

## From the Trading Floor

### KEY MARKET DRIVERS

- Retraction from last DP edition
- Lactose firming?
- China regulations "subject to change"
- Extreme weather continues to hit
- Co-op model skews correction to supply

- For the Eagle eyed out there you will note this section is sub-headed by "Key Market Drivers", in a bit of self-promotion in the last edition we mentioned that we would be exhibiting at FHA here, however it was quickly pointed out that Ausfine exhibiting at FHA was hardly a market driver!! We argued the point but we lost, so this is an official retraction of that point.....it was a good show though, thanks to everyone that called past :)
- One of the few product categories we are seeing some recent strength in is Lactose. Whilst it was one of the hardest categories hit last year, with exceptionally low prices resulting from very heavy inventories and new supply coming on line, we have seen renewed demand come in from various sectors recently (particularly the infant sector) which has resulted in week-on-week firming in pricing. Last night, GDT printed an 8% increase. Despite this we can safely say that pricing has not got into crazy territory as yet with current levels remaining in the lower range of historical pricing.
- Last week saw another example of the fickle nature of Chinese import regulations. MG and others were victims of an overnight decision to temporarily suspend imports of the 1kg milk powder and UHT via the online "Grey Trade". This was particularly concerning for those who had come to rely on this avenue to the Chinese market which was still showing healthy returns compared to other avenues. Another example of how rules can change quickly and un-predictably in China.
- Reports this week of floods in Texas, USA, while California returns to dry conditions. I spoke to a supplier this week who was in the central Californian valley and it was 35 degrees Celsius...in April!! We too here in Melbourne are experiencing extremely warm conditions for April as the tail-end of El Nino is still impacting on us. Meteorological desks around the world are reporting more records broken with Q1 2016 being the hottest on record, on top of this there is a 50% chance of the El Nino becoming an La Nina later this year...just to add to the weather extremes.
- The co-operative corporate model once dominated the dairy industry across the world, things have changed somewhat but the co-ops still have a huge bearing on the way our industry operates. The co-op mandate is to maximise returns to its members (farmers) and will bear as much pain as possible via lower margins/losses as long as possible, whereas private companies would make decisions to reduce milk prices long before (& thereby reduce milk supply). Such is the structure though the private companies need to match the co-op pricing to ensure milk supply. Therefore the laws of supply and demand can take longer to play out in Dairy World than would otherwise be the case in other industries.

### AUSFINE NEWS

- We welcome a new employee to the Ausfine Melbourne office – Mr Trevor Li Donni who will be focusing on our Australian domestic business. If you have any inquiries in the space do not hesitate to contact Trev – [trev@ausfine.com](mailto:trev@ausfine.com)
- Ausfine is going to have Chris, Matt and Scott in Chicago next week for ADPi. If you are there also please reach out to one of our guys to arrange a catch-up.

### FUTURES

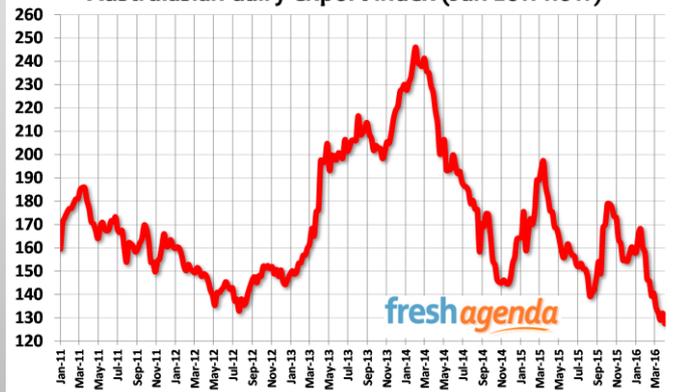
- It has been a very interesting 2 weeks in futures land for WMP and SMP globally. There are some very big buyers of futures in Q4 2016 and H1 2017 futures on NZX and increasingly EEX – buyers are feeling comfortable to "pay up" \$100-200 over current spot prices in order to secure some price protection. There thinking is as follows – with the EU having extended intervention, it has given a partial floor to milk powder prices from the major origins – so paying a tad over that intervention level makes sense on a risk/reward basis, as it may mean not taking as much pain when prices do begin to rise.

Matt Cooper, Director, Ausfine Foods

## DAIRY EXPORT INDEX

**Index falls on strong A\$** – The index slid downwards again last week due to a resurgent A\$. Commodity prices were unchanged, except for SMP, which dropped US\$50/t to US\$1,750. Butter, WMP and cheddar remained at US\$2,750/t, US\$2,000/t and US\$2,650/t, respectively. The A\$ rose almost 2c to **US\$0.7721**, causing the index to shed **3.51 points to 129.84**.

Australasian dairy export index (Jan 2011-now)



## AUSTRALIAN INDUSTRY NEWS

### Burra-Mengniu deal imminent?

The *Australian Financial Review* reports Gippsland's Burra Foods and China's Mengniu Dairy are close to a \$300m deal. According to Burra founder and MD Grant Crothers, the deal should be completed by June, leaving Crothers and Japan's Itochu Corporation each with 10% stakes in the company. The deal with Mengniu, one of China's largest manufacturers and distributors of dairy and ice cream, will need FIRB approval.

### La Nina odds improving

The Bureau of Meteorology (BoM) has issued a La Nina watch, saying there is now a 50% chance some parts of Australia could see wetter than average conditions in the second half of the year.

