

## From the Trading Floor

### KEY MARKET DRIVERS

- Turmoil in Australian Dairy industry after MG announcement / Ausfine's take on the issue.
- USA Cheese prices fall in response to record production, falling exports and growing imports
- Russian bans to remain in place for foreseeable future?
- Huge quantities of E.U. SMP continue to find its way into Interventions stocks

- The fallout from Murray Goulburn announcement of the 2015/16 milk price "step-down" and subsequent CEO / CFO resignations (and various board members) continue to ripple through the industry. Fonterra Australia followed with their own step-down which meant that approx. 55% of Australian Dairy Farmers were impacted by the reduction in milk price. This is a big deal for our industry and it's future, surprisingly it is even hitting the front pages of the press and prime-time TV, which is not usual for our industry. Please see attached our "opinion peice" accompanying this email for our extended commentary, it is quite a lengthy read but it is a complex issue and needs to be explained properly. So we ask you to take 5 minutes to have a read and would welcome your comments, feedback and yes even criticisms. Note that we don't just comment on the issues but propose at least part of the solution!!!
- US cheese inventories are now at 30 year highs. Exports are considerably down YoY (approx. 16% for Feb & Mar) due to continued high cheese pricing through 2H 2015 and the market is seeing record imports of cheese, primarily from Europe. US cheese prices have finally responded on spot markets and CME futures have reacted (although not down to current spot levels). There remains very strong domestic demand so the question is what price stimulates even bigger domestic buying and re-newed export demand? Any drop in supply (probably weather related) or bigger than expected exports, will see pricing rebound strongly due to that underlying strong domestic demand.
- Take this point as completely unsubstantiated, but we have heard whispers that Russian bans on European imports could stay in place until new presidential elections in 2018!! This story has a big impact on the Dairy markets so we are watching closely and will keep you updated with what we hear (substantiated or otherwise).
- Record volumes of E.U. SMP continue to flow into European intervention stores. Anticipated to be approx. 300,000MT by the end of the year. There are two schools of thought, 1) this is a huge amount of product that is not hitting the market currently and therefore could potentially cause some limited availability in the 2nd half of this year and 2) that is a lot of product overhanging the market for a considerable period. The E.U. Commission did a great job of moving previous intervention stocks into the market without causing a ripple, but they were assisted by a run-away market that couldn't get enough product, can that lighting strike again? Especially with a commission that is not exactly flush with spare cash!!

**Matt Cooper, Director, Ausfine Foods**

### FUTURES

- Pre the most recent GDT impressive strength was registered in Q4 quotes for SMP/NFDM across all exchanges (EEX/NZX/CME), with the reason mirroring some of the thinking we have seen in the physical space: rumors of a 3rd round of EU intervention, falling California milk supply and big buys by Mexico all leading to the view that risk in SMP is more to the upside. Sellers have started to respond somewhat after the poor GDT (sub \$1600), but sometimes futures markets can do funny things – there are a lot of "shorts" in Q4 and beyond who may get nervous if prices start to rally further, creating the always interesting "short squeeze"

**Scott Briggs, Derivatives Trading  
Manager, Ausfine Foods**

## DAIRY EXPORT INDEX

**Index rises** – Our export index gained another 3.2% this week, helped by ongoing A\$ weakness. Spot commodity prices were a mixed bag with cheddar gaining US\$100/t to US\$2,800/t, while WMP shed US\$50/t to US\$2,150/t. Butter and SMP were unchanged at US\$2,600/t and US\$1,700/t, respectively. The A\$ lost one cent, closing at **US\$0.726**, lifting the index **4.4 points to 141.4**.

Australasian dairy export index (Jan 2011-now)



## AUSTRALIAN INDUSTRY NEWS

### MG turmoil drags on

Both the Australian Securities & Investments Commission (ASIC) and the Australian Competition & Consumer Commission (ACCC) have announced investigations into Murray Goulburn. ASIC will look into potential corporate and disclosure irregularities while ACCC is examining the timing and notice of the farmgate price cuts and whether there are elements of unconscionable conduct regarding contractual relationships with suppliers. This week a class action was also launched on behalf of MG unitholders, on the basis MG knew its sales forecasts were unlikely to be achieved when they were published on 29 May 2015.

### Fonterra helps struggling farmers

Following last week's announcement of its farmgate price cut, Fonterra will improve payments for suppliers which it says are most affected by its severity and timing. Autumn calving herds will be paid an additional \$2.50kgMS for May and June production to be paid in July and August. This will effectively be drawn through the redistribution of milk payment base rates in the 2016/17 season, Fonterra said in its media release.

### Lion drops variable price

Lion Dairy and Drinks followed MG and Fonterra dropping farmgate prices to \$4.65kgMS for suppliers on a variable pricing scheme - less than 10% across Victoria, Tasmania and South Australia.

