

From the Trading Floor

KEY MARKET DRIVERS

- AUSFINE AT FHA SINGAPORE – COME BY AND VISIT
- NZ cow cull down
- EU SMP Intervention goes to Tender process – what happens now?
- USA Cheese production continues to grow in Feb

- Ausfine will have representatives from its Australian office (Matt, Dave, Nick) / Philippine Office (Alfred, Camilla) / Indonesian Office (Mei) and China Office (Steven Liu Jun) at our booth at FHA Singapore next week. Our booth is located at Hall 8, 8C2-14. If you are at the show please call past and say g'day.

12 - 15 April 2016
Tuesday - Friday
Singapore Expo



- I warned our meat guys last year to be wary of the coming flood of NZ beef on the back of the prediction that farmers would be selling a higher percentage of their herds to the abattoirs to take advantage of the relatively higher return in meat than in the milk cheque for the 2014/15 season. No one could accuse me of being Nostradamus, NZ cow cull is DOWN 12% YoY!! Needless to say our meat guys are no longer listening to the Dairy guys. Fair to say it is a surprising result but we look with interest as to whether that downward trend continues if there is no rebound in NZ milk pricing.
- On the back of huge selling into EU SMP intervention (reported 50,000MT in the last 4 weeks), the program has now exhausted its cap of 109,000MT. The E.U. Commission has agreed to extend the program for another 109,000MT, however that may not be ratified for another 6-8 weeks (due to bureaucratic process). In the interim the plan will continue but on a Tender basis. There is some confusion in exactly how that process will work and what is the likely pricing level product will go in at. Murphy's law dictates that this process comes into play just as the peak EU production hits.
- Total USA Cheese production grew 4% YoY in February (adjusted for leap year). Interestingly there was a big move away from cheddar production (-2.7%) as processors avoided (where possible) putting more cheddar into a market already well stocked with that cheese type. Mozz production was up 6.2% (YoY) and "Other American Cheese" up an impressive 12%. It is anticipated more milk will continue to find its way into Vats as the class III milk remains more attractive than the SMP (NFDM) / Butter alternative.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Lowest index in years – The Australian dairy export index went down this week as the A\$ gained over 1 cent against the US\$ and commodity prices remained stable – taking the index to its lowest point since Sept 2009. Butter and SMP were unchanged at US\$2,800/t and US\$1,800/t, respectively. Cheddar and WMP both lost US\$50 to US\$2,550/t and US\$1,950/t, respectively. The A\$ rose to **US\$0.7668**, slicing **4.5 points** of the index, which stands at **127.5**.

Australasian dairy export index (Jan 2011-now)



AUSTRALIAN INDUSTRY NEWS

Western Vic milk plunges

A 1.5% dip in total Australian milk production was reported for February, while YTD production was 0.7% behind 2014/15. Adjusted for the additional leap-year day in the month, the fall was 4.9% over the same period last year.

Victoria as a state, was down 6.6% on an adjusted basis, with Western Vic was down a massive 12% on the prior year, which took that region into a small year-to-date decline for the first time this season. Each of the other Victorian regions were down 4% in the month, Tasmania lost 1%, while fresh milk states Qld and NSW each shed close to 5%.

Hype for CDI capital-raising builds

The Financial Review reports broker PAC Partners is seeking \$150m by the end of April in a pre-initial public offering for Camperdown Dairy International (CDI). The report estimates the listing would bring the value of CDI to \$300m-\$400m, about 6 to 8 times its forecast annual EBITDA of \$50m in the 2017 financial year.

Meanwhile, *the Financial Review* also reported that Australian food businesses parented by China's state-owned Bright Foods, with a combined \$620 million in revenue, are likely to be grouped and listed on the Hong Kong Stock Exchange in the next 18 to 24 months. Bright Food's local brands include the Manassen Foods, Margaret River Dairy Company, cheese and yoghurt maker Mundella and gourmet food producer Simon Johnson.

Weather highlights

- In Australia, low pressure troughs and cold fronts producing rain in the southwest and western VIC.
- In NZ, cooler weather spreading across the country, with rain spreading in the South Island at the end of the week. Occasional rain and showers in the North Island.
- In the US, chance of rain in California next week, a possible snow storm in the Midwest and cooler than usual across the north east.
- Hot and dry across Brazil with a chance of thunderstorms early next week. Risk of floods in La Paz and Santa Fe in Argentina with repeated downpours, causing more significant flooding problems.
- Rain spreading across Europe through Germany, France and the Netherlands.

