

From the Trading Floor

KEY MARKET DRIVERS

- gDT Disappoints again
- China demand remains healthy
- USA Cheese storage at record levels
- E.U. / USA enters peak

- There was some optimism around last night's gDT that WMP in particular would strengthen on the back of smaller volumes on the auction platform and returning demand from some larger Chinese buyers. The optimism didn't extend to other products on offer with larger volumes of SMP / Butter made available for the event. WMP underwhelmed with a relatively flat performance compared to the previous event and a very poor result for the other products. EU SMP again failed to move, butter (-2.8%) & AMF (-6.5%) were down quite hard and of particular note was the "N.P." Results for cheddar. N.P. Indicates that the product was sold at opening price (gDT pricing starts -15% from previous close), which would indicate a larger fall than the published -5.6%.
- In regards to WMP, Chinese demand for 2011 & 2012 sat at approx. 350K MT, then we had the crazy years of 2013 & 2014 which both spiked at 650K MT. We all heard the stories of mountains of inventories overhanging the markets and played a major part in the current Dairy market malaise, yet imports to 2015 were historically high (compared to 2011/12) at just over 400K MT, and 2016 has also started strongly. So when will "China demand come back?", the answer is probably that Chinese demand has never really gone away, we just need to readjust our expectations of what is normal Chinese demand.
- On the back of month-on-month declines of cheese exports, USA inventories (cheese all types) currently sit at 30 year highs. As of January total cheese inventories sit at approx. 530K MT compared to approx. 470K MT at the same time last year, and that is at the beginning of the new season and inventories are at their seasonal lows. This combined with record imports (primarily from Europe and NZ) is putting big pressure on US cheese pricing. To re-engage export markets US cheese pricing would have to fall dramatically, our estimate is around the US\$1.10/lb level, however it is likely that continued falls would stimulate domestic demand and the need to get to world pricing may not be required.
- A very mild winter in both USA (particularly mid-west) and Europe has meant the seasonal peak is upon us and the Tsunami of milk needs to be dealt with. There are no signs yet that low farm gate milk pricing is effecting milk supply. We will need to wait until May / June / July to see any potential reduction caused by low milk prices or extreme weather events (Hot / dry conditions).

Matt Cooper, Director, Ausfine Foods

FUTURES by Scott.Briggs - Sbriggs@ausfine.com

More and more the media outlets are showing pre-GDT headlines of "Futures predict GDT rise of x%" - followed by headlines of "Futures predictions for GDT wrong by x%"! The reality is that futures will, at least in the early development of the market, always miss on their predictions by some margin. This is for 2 reasons - first, we are at such low price levels right now that a \$20 gap between futures and GDT is a 1% miss, even though \$20 is really pretty small. Second, because there are a lot of people participating in GDT that aren't in the futures - we simply don't see the closure of gaps between cash and futures prices that is seen in other markets. That is where the opportunity is for using futures! Call us to find out more.

DAIRY FUTURES

14-Mar	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Mar-16	1,780	1,695	2,000	3,344	3,250	4,421
Apr-16	1,800	1,745	2,110	3,283	3,200	4,393
May-16	1,820	1,793	2,175	3,252	3,275	4,436
Jun-16	1,825	1,824	2,190	3,254	3,375	4,470
Jul-16	1,830	1,885	2,280	3,347	3,350	4,512
Aug-16	1,850	1,939	2,350	3,435	3,400	4,564
Change	-3%	0%	-1%	-1%	0%	-3%
Op interest	2,121	5,302	15,647	21,278	288	4,725

AUSTRALIAN INDUSTRY NEWS

MG announces supply deals

Murray Goulburn has secured a long-term nutritionals supply agreement with Indonesia's leading consumer health and infant nutrition company, Kalbe Nutritionals (KALBE). MG has also announced a framework agreement to establish a strategic supply alliance with leading global paediatric nutrition company Mead Johnson Nutrition (MJN). Both announcements support MG's aim to secure offtake agreements in support of its \$260 to \$300m nutritionals manufacturing investment in Koroit.

El Niño breakdown continues

According to the Bureau of Meteorology, the 2015/16 El Niño is continuing its slow and steady decline. The tropical Pacific Ocean has cooled further over the past fortnight, and trade winds are near normal. However the Southern Oscillation Index (SOI) remains very low, indicating that while El Niño is easing, it is still capable of influencing Australian and global climate. For winter and spring, climate models favour ENSO neutral slightly ahead of a La Niña - the opposite of El Niño. However, accuracy of forecasts made at this time of year are lower than those at other times, and therefore some caution should be exercised.

