

KEY MARKET DRIVERS

- gDT rallies big
 - gDT rally early enough to influence NZ farmer decisions
 - Fat demand goes through the roof
 - Ramifications of the milk price cut continue to ripple through Australian Dairy Industry
 - Milk price transparency for Australia?
- Well what a night on gDT. Our internal pop quiz predicted 8 – 10% up across the board, the only mitigating factor on the bullish view was the big volume of product, particularly WMP, on offer. Clearly buyers recognise the bottom of the market is now likely in the rearview mirror but buying is still very cheap (& below cost of production) at the current levels and kept coming for volume deep into the bidding rounds. Everything was up with the only muted product category being SMP with rises fairly small but still on a slow climb upward.
 - Timing of the gDT rally is interesting with the market now focused clearly on New Zealand production. Europe is now subdued with falling milk production (from forecast) and US pricing still above the rest of the world (with the exception of NFD). The rally comes in time for NZ farmers to reconsider their plans for the coming season around number of cows in milk and expenditure on Fertiliser and Feed, obviously with the expectation that the rally will bring better milk payments. I believe that farmers will remain cautious having gone through very tough times over the last two years but if the rally was to continue we could see a quick change in farmer sentiment.
 - We first saw it in the US with crazy high butter pricing, now we have seen it in Europe and starting in Oceania. Domestic demand for Fat and in particular liquid cream remains very strong and any shortage sees pricing rocket up. Certainly the case in Europe over last few weeks as milk production falls and also reflected in gDT last night where AMF jumped by 8.1% and Butter by 14.1%. We have seen Europeans coming to Oceania for supply, which we haven't seen in quite some time.
 - There was a big story aired by a very respected current affairs program on Monday night here in Australia highlighting the impacts on farmers from the recent Milk Price Cut in the Australian Dairy Industry. The effects continue to ripple through the industry with some farmers leaving Dairying all together. Despite what would appear to be very good weather conditions for production through Spring we would expect Australian milk volumes to take a hit in the coming season.
 - There appears to be gathering momentum for milk price transparency for dairy farmers to use to make better decisions. A long time overdue in our opinion, lets hope it follows through to something definitive and does not get lost in the mix should GDT continue to bounce back.

Matt Cooper, Director, Ausfine Foods

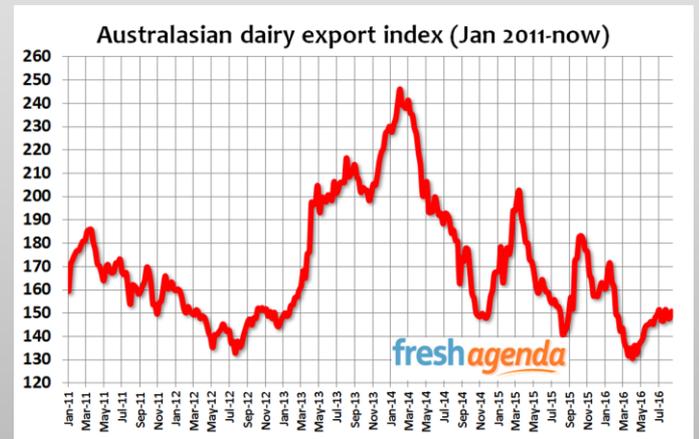
FUTURES

NZX futures once again predicted a sharp rally for WMP at this week's GDT, about 10-12% – but with even that expectation being blown away by the actual result, the futures price curve reacted out to Q1 next year by immediately rallying \$100-150. Offers out the next 6-9 months are \$2900-3100: it looks like the financial markets are anticipating physical players will step in at the magic number of "\$3000" and sell a lot of volume, ensuring a better than expected milk return for NZ farmers. With 3 weeks now until the next GDT, expect NZ WMP sellers to try and get a gauge on how deep / desperate demand is – and if they think they can tighten the market and blow through the \$3000 level, the first sign is likely to come from the futures market.

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

DAIRY EXPORT INDEX

Index high on butter – Our dairy export index gained this week on stronger butter spot prices. SMP and butter improved with SMP increasing US\$50/t to US\$2,050/t while butter jumped US\$200/t to US\$3,200/t – prices not seen since early February. WMP and cheddar remained at US\$2,250/t and US\$2,900/t, respectively. The A\$ rose marginally to **US\$0.764**, lifting the index by **2.92 points to 150.8**.



AUSTRALIAN INDUSTRY NEWS

Burra sale approved by FIRB

The Foreign Investment Review Board approved the sale of 79% of the Gippsland Dairy processor Burra Foods to Inner Mongolia Fuyuan Farming Co Ltd last week. Fuyuan is owned by several investors with the largest shareholder being China Mengnui Dairy Co Ltd, listed on the Hong Kong Stock Exchange. Burra Foods founder Grant Crothers and international trader ITOCHU maintains a combined 21% interest in the company and Crothers is set to continue in his role as chief executive and managing director. According to Crothers, the approval means improved access to the Chinese market, and opportunities for low risk growth up the value chain while gaining access to additional capital.

Eagle Boys and Pizza Hut merger? A

Sydney-based private equity firm, Allegro Funds is attempting to buy Eagle Boys and Pizza Hut with plans to merge the two into Australia's second largest pizza chain, according to reports from Fairfax Media. Visitors have failed the two chains as recent Roy Morgan Research data indicates the visitation rate for both chains has been declining since 2012, a 61% decrease, being a major contributor to Eagle Boys' entering into voluntary administration in July. It is unknown whether Eagle Boys and Pizza Hut will be combined to operate under one brand or continue to operate separately.