## Weather highlights

- In Australia, mild and dry across VIC and NSW. Rain in Tasmania followed by a dry week.
- In NZ, rain over both islands to clear early next week.
- In the US, rain continues across a flooded Texas with increased risk of thunderstorms across the Midwest.
- Showers over northern Brazil, warm most of the week into next week. Mixed weather in central Argentina.
- Warmth sweeping across southern Germany. Dry and sunny in the north, chance of rain in the south.

## Fonterra intake down 3% in April

Fonterra's NZ April milk intake was 3.2% down YOY in April, according to its latest Global Update. North Island intake was 6% lower for the month while South Island deliveries remained resilient against the odds at 1% higher. For the 11 months to the end of April, Fonterra's milk collection was down 3.3% to 1,499mkg milksolids. With just one month of the season remaining, Fonterra has revised its forecast 2015/16 intake in line with these trends – down 3% to 1,558mkg milksolids.

## Signs of EU milk slowdown emerge

Netherlands produced 10.8% more milk in April relative to the same month in 2015, down on previous months. French output has been slowing for the past 11 weeks, with an official March YOY growth rate of -1%, and average weekly data pointing to a 1.4% YOY decline in April. UK milk output is also in decline. Our analysis shows a 3.3% YOY fall during April.

Unfavorable weather has affected German milk production, with only a 0.3% YOY growth in week 17. While latest available data may be an outlier, average weekly information still points to a slower 3.2% expansion in March and around 2.1% growth in April in Germany.

## USDA lifts milk forecast

The USDA now projects faster milk production growth in 2016, due to higher cow numbers and yield than previously expected. Milk output is expected to grow by 1.8% over the 2016 year, slowing to 1.3% next year, which it says will come from higher per-cow output as it sees the dairy herd remaining at 2016 numbers.

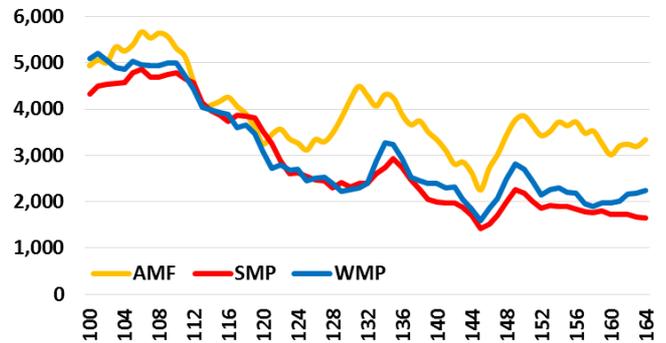
While domestic demand will be sustained close to current growth rates, exports tonnages are forecast higher on the back of an increase in global demand and higher prices across all commodities. The USDA again expects imports to increase marginally.

## GDT improves

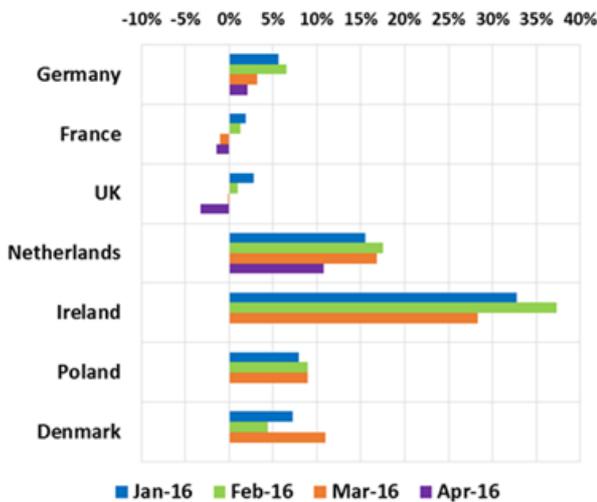
The GDT price index was up 2.6% this week, the second largest increase this year so far, with most commodities adding value, however, total sales of 18,113t were significantly below the 12-month average of 28,175t.

As the New Zealand season winds down, WMP prices increased 3.5% to US\$2,252/t, with fairly uniform gains across contract periods. Butter and AMF rose 3.7% to US\$2,697/t and 4.6% to US\$3,340/t respectively. SMP prices, weighed down by large global stock lost 1.1% to average US\$1,658/t, while cheddar fell 1.2% to US\$2,693/t.

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



YOY growth, EU milk output



## DAIRY FUTURES

18-May	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Jun-16	1,795	1,762	2,275	3,031	3,210	4,565
Jul-16	1,850	1,852	2,315	3,144	3,310	4,619
Aug-16	1,920	1,935	2,335	3,314	3,400	4,679
Sep-16	2,010	2,006	2,380	3,446	3,450	4,729
Oct-16	2,040	2,054	2,435	3,505	3,500	4,744
Nov-16	2,070	2,082	2,430	3,525	3,550	4,690
Change	1%	0%	1%	0%	0%	0%
Op interest	2,600	4,454	17,598	21,596	385	4,605