

## From the Trading Floor

### KEY MARKET DRIVERS

- NZ Peak down 5% YoY / Aust up slightly
  - gDT down again
  - Pricing down, big buyers look to lock in 12month contracts
  - USA Butter market – Wow
- The poor start to the NZ Dairy season continued into the peak with the absolute peak day 3% behind last year. Consensus is that the season is tracking 4-5% down YoY. Meanwhile Australia has had a good peak despite the dry conditions across many of the dairying regions. Reports are the season to date is tracking 1-2% up on 2014, however the dry conditions are forecast to continue and should put a stop on any large increases to milk supply. We may even see a lower overall output compared to the 2014/15 season
  - gDT was down again last night, once again despite lower volumes offered by Fonterra. Interestingly for us when gDT was firming recently we had many customers returning and demand was quite good. As soon as gDT turned the customers once again became quiet. This suggests that demand remains OK and it is merely the fear of jumping into a falling market that keeps many buyers wary (not just the lack of demand)
  - Many reports show that when prices become historically very low (such as now), many of the large multinationals look to lock in supply contracts for as long as possible (in some cases up to 12months). This creates challenges for suppliers who want to maintain the business but are fearful they are locking into pricing they will regret in 6 months time.....but if they don't sell then others might and they miss the business, it is a challenging call.
  - The price of U.S.A salted 80% butter is currently at US\$6,360/MT (spot CME pricing as at 17th Nov 2015) which represents a premium of US\$3,650/MT over Oceania butter (as represented by Fonterra butter of last gDT – US\$2,709/MT). The rest of the dairy world looks on in awe at the amazingly high price for US butter which has maintained it's lofty heights for over a year and a half. Driven by reduced availability, and insatiable domestic demand for Dairy Fat (as buying trend turns away from saturated veg fat) and a market that is protected from rampant international competition by firm quotas and tariffs. The question is how long can it last.. But it is the same question we have been asking for close to 2 years now.

**Matt Cooper, Director, Ausfine Foods**

## DAIRY FUTURES

16-Nov	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Nov-15	1,920	1,876	2,270	3,673	3,700	5,975
Dec-15	1,895	1,891	2,060	3,611	3,700	4,872
Jan-16	1,880	2,021	2,080	3,620	3,730	4,277
Feb-16	1,960	2,116	2,100	3,633	3,770	4,199
Mar-16	2,040	2,210	2,250	3,662	3,770	4,262
Apr-16	2,300	2,276	2,250	3,693	3,820	4,271
Change	-5%	-3%	-9%	1%	0%	1%
Op interest	5,871	4,331	24,772	15,311	787	3,653

## FUTURES by Scott Briggs - [Sbriggs@ausfine.com](mailto:Sbriggs@ausfine.com)

This week's big fall on gdt was fairly well anticipated by the futures market - both smp and wmp dipped lower on good volumes during the week leading up to the event. What was most interesting was the collapse in premiums on forward prices - as an example, q2 2016 smp was showing a \$300-\$400 premium to the spot market, a premium which has eroded to a little over \$100 by the event. Lower for longer?

## AUSTRALIAN INDUSTRY NEWS

### Fonterra intake up 1% in October

Fonterra Australia's October milk was 15mkgMS - 1% higher than the same month last season. Milk collection across Australia for the four months to 31 October reached 45m kgMS, 2% above the same period last season. Although intake remains ahead of last season, Fonterra noted that the rate of growth continues to slow.

### Business as usual for VDL

The OnCard International chairman Rob Woolley says the new owners would adopt a business as usual approach to the farming operations at Van Diemens Land Company (VDL) - although more farms may be added - and focus on developing value-added propositions for the business. OnCard will morph into TasFoods next month, and take the reins at VDL on February 1, but is reportedly not looking to change its supply contract with Fonterra.tropics.

### IMF shortages not a retail problem

The Managing director of major supermarket chain John Durkan has hit back at statements the well-publicised infant milk formula shortages occurring in stores across the country are a "retail problem". "We need to be looking for long-term solutions to this problem, not short-term point scoring. This is an industry-wide issue that needs an industry-wide solution." Durkan said "We are simply not getting enough formula supplied and we have to service all of our customers." He said some suppliers were not delivering on orders, and instead shipping directly to overseas customers.

## Weather highlights

- In Australia, a high over eastern states is keeping weather stable.
- In NZ, a front is expected to move across the South Island on Friday, with a burst of heavy rain likely in the west of the South Island.
- In the US, storms to hit north west states this week.
- Chance of showers across central Brazil, mild temperatures and heavier rains in the south.
- The coldest air since February is building over Germany, while strong winds to lash the UK.

