

From the Trading Floor

KEY MARKET DRIVERS

- What is the new norm with un-capped E.U.?
- Reality check with USDEC predictions
- gDT saw some stabilisation (slight firming) in WMP
- Cheese expected to remain under pricing pressure

- A lot of the industry forecasts are based on recent historical factors, e.g. NZ milk fluctuations / When will China return, but there is a huge new factor at play in un-capped E.U. Milk. Until we see the impact of E.U. milk over a period of time, forecasts will be of little value. The Europeans are pushing into export markets they previously have not touched in a bid to move their excess production (exacerbated by Russian bans). So until such time that we have some data on the E.U. Impact, the volatile times are here to stay and forecasting with some accuracy is going to be tough to say the least.
- December 2 saw USDEC host a webinar that attempted to make sense of the world wide milk production overlaid with underlying demand and came out with the conclusion that the tough times (low prices / volatility) may be here to stay until 2017. www.usdec.org
- gDT on Tues night saw an end to the recent falls in WMP pricing, as predicted in recent NZX Futures trading. An upward curve also re-emerged for future months. Sentiment is a wonderful thing and despite current fundamentals pointing to a longer than hoped for down market, an un-expected return of buyer activity can quickly turn the markets around and buyers left un-covered need to cover quickly further exacerbating the upward move.
- With powders performing poorly a lot of milk is finding its way back into Cheese Vats all over the world. Cheese plants are at capacity in Oceania through the peak and expected to remain so going forward for the foreseeable future as milk diverts away from big spray dryers where possible. The flip side to this equation is a potential for moderating pressure on powder pricing.

FROM PHILIPPINES

Demand and consumption for dairy commodity is on an upswing due to the holiday season. Manufacturers are ramping up inventory of goods as they prepare for December. This is when most sales are at their peak. Manufacturers are taking advantage of over flowing local raw material supply at very low prices. Traders are taking advantage of the high demand to unload inventory.

Matt Cooper, Director, Ausfine Foods

FUTURES by Scott.Briggs - Sbriggs@ausfine.com

It was a very quiet 2 weeks between GDTs on the NZX futures, as conviction seemed fairly light on WMP – something which was mirrored in the fairly lacklustre GDT result. WMP continues to price a return in demand for Q1/2 next yr at around \$2400/\$2550 respectively, while SMP is at around \$2100 all the way out to mid 2016. US cheese futures have finally begun pricing a lack of competitiveness on export pricing as the H1 2016 strip has moved down \$200-250/t over November.

DAIRY FUTURES

| 30-Nov | SMP | NDM | WMP | Cheese | AMF | Butter |
|-------------|-------|-------|--------|--------|-------|--------|
| Exchange | NZX | CME | NZX | CME | NZX | CME |
| Dec-15 | 1,900 | 1,753 | 2,250 | 3,508 | 3,450 | 5,578 |
| Jan-16 | 1,920 | 1,896 | 2,320 | 3,488 | 3,575 | 4,454 |
| Feb-16 | 2,000 | 2,022 | 2,400 | 3,560 | 3,625 | 4,234 |
| Mar-16 | 2,040 | 2,118 | 2,450 | 3,638 | 3,725 | 4,254 |
| Apr-16 | 2,170 | 2,232 | 2,570 | 3,668 | 3,800 | 4,233 |
| May-16 | 2,200 | 2,304 | 2,580 | 3,713 | 3,870 | 4,249 |
| Change | 1% | -1% | 3% | -1% | -1% | -1% |
| Op interest | 5,107 | 4,420 | 25,843 | 15,199 | 627 | 2,879 |

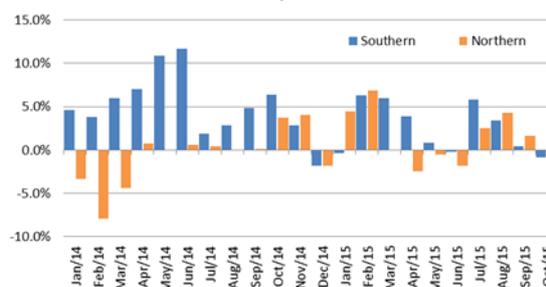
AUSTRALIAN INDUSTRY NEWS

October production down 0.4%

Australian milk production was down 0.4% in October, bringing season to date output back to 2% ahead of the same period in 2014/15.

Victoria went further into reverse, down 1.8% for the month, the decline led by northern Victoria which was down 3% in October, while Gippsland and Western Victoria also fell behind - down 1.5% and 0.9% respectively compared to the same month in 2014. Overall, intakes in the southern region dipped into negative for the first time this season.

