

From the Trading Floor

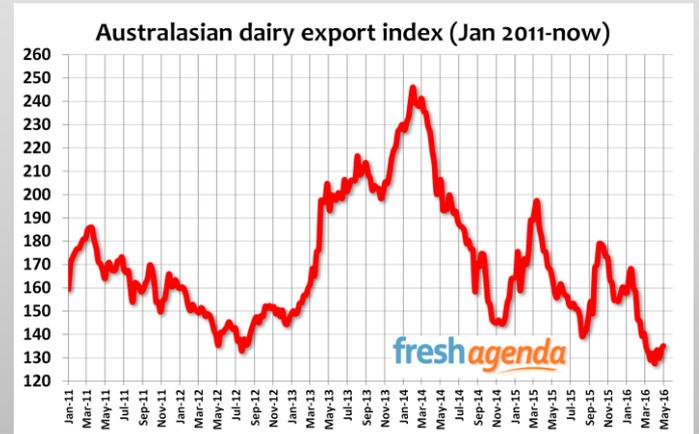
KEY MARKET DRIVERS

- MG – concerns for milk production growth in Australia
 - Weather Watch – Focus moves to Northern Hemisphere
 - 2017 contracts being concluded now
 - ADPI – take away and conclusions
 - Futures update
- We now move into a new era of management at MG and take a look at what is left. Our take is that despite the contention that MG had become a retail focused company and therefore immune to impacts of world dairy commodity cycles, this was not the case: MG still has a large exposure to commodity markets, the result of their historical infrastructure and the need to process huge amounts of milk across the spring flush from their approx. 2,600 suppliers. This left MG playing chicken with the market. With further debt taken on behalf of member farmers to finance their AUD 5.60/kg price, we are very concerned about the impact on Australia's milk production. MG is still Australia's largest dairy producer and has a large impact on the dairy industry. The average age of Australian dairy farmers continues to climb and this may be the straw that breaks the camel's back for many. Despite the current downtrend in markets, in the long-run we need to see milk growth to meet an expanding Australian population and to promote a healthy industry that continuously.
 - Just as our focus was squarely on the impacts of El-Nino on the Oceania season, particularly on NZ, our focus now shifts to the Northern hemisphere Spring and Summer. Many in the US dairy industry are forecasting a long, hot summer on the back of possible shift to La-Nina, which would shorten up milk in the Mid-West with California unlikely to pick up the slack (CA milk experiencing YoY declines). We're not convinced that it is a foregone conclusion: current soil moisture levels for the corn crop are healthy and some independent advice says medium term forecasts do not show a shift to a dry pattern, but we will be watching closely.
 - We are seeing more and more large customers wanting to lock in contracts for the entire 2017 calendar year... now! in April/May!! to take advantage of these continued historical low prices. Many suppliers are reluctant but a "bird in the hand..." and we all know trying to sell spot parcels in a saturated market is tough.
 - ADPI was a great conference. Since we first started attending in 2006 the conference has changed from a relatively US focused position to a more international flavour with attendees from across the globe. The take away: Markets are at their lows and all the risk is to the up, we're just not sure when that up will occur. There are plenty of reasons for it, low milk price = less milk / La-nina induced weather problems in USA / Russia removing import bans. The same 'ol story though, none of those things are happening today and until they do we will continue to track sideways.
 - Uncertainty around potential for milk production falls in NZ and a slow start in the EU has meant ongoing futures buying interest in both NZX WMP and EEX SMP for H2 2016 and Q1 2017 – a good hedging strategy in a period of fairly low downside risk. At the same time, the US cheese market has finally capitulated, with a wall of cheese hitting the CME spot market – large volumes both on and off exchange, with no "export escape valve" yet available due to the market still being above global competition.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index stabilizes – Our index rose 1.2% on mostly stable to improved prices and a weaker dollar. Cheddar and butter were unchanged at US\$2,700/t and US\$2,750/t, respectively. WMP price gained US\$50/t to US\$2,250/t, however SMP declined by the same amount to US\$1,750/t. The A\$ closed at **US\$0.7596**, lifting the index **1.6 points to 135.1**.



AUSTRALIAN INDUSTRY NEWS

Disaster for MG

In the last couple of weeks have been disastrous for Murray Gouldburn. After Chinese online sales were disrupted by new rules, trade in MG units was halted, followed by a profit downgrade and a slashing of this year's price forecast. MD Gary Helou and CFO Brad Hingle stepped down, blaming the downgrade on slower Chinese sales, a strong A\$ and a write-down in inventory. Two directors have since resigned. The new farmgate payout of \$4.75kgMS -\$5.00kgMS down from the \$5.60-\$5.90 range forecast in February has angered farmers and this week, its reported law firm Slater and Gordon investigating the scope for a class action suit against MG on behalf of shareholders on the grounds of "misleading the market" with its previous forecasts.

Positive rainfall outlook

The latest three-month outlook from BoM suggests an increased chance of wet conditions across large parts of Australia from May to July. NSW and SA have the greatest likelihood of above-average rainfall. Southern Qld and central WA have a forecast 60-70% change of above median rainfall during May to July.

However, Tasmania and most of Victoria have roughly equal chances of either wetter or drier weather over the next three months. According to BOM, the outlook reflects a rapidly weakening El Nino, warm Indian Ocean temperatures and warm sea surface temperatures around the Australian coastline, which may send rain across the country.