### China rules changes downplayed

While sharemarkets have reacted negatively, two Australian companies subject to recent China rule changes for online sales have downplayed the impact. Bellamy's Organic is confident it will meet the regulatory framework, which takes effect in 2018. While Murray Goulburn had its UHT milk and adult milk powders removed from Tmall briefly, they have been included in an updated positive list issued by authorities. Blackmores sees the new rules as a step forward because "it's evidence of the Chinese government's belief in the free trade zones."

## Weather highlights

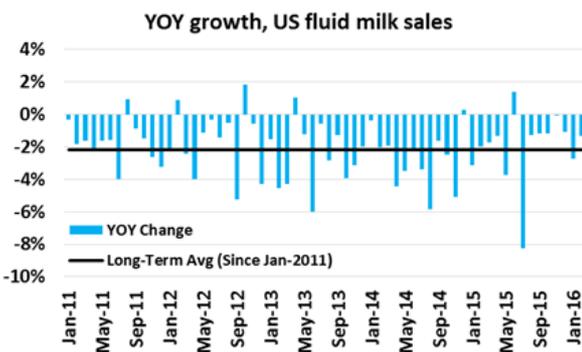
- In Australia, showers across VIC and NSW at the end of the week.
- In NZ, dry weather in the North Island with showers spreading on the weekend. Heavy falls over the weekend in the west of the South Island.
- In the US, dry across the Cali, flooding in Texas, while the Midwest sees showers and warmer temperatures.
- Still warm and dry in central Brazil with a chance of showers early next week. Argentina's central region hit by flooding looks to be clearing with hot, dry days ahead, a chance of showers next week.
- Dry weather in central Europe with rain spreading across the Netherlands and southern Germany by the weekend.

## Exposure worsens for Algeria

Algeria's dependence on oil is creating problems for the country's economy as prices continue to hover around US\$40 a barrel. Algeria's break-even point is around US\$93 a barrel according to the IMF. The fall in revenue paired with a 30% rise in youth unemployment has prompted the government to tap its Revenue Stabilization Fund. To curb the effects of rising unemployment and an empty Revenue Stabilization Fund, the prime minister has announced the issue of a 5 year bond in order to replenish funds for Algerian economic projects. If it's enough to avoid of a fiscal and social crisis in Algeria remains to be seen.

## US fluid milk sales on negative trend

After adjusting for the leap-year effect, US fluid milk sales declined 1.3% YOY in February. This is in line with the average growth rate observed in the 6-month period to February, and worse than the long-term average (since 2011) of -2.2%. Total conventional sales dipped 1.6% YOY while organic sales were 3.3% higher. In the conventional category, whole milk posted a 2.9% rise while reduced (2%) fat milk declined 4.2%.



## USDA: milk output to grow 1.5%

The April ERS-USDA Dairy Outlook projects US milk production to increase 1.5% YOY in 2016 to 93bn litres. The rise is a result of a 1.6% YOY growth in yield/cow and a

0.1% dip in cow numbers. Relatively low feed prices and weak comparables will help drive the outlook.

## EU intervention limits approved

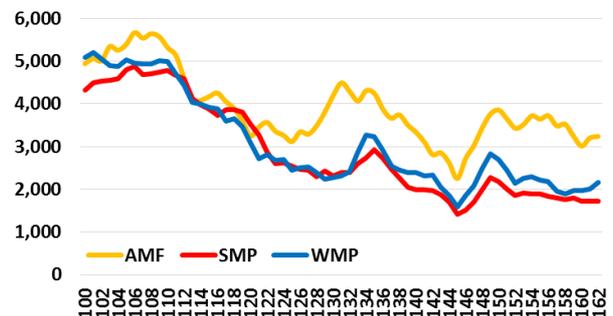
As expected, regulations expanding limits on intervention purchases to 218,000t this year were approved and published late last week. However, it wasn't in time to head off a tender, expected to see a large volume of product sold into government storage sheds at the prevailing intervention price, given the temporary halt in sales in late March when the former limit was reached. Regular purchases under the regulations are expected to re-commence later this week.

## GDT prices strengthen

Another positive GDT auction wrapped up this week with the price index climbing 3.8% with 21,206t traded during the auction, still well below the 12-month average of 27,639t.

The WMP index jumped 7.2% to US\$2,156/t, with the strongest improvements for July to September delivery. SMP prices edged up 0.4% to US\$1,727/t and butter rose 2.0% to US\$2,746/t, the first increase since 19 January this year. AMF gained 1.6% to average US\$3,240. Cheddar prices took a hit dropping 5.1% to US\$2,636/t. GDT prices appear to be stabilising, following the news of new intervention limits and other measures to curb EU milk output.

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



## DAIRY FUTURES

**Powders positive** – In a reversal from last week's trends, powders were stronger with price increases from the June contract onwards while fats remained stable with butter futures weakening

	4-Apr	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange		NZX	CME	NZX	CME	NZX	CME
Apr-16		1,720	1,631	1,960	3,333	3,100	4,449
May-16		1,745	1,698	2,070	3,296	3,100	4,616
Jun-16		1,750	1,793	2,150	3,351	3,150	4,699
Jul-16		1,860	1,913	2,210	3,437	3,350	4,740
Aug-16		1,850	1,995	2,325	3,538	3,400	4,763
Sep-16		1,900	2,044	2,340	3,580	3,450	4,784
Change		1%	3%	2%	0%	0%	-2%
Op interest		2,518	4,898	16,783	21,307	368	4,971