GLOBAL DAIRY MARKETS

Weather highlights

- Possibility of rain across eastern Australia later in the week.
- In NZ, sunny and dry in the North and South Islands with possible showers across Canterbury later in the week.
- In the US, hot and dry on the east coast, chance of thunderstorms and heavy rain across the Midwest.
- Dry in southern Brazil, possible thunderstorms before the weekend. Dry across northern Argentina.
- In France, rain and thunderstorms over Normandy. Dry across the Netherlands.

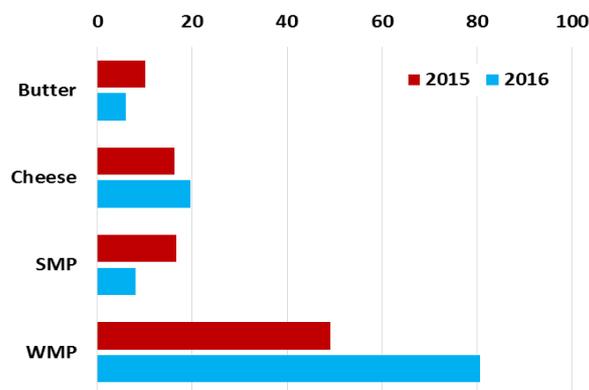
Synlait forecasts profit boost

Synlait Milk is predicting a \$NZ24m lift in 2016 earnings – to around \$NZ35m. Synlait's underlying net profit after tax for the year ending 31 July was forecast to be in the range of NZ\$32-\$33m. This compares with the 2015 year's net profit after tax of NZ\$10.6m and underlying net profit of NZ\$12.2m. 2016 operating cash flows is expected to be about NZ\$100m compared to NZ\$16.3m the previous year.

Strong rise in Uruguay's WMP exports

During the first seven months of the year, Uruguay's WMP shipments rose 64% relative to the same period last year, to 80,600t. Cheese exports also rose over the same period, up 21% to 19,684t. SMP and butter shipments declined however, by 51% and 41% to 8,124t and 6,004t respectively. Uruguay has been shipping increasing volumes of WMP to Brazil while its milk production is also declining, down 14% YOY during the first half of 2016.

Uruguay YTD (Jan-July) dairy exports, '000t

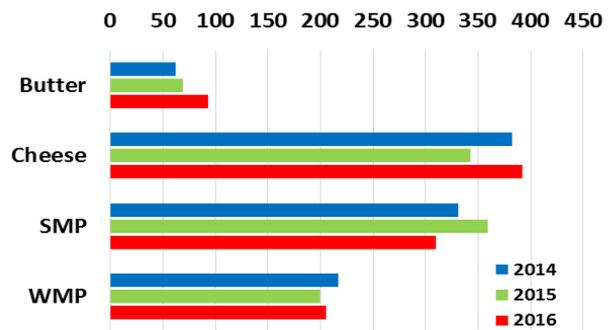


SMP exports still behind

During the first half of 2016, SMP exports declined 14% relative to the corresponding period in 2015, a difference of 49,180t. This doesn't reflect reduced availability, rather increased government buying. Between January and June 2016, more than 296,000t of SMP were offered to public intervention.

In the first half of 2016, cheese and butter exports rose 3% and 36% to 392,152t and 93,628t respectively. WMP shipments rose 14% to 205,377t.

Extra EU-28 YTD (Jan-June) exports, '000t

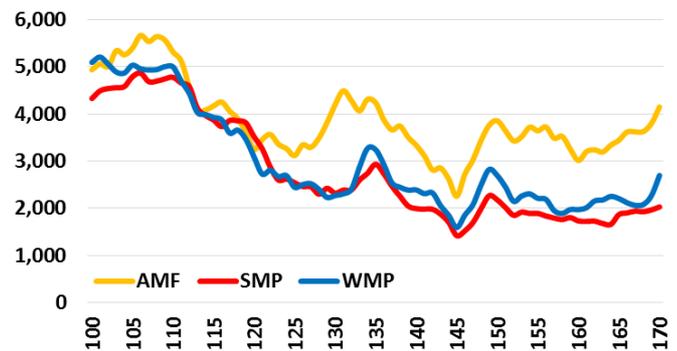


GDT jumps 12.7%

Market recovery is in sight with the GDT Price Index up a staggering 12.7% at this week's event with an offering of 37,766t, continuing the upward supply trend on the 34,928t, sold at the previous event.

The weighted average WMP price jumped a whopping 19% to US\$2,695/t, with increases across the contract periods to February next year. SMP rose 3.2% to US\$2,028/t. Butter lifted 14% to US\$3,274/t and AMF rose 9.2% to US\$4,148/t. BMP gained the most at this event, up 19.4% to US\$1,983.

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



DAIRY FUTURES

Futures clear up –Mirroring last week, this week powders futures were up or stable and fats trended up, while cheese remained stable.

17-August	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Sep-16	2,050	1,960	2,620	4,057	3,920	5,093
Oct-16	2,200	2,116	2,675	3,955	4,000	5,082
Nov-16	2,310	2,170	2,760	3,860	4,070	5,054
Dec-16	2,325	2,256	2,770	3,770	4,125	4,828
Jan-16	2,360	2,303	2,750	3,717	4,165	4,629
Feb-16	2,400	2,358	2,720	3,704	4,20	4,558
Change	2%	0%	2%	0%	4%	1%
Op interest	5,374	3,553	15,245	16,030	462	4,244