese farmgate prices rise

Latest data from China's Agriculture Ministry indicates average farmgate milk price in week 38 was up 0.6% to CNY3.45/l (US\$0.542/l) from the prior week; while a small rise, milk prices have been stuck at CNY3.41/l (US\$0.536/l) since June this year. Meanwhile China's dairy production jumped 9.15% year-on-year to 2.37mt in August, of which milk production amounted to 2.2m t, up 9.2% year-on-year. For the first eight months to August 2015, Chinese dairy product output was up 3.37% year-on-year to 17.9mt.

EU production trends mixed

Data from Ireland factories showed milk intake in August was up 9.6% from July and up 14.2% from August 2014. Cumulative production for the first eight months of the year totalled 4,725m litres of milk, up 9.2% year-on-year. In comparison, FranceAgriMer's data shows for Week 37 (ending 13 Sept 2015), milk collection rose 2.3% from prior week and was up 0.2% year-on-year. In contrast, ZMB reports Germany's seasonal decline in milk supply has begun after a brief interruption with Week 38 deliveries down 0.5% from the prior week.

US exports nosedive, imports grow

US dairy exports continued to fall through August, stymied by the strong greenback as more attractive domestic prices compared to international. YTD (August) exports of cheese and butter were down 15% and 72%, respectively. YTD SMP exports have also declined by 7.8% while whey exports declined 16% relative to the same period in 2014.

Imports continued the rally. Cheese imports increased for the 16th consecutive month in YOY terms and were 26.5% up YTD (nearly 25,000t). In addition, YTD (August) butter imports have nearly doubled as they increased from 6,821t in 2014 to 13,497t this year.

US farm margins improve

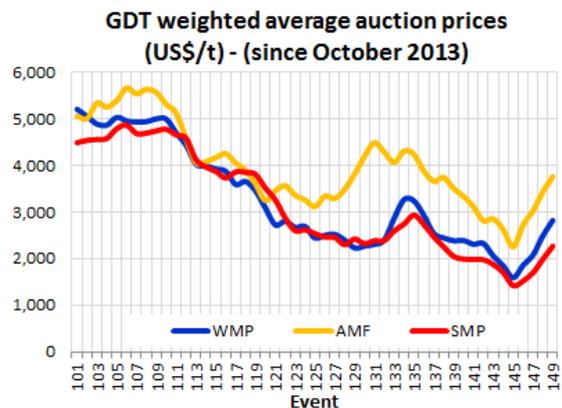
The US average all-milk price averaged US\$36.74c/l in August 2015, up 0.6% from the prior month, though down a significant 31% from August 2014. Through the first eight months of 2015, prices have averaged US\$36.9c/l, down 31% from the US\$53.3c/l recorded in the prior-year comparative.

However a slightly higher milk price, together with lower feed prices thanks to plentiful corn supplies – have helped milk margins in August. Income over feed costs stood at an average of US\$15.14c/l in August, up 4% from a month ago but still 38% down year-on-year.

Another GDT jump

Dairy prices have risen again at this week's GDT auction, with a 9.9% lift in the average price index – the fourth consecutive increase, backed by 180 bidders trading 35,243t of dairy product. WMP posted a gain of 13% to US\$2,824/t, while SMP gained 14% to US\$2,267/t. The highest prices for WMP were for November 2015 (US\$2,925/t), followed by April 2016 (US\$2,880/t).

In comparison, BMP and AMF rose 13% and 9% to US\$1,945/t and US\$3,763/t, while lactose, rennet casein and cheddar increased 5%, 4% and 1% to US\$524/t, US\$6,048/t and US\$3,234/t respectively. In contrast butter fell 2% to US\$3,037/t.



DAIRY FUTURES

NZX futures strengthen – NZX futures continue to rise, with SMP and AMF posting the biggest gains of 7% and 5% respectively this fortnight, followed by CME NDM – though CME butter tumbled 6% for the period.

5 Oct 15	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Oct-15	2,380	2,122	2,875	3,715	3,680	5,578
Nov-15	2,450	2,315	2,980	3,737	3,850	4,883
Dec-15	2,500	2,398	3,000	3,726	4,000	4,243
Jan-16	2,590	2,513	2,955	3,708	3,900	4,057
Feb-16	2,590	2,557	3,140	3,708	4,000	4,078
Mar-16	2,650	2,612	3,105	3,748	4,000	4,068
Change	7%	3%	1%	0%	5%	-6%
Op interest	4,160	3,745	18,762	15,893	640	4,267