Weather highlights

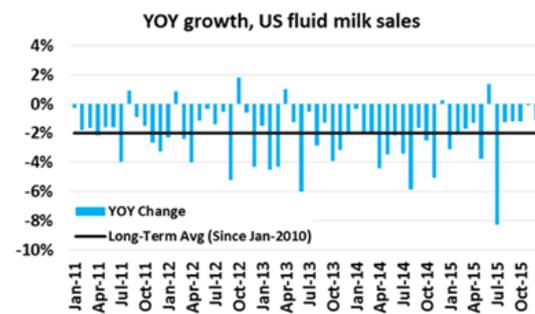
- In Australia, cooler southerly winds bring showers along the NSW coast, rain across Victoria.
- In NZ, heavy rain falls in the north the North Island turning to drizzle by the end of the week, with rain moving to the South Island's south and west.
- In the US, dryness across California, while colder air from Canada sees a potential storm with wet snowfall across the Midwest and eastern states.
- Thunderstorms in central Brazil are replaced by drier weather later this week, wetter conditions in the south of Brazil. Wetter and cooler weather in Argentina.
- Warmer across central Europe, rain spreading early next week in the Netherlands and Germany.

Falling NZ\$ to boost farm gate payout

The NZ\$'s drop in value against the US dollar, following the New Zealand Reserve Bank's move to cut benchmark interest rates by 25 basis points to 2.25%, has boosted ASB Bank's expectation for Fonterra's farmgate payout next season. In response, ASB Bank has lifted its forecast for Fonterra's farmgate price to NZ\$6kgMS next season from the current NZ\$3.90kgMS. ASB predicts the Reserve Bank will slash benchmark interest rates later in the year and the benefits will flow through to farmgate returns.

US fluid sales down 3.1%

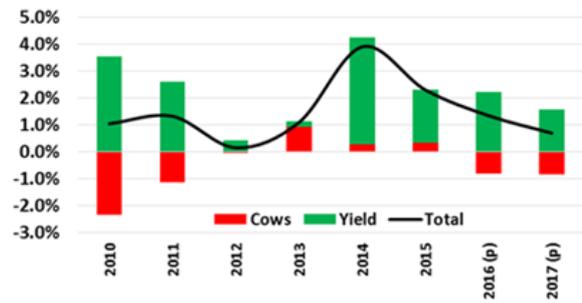
January fluid milk sales were 3.1% down from the same month in 2015. This represents a larger dip relative to the long-term average (since Jan-2010) decline of 2%, and the 1.3% average fall for the 6-months to January 2016. The shift in the composition of sales continued to favour whole milk at the expense of low-fat products. Whole milk sales were up 2.3%, fat-free milk sales down 12.8%, while 1% and 2% fat milk sales were down 6.2% and 4.4% respectively. Organic milk sales, rose 4% YOY in January.



EC projects more milk

The European Commission's Winter 2016 Short-Term update projects a rise in milk output of 1.4% YOY for 2016 and 0.7% for 2017. This will result in total milk production of 165.7mt in 2016 and 166.9mt in 2017. The projected increases come despite a 0.8% YOY decline in cow numbers in 2016 and again in 2017 with increases driven by cow yields – projected to rise 2.2% in 2016 and 1.6% in 2017.

YOY growth in EU-28 milk output by component

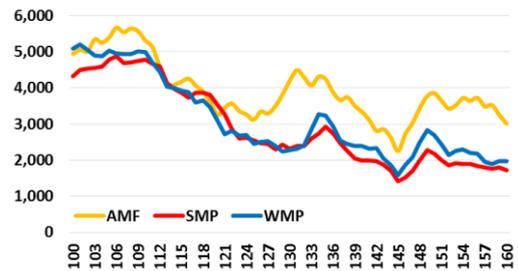


Weakening prices back at GDT

The GDT price index dropped 2.9% at this week's auction, back to the weakening price trend of all this year's auctions prior to the last one. A total of 20,406t was offered at the event, under the 12-month average of 28,726t.

The major commodity values all declined with AMF prices dropping 7.4% (to US\$3,014/t), while SMP and cheddar prices shed 3.9% (to US\$1,731/t) and 3.4% (to US\$2,441/t), respectively. Butter fell 2.8% (to US\$2,733/t), while WMP shed 0.2% (to US\$1,971/t), with a 3% improvement in contract period 6 price. Rennet casein prices continued to be volatile, down 10.6% (to US\$4,083/t), after jumping 18.6% at the last auction. BMP and lactose were up 6.4% (to US\$1,545/t) and 1.9% (to US\$624), respectively.

GDT weighted average auction prices by event, US\$/t



Index down on the dollar – The Australian dairy export index was down this week as the \$A climbed higher, breaching US\$0.75. Commodity prices were unchanged at US\$2,800/t for butter, US\$2,000/t for WMP, SMP at US\$1,800/t and cheese at US\$2,600/t.

Australasian dairy export index (Jan 2011-now)

