

### KEY MARKET DRIVERS

- Russia to extend bans – attracting investment
- Aussie milk woes hit Prime Time
- Can we learn anything from last E.U. intervention release?
- Lactose demand strong

- We reported in the last edition of the D.P. that we had heard rumours that Russian import bans were likely to be extended beyond the August 2016 review date. Whilst it is still not official, we have seen a number of top ranking Russian authorities indicating that it is extremely likely. Under the import bans, Russian domestic milk has grown for the first time in many years and the Russian dairy industry is attracting international investment from Thailand, China and Europe (Germany). The value of the recently announced investments is well into USD Billions. This adds to the point that when / if the import bans are finally repealed, the import demand into Russia is likely to have changed since the last time the borders were open as the market becomes more self sufficient.
- It is a strange sensation to see coverage of our Australian Dairy industry hit Prime Time TV, but such is the public interest in the recent announcements from MG and Fonterra Australia that they were slashing the Farm Gate milk price for the 2015/16 Dairy year. More often than not the opinions have been over-simplified and ill-informed, but interesting to see the backlash against big retailers (Supermarkets) and their drive to push down milk prices to consumers in a bid to grab market share. We have seen many cases here in Australia of Supermarket fridges empty of the more expensive branded Milk with the cheap Supermarket "home brands" remain fully stocked in the fridges while consumers vote with their wallets in an apparent show of support to the farmers. Let's see if the rage is maintained or whether we drift back toward the cheaper option once the struggling Australian dairy farmer is no longer on the front page.
- I have heard many comments regarding the growing stocks of Euro SMP going into intervention and how it will hang over the market for a prolonged period. Stocks are currently at 230K MT and growing weekly. Estimates are that there will be at the max 350K MT by the end of the calendar year. Therefore it is interesting to look back and see how the E.U commission disposed of their previous SMP stock taken into intervention across 2009. At its peak it reached 267,740MT, it was moved out over a 3 year period. If it was all sold commercially (not donated to charity food programs for no net return) we estimate that E.U. Commission made somewhere between USD200million and US300million from the program. However that was when the market rallied very hard back above €3000/MT quickly and the additional volumes were welcomed. Can that happen again? With quotas no longer in place it is less likely, barring any major E.U. weather event etc so the potential of a bigger impact (from intervention stocks) this time is considerable. On top of that the E.U. Commission is in worse financial circumstances this time round so the ability to wait it out is diminished.
- We are seeing and hearing of considerable demand for lactose from all sectors. E.U. is using more for their standardising programs, confectionary demand remains strong and infant demand continues to grow. On the supply side it is tale of two, some suppliers are tight and delaying shipments, as well as under offering on forecasted demand, but there are others – particularly in the USA mid-west who have ready availability. Let's see if the first group recover or whether the second group begin to feel the pinch as demand spills over. Cheese production worldwide remains very strong so I would suggest it may be a mix of the two.

Matt Cooper, Director, Ausfine Foods

## DAIRY EXPORT INDEX

**Index stable on weak A\$** – Our export index edged 0.3% higher this week due to a slightly weaker A\$. Spot commodity price trends were steady, with WMP showing the only movement, shedding US\$50/t to US\$2,150/t. Butter, SMP and cheddar remained at US\$2,700/t, US\$1,650/t and US\$2,800/t, respectively. The A\$ fell slightly to **US\$0.718**, lifting the index **0.4 points to 143.2**.

Australasian dairy export index (Jan 2011-now)

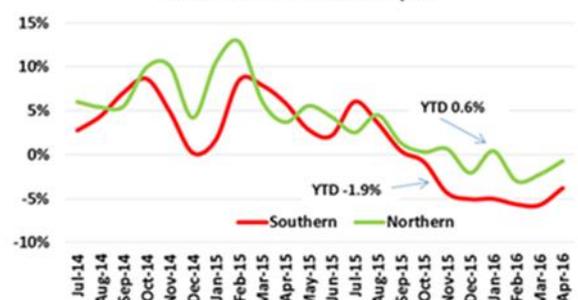


## AUSTRALIAN INDUSTRY NEWS

### April milk output down 2.7%

Australia's milk production was down 2.7% in April compared to the prior year, driven by a drop of 4.7% for Victoria, and further declines in NSW and SA of 1.2% and 3.9% for the month, respectively. Western Australia's milk production rose 9.9%, while output in Queensland and Tasmania rose 0.8% and 1% respectively. Season-to-date national output for April is 1.2% behind last season.

Australian milk production - YOY changes in southern v northern output



### Wet winter ahead

Good news for farmers as the Bureau of Meteorology releasing its June to August rainfall outlook. The majority of mainland Australia is tipped to have a wetter than average winter. In June, parts of the country are likely to experience above median rainfall apart from southwest WA, southwest Victoria, and eastern NSW.

