

KEY MARKET DRIVERS

- Chinese demand soft / abundant local milk supply
 - USA cheese inventories – how big is big?
 - Brexit – what does it mean in Dairy world?
 - Weather outlook for Australia is promising for new dairy season
- Like most information out of China it is difficult to get reliable data on annual Chinese milk production. The figure changes from publication to publication with variances in the range of 1-2 billion which is a huge number to be considered a rounding error and that grey figure having a huge bearing on demand for imports. At present it seems there is more than adequate domestic production to meet fresh milk demand thereby reducing reliance (and therefore demand) for imported powder to be reconstituted. On top of this there are also reports of overall demand and economic activity remaining soft.
 - There have been many reports of the US cheese inventories at record highs and therefore pricing should be at historical lows to help re-engage the export market and move the excess supply. However with very robust US domestic demand the “record inventories” can be misleading. Everything we hear from our US guys is that yes inventories are high but so is demand and stock is moving consistently. Buyers are taking their allocations and then coming back to suppliers for short-term spot coverage. So much so that there are some reports that “Fresh” loads (less than 30 days age) can be a little hard to find. With California suffering through a very hot summer and warm weather now hitting the midwest maybe those record inventories are required.
 - Our take is that it is too early to gauge the impact of Brexit on the Dairy Industry, but some immediate questions we would raise are the impact on UK producers who lose benefits from E.U. FTAs with select export markets such as Korea, also UK Dairy access to the single market and vice versa. We would also be interested in the effect on the cross border Dairy Companies that have production facilities in both Europe and the UK, of which there are quite a few.
 - Recent update from Australia’s Bureau of Meteorology is forecasting a wetter than normal winter period for much of Australia. This indicates that the major dairy regions (predominately in S.E. Australia) will have good water supply for the year and lower the cost of water for irrigators. It may mean a slow start due to poor pasture growth coming out of winter but that is likely to quickly improve as the weather warms up later in spring.

Matt Cooper, Director, Ausfine Foods

AUSFINE NEWS - INDONESIA

First of all, Minal Aidin Walfaizin mohon maaf lahir batin to those who celebrate Eid Mubarak

This is our main festive event within the year, market responded with good demand and spending was up compared to previous year.

Due to this break some import permit process for 2nd semester (Jul – Dec) have been placed on hold and will continue next week, will be ready by end July.

Government still support the dairy industry by fulfilling the request in full amount.

Mei Ling, Ausfine Foods Indonesia

AUSFINE NEWS - CHINA

Jan-May 2016, China imported 37,500MT of cheese, an increase of 23.6% YoY, 55% from NZ, 18% from AU. Import milk is currently 259,700MT an increase of 86.9% YoY, 67.1% from EU, 18.2% from NZ, 11.3% from AU.

Currently milk price is sitting around 3.41/kg, it's coming to summer in China, although heavy rain in the south of China has affected milk production, not enough to change the whole market.

Now it's the milk powder consuming period, but poor consumer market has made most of local manufacturers reduce production and due to a large amount of local stock, the importing of milk powder is expected to be less than first half of 2016, and import prices are expected to be lower. Add in recent GDT drops, local prices are expected to maintain current low levels.

Steven liu jun, Ausfine Foods China

DAIRY EXPORT INDEX

Index rises – Our dairy export index continues its steady climb, gaining 1.4% this week. Butter prices jumped US\$200/t to US\$3,150/t. Other commodity prices were stable with cheddar, WMP and SMP remaining at US\$2,900/t, US\$2,100/t and US\$1,950/t, respectively. The A\$ fell marginally to **US\$0.745**, lifting the index **2.1 points to 151.6**.

Australasian dairy export index (Jan 2011-now)


AUSTRALIAN INDUSTRY NEWS
Fonterra and Lion open for 2016/17

Fonterra has announced a “responsible” opening milk price for 2016/17 of \$4.75kgMS, including 2c kgMS to pay interest on loans. Fonterra Australia CEO Judith Swales said a full year price of \$5kgMS was forecast, based on “the Australian dollar holding at around 74USc and reflects revenue earned on products produced using its manufacturing assets. “**Meanwhile**, Lion Dairy & Drinks announced its 2016/17 southern region prices, with fixed term contract payments varying from \$5.50kgMS for a three year contract and \$5.10kgMS for the one year option. The one year variable price contract price is \$5.00kgMS. Given existing contracts are in play, Lion expects the majority of its direct farmers to receive a net weighted average price of \$5.67kgMS for 2016/17.

Saputo fails to raise WCB stake

Canadian dairy giant Saputo failed to push its stake in Warrnambool Cheese and Butter above 90% following a \$142m capital raising. A WCB minority shareholder applied to the Takeover’s Panel to block the raising, claiming Saputo was only using it to acquire shares from investors and that WCB didn’t need the funds. All investors took up their entitlement, which left only a 0.3% shortfall, resulting in Saputo’s voting power in WCB only increasing from 87.9% to 88%. Due to the outcome of the capital raising, the Takeover’s Panel will not be investigating.

Weather highlights

- In Australia, a low front and trough is generating showers over VIC and rain in NSW.
- In NZ, rain expected across the North Island on the weekend, extending to northern parts of the South Island – where night frosts are now regular.
- Severe weather warnings in the US, with expected thunderstorms, damaging winds and possible hailstorms expected in the Plains, midwestern US.
- Above 30°C and dry in central Brazil. Chance of rain in central parts of Argentina next week.
- Central Europe dry and warm with possible showers across the Netherlands and northern France next week.