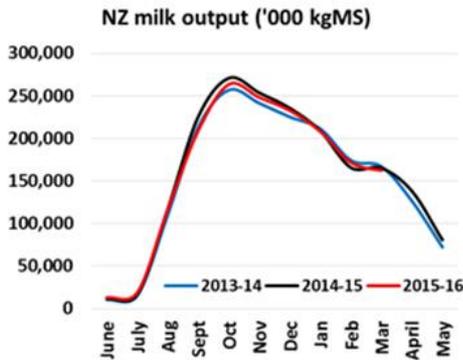
Weather highlights

- In Australia, dry and warm in VIC and NSW with showers spreading early next week. Colder temps, showers in Tas.
- In NZ, showers in the north and heavy rain in the west of the South Island, clearing by the end of the week.
- In the US, storm systems moving across the northeast bring rain and risk of flash and urban flooding.
- Central Brazil, warm and humid with spots of thunderstorms early next week. In Argentina's north, scattered showers and warm temperatures.
- Dry weather for Europe and rising temperature, rain across western Germany and eastern France.

NZ output resilient

Milk output in New Zealand continues to be resilient in the face of tough conditions. National milksolids output declined 1.7% YOY to 162.4m kgMS in March, according to (DCANZ) data. The decline was smaller in milk volume terms, 0.8% to 1.74mt.

During the first 10 months of the 2015/16 season, national milk solids production declined 1.6% to 1,644m kg compared to last year. This is significantly better than early-season projections of 8-10% YOY declines.



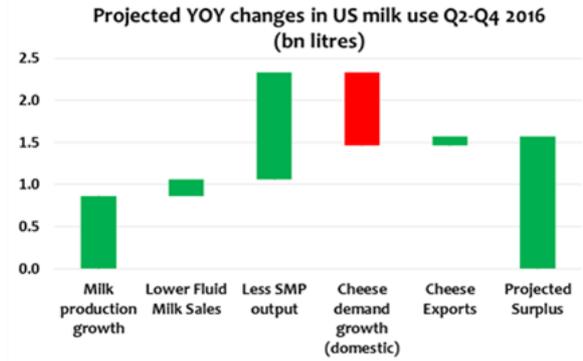
EU milk slowing...gradually

European milk output is slowing at last, but remains robust for some major milk producers. Central Statistics Office (CSO) data shows Irish milk output increased 28% YOY in March. In Germany, latest weekly shows a 2.7% YOY during week 15. Official Eurostat data indicates Dutch and Polish milk output rose 16.8% and 9% YOY in March, respectively. Milk output in other major producing countries is declining. French output was down 2% YOY in week 15, while UK daily milk deliveries for the 2-weeks ending April 23 were 3.4% down.

US capacity, stock issues emerge

Stronger-than-expected milk output in March, is raising concerns about excessive US milk supply, particularly in the northeast where raw milk is reportedly being dumped.

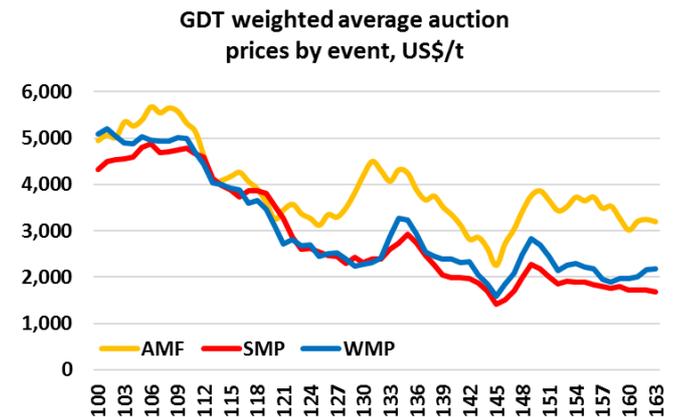
Meanwhile, at the CME, cheese spot prices nosedived last week as worries about excessive inventories increase in the lead-up to the spring flush. Downward pressure on domestic prices will increase this year, as rising milk output is met with falling fluid milk sales, SMP output and cheese exports.



GDT takes a hit

The GDT price index was down 1.4% with most commodities losing value, on sales of 20,615t.

Fats saw a decrease with butter dropping 5.3% of its average weighted price to US\$2,601/t and AMF 1.4% to US\$3,195/t. Powders were mixed with BMP and SMP prices losing 6.4% on average to US\$1,366/t and 2.9% to US\$1,676, respectively. WMP went up a modest 0.9% to US\$2,176/t, with mixed trends for delivery periods. This is perhaps a positive result given the resilience of NZ milk output heading into the new season. Cheddar rose 3.4% to US\$2,727/t while rennet casein gained 6% to US\$5,024/t.



DAIRY FUTURES

Powders mixed, fats up – NZX futures were generally more positive this week, while CME futures were mixed. CME fat values are heading in the opposite direction to GDT while NDM and cheese values fell.

4-May	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
May-16	1,800	1,689	2,210	3,214	3,180	4,652
Jun-16	1,820	1,748	2,240	3,219	3,210	4,740
Jul-16	1,905	1,818	2,325	3,285	3,400	4,762
Aug-16	1,955	1,908	2,350	3,424	3,450	4,823
Sep-16	2,005	1,985	2,415	3,527	3,490	4,835
Oct-16	2,090	2,024	2,445	3,554	3,550	4,828
Change	4%	-2%	1%	-2%	2%	3%
Op interest	2,489	4,801	16,446	20,880	518	4,722