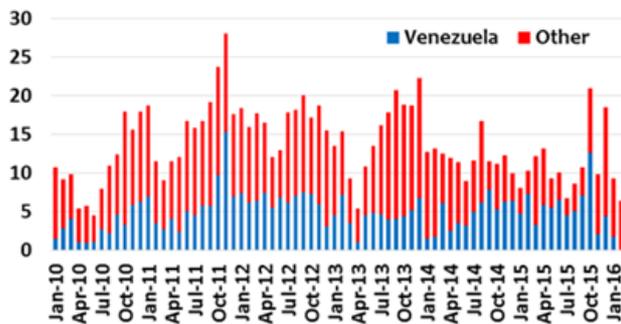
Slower grass growth in Ireland

Low temperatures have slowed grass growth in Ireland in early April from its usual 25-30kg dry matter per ha to roughly half that rate. The temperatures are averaging 20C lower than the usual average of 70C – and the slow-growing grass is driving up on-farm costs as farmers have to supplement their herd's diet with silage and meal to try and maintain milk solids. The developments are important to watch – the Irish were the second biggest contributor to milk growth in the EU in the second half of last year (behind the Dutch) due to freakish pasture growth.

Argentina's WMP exports slowing

February 2016 data shows Argentina's shipments of WMP declined 38% relative to the same month last year to 6,361t. Exports to Venezuela have weakened significantly lately, with Argentina not shipping any volume in February. YTD (Jul-15 to Feb-16) WMP exports are down 1% to 90,926t, with shipments to Venezuela down 23% and exports to all other countries up 26%.

Argentina WMP exports ('000t)



NZX futures product for farmers

The NZX has received for mal approval from the Financial Markets Authority and the NZ Reserve Bank for new milk price futures and options contracts. Buyers and sellers will settle by exchanging cash, calculated by reference to Fonterra's announced Farmgate Milk Price. The new contracts are expected to launch next month.

EU intervention picks up

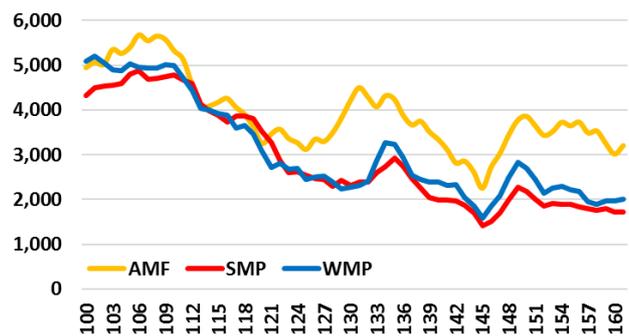
Volumes of SMP sold into public intervention picked up in the EU during the past 2 weeks for which complete data is available. In the week to March 27, a total of 12,975t was sold into public intervention. Tonnages have reached the regulated limit, subject to the approval of the increase agreed to by EU member states early in the month. Until that regulation is formally endorsed, sales will be made by tender.

GDT prices strengthen

The GDT price index jumped 2.1% at this week's auction, just the second increase for 2016, on a 26,682t offering, still under the 12-month average of 29,9245t.

The WMP price index increased by 1.5% to average US\$2,013/t, with earlier contract periods recording the healthiest improvements. The SMP index increased just 0.1% as more product pours into EU intervention, averaging US\$1,721/t. AMF rose 6.7% to US\$3,203/t, while butter fell 2.0% 2,702/t. While not a major GDT commodity, cheddar prices improved most, up 10.5% to US\$2,778/t. Rennet casein and lactose prices improved by 11.8% and 6.2% respectively, however BMP prices fell 8.2%.

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



DAIRY FUTURES

Powders on the weak side, fats more positive – Powders were lower to stable this week, while cheese and butter futures edged ahead and AMF was stable.

	4-Apr	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange		NZX	CME	NZX	CME	NZX	CME
Apr-16		1,720	1,644	1,910	3,364	3,100	4,365
May-16		1,745	1,682	2,005	3,395	3,000	4,4701
Jun-16		1,745	1,748	2,020	3,400	3,120	4,521
Jul-16		1,780	1,787	2,080	3,461	3,350	4,564
Aug-16		1,850	1,843	2,240	3,536	3,400	4,603
Sep-16		1,860	1,886	2,180	3,576	3,450	4,630
Change		0%	-2%	-2%	2%	0%	2%
Op interest		2,523	4,542	15,548	21,154	368	4,661