NZ cow culling still lags

During the first 35 weeks of the 2015/16 beef industry season (up until early June 2016), NZ cow culling declined 1.4% on the comparative, a difference of 12,425 head. Cow culling in the North Island has fallen 3.6% (21,195 head) compared to the same period last year, while the South Island has increased culling by 2.8% (8,770 head).

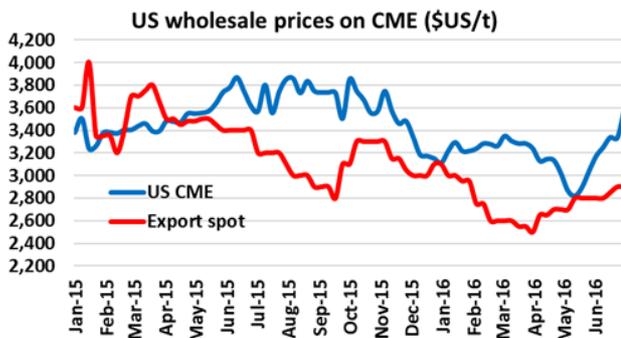
Brazil farmgate prices rise in June

The price paid to Brazilian dairy farmers increased to R1.2165/l in June, up 5.14% on the previous month and 18% higher than the same month in 2015. The average increase was led by Santa Catarina, where prices rose 6% while Minas Gerais payments increased 5.77%. Milk intake has been down in recent months, but is expected to recover as winter fodder harvest commences. Nevertheless, competition for supply is expected to remain intense, CEPEA's survey of buying agents found 98% expected prices to rise further in July, while 2% expected prices to be stable compared to the previous month.

CME prices mixed

Last week, cheese and butter prices rose on the CME with barrels of cheese hitting highs not seen since the last quarter of 2015 at US\$1.71/lb, but settling at US\$1.67/lb on Friday, while 40-lb blocks of cheese settled at US\$1.625/lb (US\$3,582/t).

Butter gained a some ground this week, settling at US\$5,180/t or US2.35/lb, while NFDM dropped to US\$0.835/lb or US\$1,840/t.



EU milk output continues to slow

More signs that EU milk output is slowing, with daily UK deliveries for the two weeks ending June 25 9.1% lower relative to the same period last year. In France, output in week 24 declined 2.3% YOY while Germany saw a 1.2% fall in production in the same week.

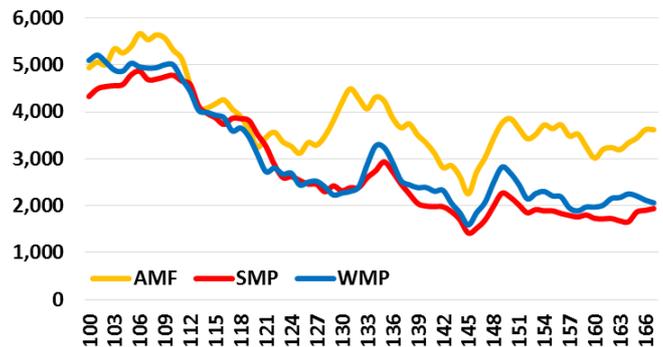
Major milk producing countries for which May data is available at the time of writing include Netherlands, UK, Poland, Ireland and Denmark. Assuming Germany was flat and France saw a 0.5% fall in output, in line with published weekly data, the combined net impact of these countries is a 0.4% YOY growth in May.

GDT weakens

This week's GDT event, the first in three weeks, continued the lacklustre trend with a small decrease of -0.4% in the index. However, there was a significant increase in product on offer - 32,500t compared to 23,089t for the last event.

The average weighted WMP price fell 2.7% to US\$2,062/t, down for the fourth consecutive event. Average SMP price gained 1.9% to US\$1,938/t, while butter fell 2.4% to US\$2,828/t and AMF gained a modest 0.1% to US\$3,621/t. Cheddar price rose 0.7% to US\$2,902/t.

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



DAIRY FUTURES

Futures drop – Powders and cheese all lost ground this week, fats did better, with CME butter up and NZX AMF stabilising.

| | 6-Jul | SMP | NDM | WMP | Cheese | AMF | Butter |
|-------------|-------|-------|--------|--------|--------|-------|--------|
| Exchange | NZX | CME | NZX | CME | NZX | CME | |
| Jul-16 | 1,930 | 1,929 | 2,040 | 3,549 | 3,600 | 5,181 | |
| Aug-16 | 1,920 | 2,089 | 2,125 | 3,682 | 3,780 | 5,236 | |
| Sep-16 | 2,090 | 2,150 | 2,180 | 3,715 | 3,810 | 5,291 | |
| Oct-16 | 2,080 | 2,194 | 2,280 | 3,726 | 3,860 | 5,249 | |
| Nov-16 | 2,100 | 2,243 | 2,320 | 3,693 | 3,860 | 5,226 | |
| Dec-16 | 2,120 | 2,276 | 2,365 | 3,660 | 3,770 | 5,004 | |
| Change | -1% | -2% | -3% | -3% | 0% | 2% | |
| Op interest | 3,888 | 5,205 | 18,448 | 21,687 | 588 | 5,231 | |