## Fonterra NZ intake down 4% in Oct

Fonterra's NZ milk intake fell 4% in October compared to the same month in 2014. For the season to 31 October intake was 5% behind at 528m kgMS. North Island milk collection for the month reached 138m kgMS, 6% lower than October 2014, while South Island intake was 85m kgMS, 1% lower than October last season. In its Global Update Fonterra reported milk collection peaked at a seasonal high of 87m litres on 22 October, down 3% on last year's peak.

## Argentina in dairy doldrums

Argentinian milk deliveries declined for the third consecutive month in YOY terms in September, down 0.7%. Year to date output was 7,172m litres, 1.5% lower than the same period last year, and 4.9% lower than the 2013 comparative.

Preliminary September intel puts farmgate prices at US\$0.28/l, a 15% decline on the same month in 2014. September was the third month in a row for which farmgate prices were lower than the prior-year comparative, and the fifth consecutive month-on-month decline after prices reached a multi-year high of US\$0.34/l in April.

## CME cheese and NFDM down

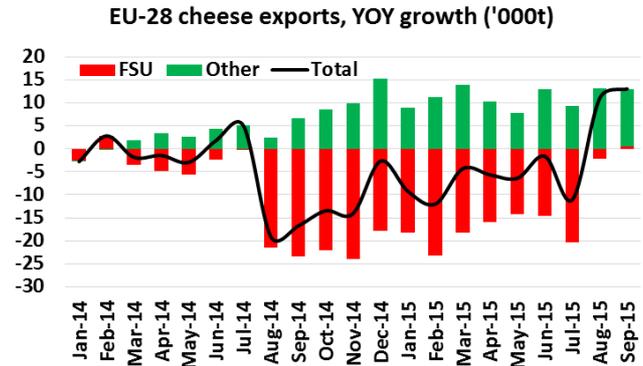
CME butter prices were unchanged at US\$6,359/t last week, holding to a late autumn rally while holiday season buying continues, but the interest in the US is when prices will fall to reflect the global realities, despite tariff protections. Cheese blocks weakened almost 5% last week to close to the bottom of their 2015 trading range, while NFDM powder prices fell 1% to be US\$1,763/t.

Leading US dairy analysts Matt Gould and Jerry Dryer expect prices will rally again before the year's end, with a soft period of the Holiday-demand season to run. However prices are expected to have more downside through Q1 16, once the high-demand period passes.

## EU exports return to growth

For the first nine months of 2015, EU-28 cheese exports declined 5% relative to the same period last year. Despite losing the Russian market, shipments to all regions except the FSU increased, led by Asia and Nth America. Cheese

exports to the Middle East and Nth Africa also increased YOY, by 13,600t and 11,710t, respectively.



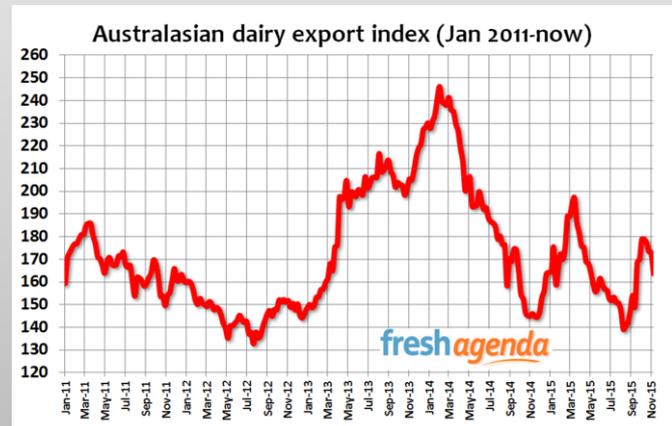
## GDT prices dive

The GDT price index dived 7.9% last night, despite the smallest product offering since the mid-June event. Both major powder products fell heavily, WMP down 11% to US\$2,148/t while SMP prices averaged US\$1,851/t, 8.1% lower than at the previous auction. AMF lost 5.9% to average US\$3,430/t, with the contract period 2 (January delivery) hardest hit.

Butter bucked the trend, up 5.6% to average US\$2,709/t. Contract prices for delivery in March and April next year were even stronger, up over 8%.

## DAIRY EXPORT INDEX

**Index slightly weaker** – The Australian dairy export index weakened slightly this week, losing 1.2% as a result of a stronger \$A. Spot quotes from regional exporters were unchanged at US\$2,700/t for butter, US\$2,000/t for SMP, US\$2,500/t for WMP and US\$3,150 for cheddar. The A\$ closed almost 1c stronger at US\$0.7129, trimming the index by 2 points to 161.9.



[www.ausfine.com.au](http://www.ausfine.com.au)

Ausfine Foods International Pty Ltd ■ ABN 12 006 926 129

T +61 3 9583 3588 ■ F +61 3 9583 4344 ■ E sales@ausfine.com.au

Suite 10, Level 4, 205 – 211 Forster Road, Mount Waverley VIC 3149 Melbourne, Australia