Changes in southern vs northern milk output since January 2014



Fonterra and Bellamy's team up

The spate of infant formula announcements continues. Fonterra Australia and Bellamy's Australia have announced a five year multi-million dollar strategic agreement to produce a new range of baby nutritional powders. Both companies hope to strengthen their presence in Australia and abroad.

Fonterra and Bellamy's will work to finalise the proposed arrangements by the end of the year, with the agreement commencing in 2016.

Weather highlights

- In Australia, troughs are generating isolated showers and thunderstorms across the northeast, widespread heat across the east.
- In NZ, rain and showers, the South Island experiencing heavy rain in its west.
- In the US, mild weather with clouds and rain in the northeast, the upper midwest experiencing snowstorms and the pacific northwest a series of storms.
- Dryness in Brazil with thunderstorms to follow; Argentina hit by thunderstorms and heavy rain, then dryness.
- Light drizzle spreading from central Europe to the north; heavy rainfalls in parts of Scotland.

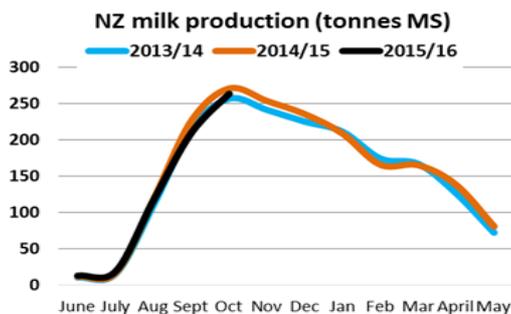
Milk production down 2.7% in October

Dairy Companies Association of New Zealand (DCANZ) data indicates NZ milk production fell 2.7% in October YOY – down to 263.4t of milksolids compared to last year's 270.8t of milk solids. For the season to date (June to October), output is 3.3% down on the prior year comparative.

Dry weather associated with El Niño is affecting pasture growth conditions in key dairy regions such as Waikato and Canterbury. This, together with low farmgate prices is likely to keep NZ output behind the previous season's.

SMP assistance revived in the EU

After a pause, sales of SMP into the EU intervention program restarted last week, sparking renewed belief that a gradual building of stocks will continue in light of the ongoing growth in output and weaker export market demand. Sales into the intervention program now total



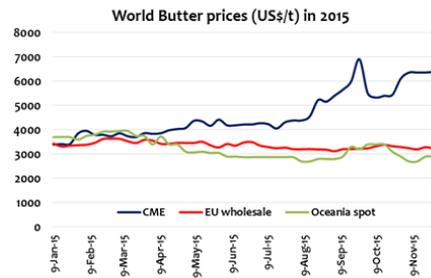
close to 25,500t, while a much higher 59,000t sits in the two

private storage assistance programs, most of which will take advantage of the shorter seven month storage period.

US butter prices in silly territory

US wholesale butter prices (as quoted based on CME trades) continue to defy gravity, as the comparison between the wholesale trade in Europe and in spot prices from Oceania highlights. While US production has been trimmed by the lower skim milk powder output in 2015, higher imports and slowing demand have ensured butter stocks are now building and according to government reporting are at their second highest point for the past 6 years, 20% higher than the same time last year – a critical time in the lead-up to Christmas.

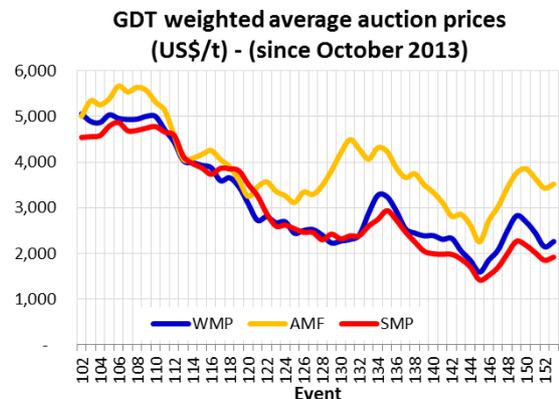
With silly season buying almost out of the system, a crash in prices is inevitable – but local analysts have been saying this for weeks. The fall will surely come soon.



GDT Stabilizes

The GDT price index rose 3.6% this week, following 3 consecutive dips. The increase was signalled by WMP gains on the NZX futures market during the past few weeks with positive market sentiment now being reflected at the GDT auction. Both WMP and SMP indices saw increases: 5.3% and 3.2%, respectively. However digging deeper we see that the gap between AU SMP prices and NZ prices widened further with AU prices actually dropping. Also all EU SMP failed to clear showing either a result of N.P or N.S indicating that minimum prices were not reached.

The average WMP price increased to US\$2,260/t while average SMP price rose to US\$1,918/t. The AMF index was also up, 2.3%, to average US\$3,519/t butter index jumped 5.7% The average cheddar price declined for the 4th



consecutive time to an average of US\$2,829/t.