

## From the Trading Floor

### KEY MARKET DRIVERS

- Will E.U. Extend intervention for SMP / Butter?
- ONIL Algerian tender largely secured by NZ supply
- Very mild winter for Mid-West USA – Dry summer on the way?
- MG maintains milk price for current season at AUD5.60/kg

- The question on many people's lips is whether the E.U. Commissions will extend the intervention program for SMP beyond the current limit of 109,000/MT. Consensus seems to be that it is a formality for that to occur due to pressure E.U. Farmers are feeling on falling milk prices, however the next question is whether the price of €1689/MT FIS will be reduced or maintained, that remains an unknown but if reduced it will have an immediate effect on what the industry would consider as a bottom for SMP. Aside from this there is also anecdotal reports that E.U. Butter is now looking at intervention as prices of E.U. Fats continue to decline as we enter the peak season for milk production.
- We have reports that 100% of the recent Algerian ONIL WMP tender for Q2 delivery was secured by NZ supply. The challenge from there will be meeting the required chemical specification, additional testing, labelling and age requirements for a large quantity in such a small space of time. With reports of smaller WMP inventory in NZ than many people think this could tighten up immediate supply of fresh production WMP in the short term, which could explain recent firming in WMP on gDT.
- Our US friends in the Mid-West are reporting a very mild winter with temperatures consistently registering above zero degrees C and minimal snow falls. This is a welcome relief from recent years characterised by Polar Vortexes, but some amateur weather forecasters are drawing parallels to 2012 and expecting a long, hot and dry summer, all conditions not exactly loved by Dairy Cows.
- Reports Murray Goulburn, Australia's largest Dairy co. have maintained their forecast for 2015/16 milk price at AUD5.60/kg. Despite many Australian farmers feeling the pinch at these levels there are many NZ farmers who would love this pay out when converted into NZD. This decision keeps pressure on the other Australian processors who effectively need to match, or get close to MG milk pricing to maintain adequate milk supply, at a time when this pricing is not justified by current world dairy prices.

Matt Cooper, Director, Ausfine Foods

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

NZX futures have again done a good job of predicting the GDT outcome, with the March WMP future trading \$1950 the day before the auction, bang in line with the actual result. The curve has maintained quite a nice carry into Q2 and Q3, with the market anticipating a tightening of stocks as we move out of the NZ peak. CME cheese prices have been the other big mover the last few weeks, dropping sharply as burdensome stock levels have finally come to be reflected in prices.

### DAIRY FUTURES

29-Feb	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Mar-16	1,770	1,774	1,950	3,329	3,375	4,420
Apr-16	1,700	1,813	2,040	3,285	3,325	4,475
May-16	1,720	1,841	2,100	3,303	3,325	4,476
Jun-16	1,750	1,888	2,190	3,371	3,470	4,495
Jul-16	1,865	1,946	2,270	3,422	3,350	4,542
Aug-16	1,800	2,019	2,300	3,519	3,400	4,636
Change	2%	2%	4%	-2%	1%	-3%
Op interest	2,043	5,234	11,073	19,839	278	4,361

## AUSTRALIAN INDUSTRY NEWS

### MG and Bega's strong first half

Murray Goulburn's first half profits for the 2015/16 financial year were generally in line with the prior year – EBITDA was down 1.6% to \$54m, but profit before tax rose 15% with lower finance costs. Last week, Bega Cheese announced a 10% increase in its half yearly profits to \$14.8m despite global dairy prices plummeting. The company built on its partnership with Blackmore, growing its nutritional platform by 32%.

Bega vs MG Unit Trust share price movements



### BoM forecasts wetter autumn

In its latest seasonal outlook the Bureau of Meteorology is forecasting a wetter than average March to May period for south eastern Australia. The BoM says the key climate influences include a very warm Indian Ocean, a weakening El Niño and warm sea surface temperatures surrounding much of Australia.