## Weather highlights

- In Australia, scattered rain across southern NSW and eastern VIC.
- In NZ, showers on south coast of the South Island as well as the north of the North Island.
- In the US, unusual warmth across the west coast, thunderstorms and rain across Wisconsin and Illinois.
- Showers and thunderstorms over central Brazil through to next week. Dry and humid in northern Argentina.
- Thunderstorms and rain across Belgium and western parts of Germany. Occasional thunderstorms and rain spreading through France.

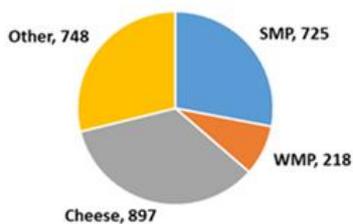
## Fonterra opens at NZ\$4.25

Fonterra has announced its opening forecast for next season's farmgate price at NZ\$4.25/kgMS, up NZ\$0.35/kgMS from the current farmgate price. Fonterra expects global dairy prices to gradually improve next season as output is reduced. Chief Executive, Theo Spierings said long term fundamentals for dairy remain positive as demand is expected to increase as the population grows by 2-3% a year and a growing Asian middle class boosts demand for dairy.

## Strong expansion in EU dairy output

During the first 3 months of 2016, EU-28 cow milk collections rose 7.2% relative to the corresponding pre-quota-removal period last year. Output of all products rose in YOY terms for the period, with the exception of concentrated milk. Cheese output rose 4.4%, butter production was up 12.3%. SMP and WMP recorded the greatest relative expansion, up 18.8% and 18.6%, respectively. Cream for direct consumption was up 3%, while drinking milk and fermented milk output increased 0.7% and 3.1% respectively.

YTD (Jan-Mar) growth in EU28 milk collection by product use, mn litres



## China milk powder imports to fall

The USDA Dairy Semi-annual GAIN report projects China's cow milk production will rise 1.2% in 2016 to 38mt, after milk production for 2015 was revised upwards to 37.55mt, growth of 0.8% for the year. Growth in local supply and low farmgate prices has led some processors to reduce collection volumes by 20%. During 2016, WMP production is projected to rise 2% YOY, along with a 14% decline in imports and an 11% rise in domestic consumption. As a

result, ending year WMP stocks are projected to fall from 350,000t in 2015 to 177,000t in 2016. Lower SMP imports are also projected for a second consecutive year, down to 180,000t in 2016 from 200,000t in 2015.

## Wholesale cheese prices firm

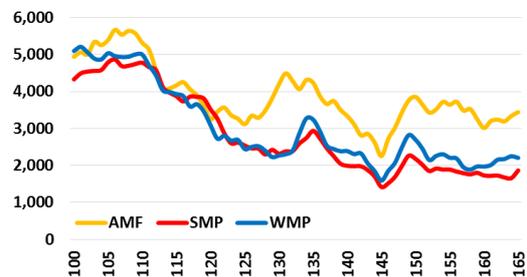
CME wholesale cheese prices have now improved for two consecutive weeks, with 40lb blocks at US\$3,042/t and barrels at US\$3,175/t. According to analyst Matthew Gould, industry sentiment appears to be shifting. According to their cheese seller contacts, sales are strong and while stocks are still relatively high they do not feel as heavy as one month ago. Cash butter and cash non-fat dry milk declined US\$11 and US\$44 to US\$4,553/t and US\$1,753/t respectively.

## GDT prices up again

The GDT price index rose again this week, up 3.4% with 24,046t traded, which is keeping with all other auctions this year is under the 12-month average of 28,076t.

The average weighted WMP price fell 2.1% to US\$2,205/t, with July delivery prices up 1%. However, contracts for period 3 to 6 – corresponding to the NZ spring peak were down around 3%. SMP prices jumped 12.6% to US\$1,867/t and butter rose 2.4% to US\$2,762/t. AMF gained 3.1% to average US\$3,444. Cheddar prices shed 0.9% to US\$2,669/t. News of slowing milk output, and new intervention limits in the EU appear to be having a positive effect on GDT prices.

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



## DAIRY FUTURES

**Powders, fats mixed** – Futures were mixed this week with NZX defying GDT trends, while CME prices were stable to well up in the case of AMF.

	1-Jun	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME	
Jun-16	1,730	1,786	2,180	3,133	3,480	4,598	
Jul-16	1,800	1,903	2,230	3,164	3,540	4,707	
Aug-16	1,920	1,982	2,255	3,314	3,640	4,786	
Sep-16	1,950	2,072	2,320	3,452	3,670	4,817	
Oct-16	1,940	2,116	2,350	3,534	3,720	4,801	
Nov-16	2,020	2,161	2,400	3,538	3,550	4,754	
Change	0%	2%	-2%	0%	7%	0%	
Op interest	2,821	4,687	14,287	22,314	325	4,938	