## Weather highlights

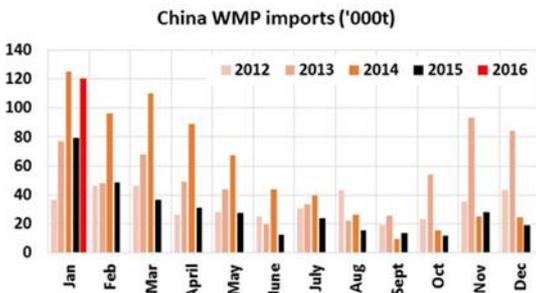
- In Australia, dry and warm conditions in Victoria, with possible light showers across central NSW.
- In NZ, showers and some heavy rain in the northern parts of the North Island, rain and showers in the west of the South Island.
- In the US, a storm will bring much needed rain to California, while storms are expected to bring showers across the Midwest.
- In central Brazil, drought is set to ease during March with thunderstorms and showers across the south. Floods still affecting northern Argentina.
- Rain across central Europe, showers in the Netherlands, Western parts of Germany and France.

## 2016/17 ANZ forecast: NZ\$5 payout

ANZ has lowered its forecast payout for the 2016/17 season to NZ\$5/kgMS, and adjusted this season's forecast payout to NZ\$3.90/kgMS. Chief economist Cameron Bagrie said NZ\$5 was "on the high side" and that structural shifts across dairy markets internationally will bring dairy payouts lower than previously over the next 5 to 6 years. DairyNZ's latest break even forecast is NZ\$5.40/kgMS.

## Chinese milk powder imports rise

In a positive sign for global dairy markets, China's January WMP imports totaled 120,561t, a 52% YOY increase - the second highest of all-time. SMP imports also rose in YOY terms, 43% to 33,486t, while whey powder imports increased 54% YOY to 43,808t for the month.



## US cheese, butter stocks still plentiful

The January USDA Cold Storage report indicates butter stocks rose to 88,956t for the month, a 32% rise from December, and 24% above the 5-year average for January. American and other-than-American cheese stocks rose 13% and 12% in January from the prior month, to 324,996t and 209,513t respectively. American cheese stocks are now 12% greater than the 5-year average with other-than-American cheese stocks 17% higher.

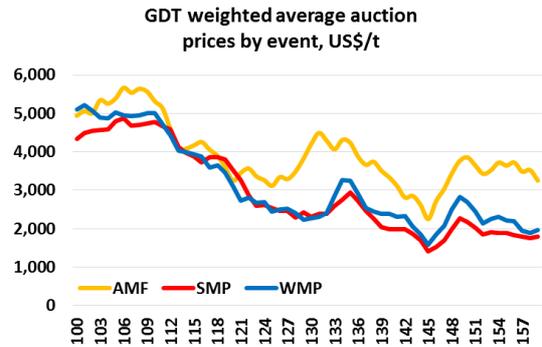
## EU SMP, butter, cheese output up

EU-28' milk collections increased 2.5% in 2015 compared to the previous year. While drinking milk output fell 2.1% over the same period, production of SMP, butter and cheese increased by 112,760t, 93,654t and 124,351t respectively.

Output of whole and partly skimmed milk powder declined however, down 3.5% or 23,947t.

## Argentinian exports up in Dec

Argentinian WMP exports increased 85% YOY in December 2015, representing an 8,476t rise. The increase masks a second consecutive monthly decline in shipments to South America (881) which reflects the overall grim economic situation in Venezuela, while exports to Northern Africa and all other destinations rose by 7,374t and 1,983t respectively.



## GDT on the rise

The GDT price index rose 1.4% at this week's auction, for the first time in 2016. The modest rise follows four consecutive auctions with weakening prices. A total of 21,880t was offered at the event, again under the 12-month average of 28,639t.

Commodities were a mixed bag with AMF declining 7.7% (to US\$3,254/t), while butter and cheddar prices shed 0.8% (to US\$2,811/t) and 0.3% (to US\$2,528/t), respectively. WMP and SMP prices rose 4.5% (to US\$1,974/t) and 2.3% (to US\$1,802/t), respectively. Rennet casein prices jumped 18.6% (to US\$4,569/t), from having plunged 11.7% at the last auction.

