

From the Trading Floor

KEY MARKET DRIVERS

- UK milk down
 - gDT up
 - Predict slow start to new season in Australia
 - US cheese market continues to defy gravity
 - NZ south Island experience record low temps
- We have reports that milk deliveries were down considerably during July (up to 10%) YoY in the UK, particularly in Northern Ireland. Interestingly we are hearing that a premium is now being paid for spot loads over contracted milk to secure supply. Which is the reverse for much of 2016 which showed that spot loads were being sold at ridiculously low levels as prices for ingredient dairy products continued their downward spiral. Broadly speaking the forecast for E.U. Milk production is that it will be flat to slightly down compared to 2015 which shouldn't be too much of a Bullish signal for pricing when you consider 2015 as a record year but with the forecasts being a big increase in 2016 (over 2015) the feeling is that E.U. Milk is actually a little tight.
 - The most recent gDT event surprised to the upside, outstripping even the bullish forecast of NZX futures, particularly for Whole Milk Powder. Reports that there was a strong return to the market from China. We believe this may be traders locking in late 2016 deliveries to take advantage of the duty holiday in January as opposed to a big uptick in real demand, but like all things China it can be a hard place to get a read on.
 - Australia has welcomed a very wet winter period for much of the country caused by the Indian Ocean Dipole, which is kind of like the ElNino / LaNina phenomenon but in the Indian Ocean. A warm Indian Ocean around the equator sends a steady stream of moist air across Australia increasing rainfall. This is expected to continue through August / September. Whilst great for a country coming off a very dry Summer (caused by ElNino) it does mean a very wet to start the new dairy season and likely a slow start to milk as cows battle through very wet paddocks and low grass growth.
 - We were all surprised that the pricing on the CME for US Cheese reversed a downward trend in May / June and marched sharply higher, interesting to see that trend continues up unabated. Now spot cheese pricing is sitting above the US4000/MT level. This all on the back of records imports, low exports and growing inventory levels. Having said that the US economy continues to rebound up and demand remains robust.
 - New Zealand's South Island is currently experience a cold snap. Reports of coldest weather on record for this time of the year.

Matt Cooper, Director, Ausfine Foods

FUTURES

- NZX WMP futures rallied very strongly in the week prior to the last GDT, correctly predicting (and even undershooting somewhat) what ended up being a very strong result.
- We've seen follow through since, with a very persistent bid in the market: after quite a flurry of trader led selling post the last event (offsetting some of their GDT physical purchases), volume has slowed a little in the last few sessions however the buying interest remains firm.
- Interestingly, there has been some similar activity on SMP: while not as strong, there has been an increase in Q4 pricing; funnily enough, it is coming at the same time as US and EU futures are slightly weaker in this period.
- We have a correction to print from the last edition, where we gave an incorrect translation between the number of NZX futures traded and their WMP equivalent: the current numbers show about 11,000MT of WMP equivalent in open interest for the 2017 milk price future.

Scott Briggs, Derivatives and Trading
Manager, Ausfine Foods

DAIRY EXPORT INDEX

Index down on strong A\$ – The dairy export index crumbled this week, down 2.4% due to a strong A\$. Commodity prices remained steady with the exception of SMP, which shed US\$50/t to US\$1,900/t. Butter and WMP are still at US\$2,950/t and US\$2,050/t, respectively – both for the fourth consecutive week. Cheddar remained at last week's level of US\$3,000/t. The A\$ gained over 1c to **US\$0.760**, sending the index down by **3.57 points to 148.03**.

Australasian dairy export index (Jan 2011-now)



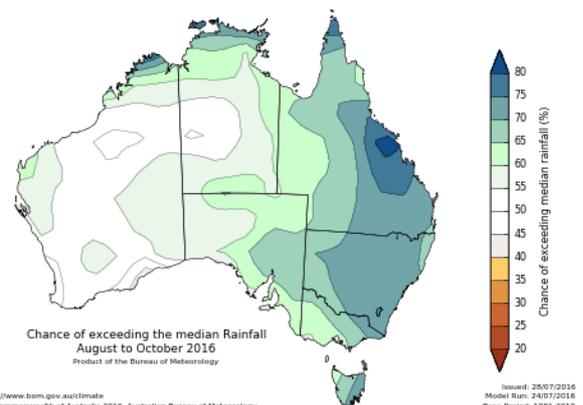
AUSTRALIAN INDUSTRY NEWS

Milk output plummeted in June

Dairy Australia's milk production report revealed almost a 9% fall in milk production in June compared to last year across all states. Tasmania (-18%), South Australia (-12%) and Victoria (-9%) NSW (-8.4%). WA was the only state to record an increase in milk production in June compared to 2015.

Weather outlook wetter, cooler

Bureau of Meteorology has released its outlook for August to October and it is looking both cooler and wetter with rainfall likely to be above average across eastern and northern Australia. A strong negative Indian Ocean Dipole will keep cooling tropical Pacific Ocean waters and see very warm sea surface temperatures surrounding northern and eastern Australia.



GLOBAL DAIRY MARKETS

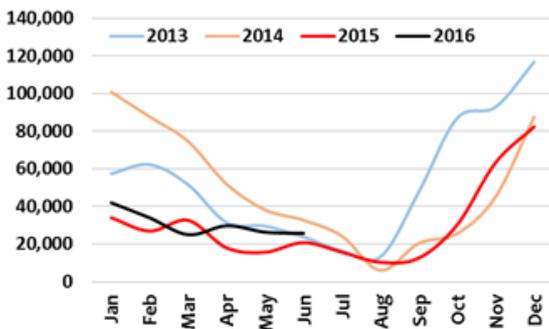
Weather highlights

- In Australia, continuing showers across Victoria flooding risks in the north, dry later in the week.
- In NZ, rain is spreading across both the North and South Island with night frosts in the Canterbury region.
- Thunderstorms moving across Illinois, dry in California.
- Showers in southern Brazil. Northern Argentina warm with possible showers in the north east.
- Dry and sunny in the Netherlands. Possible showers in northern France.

NZ dairy exports to China improving

During the first half of 2016, New Zealand's total exports of WMP fell 3% compared to the same period last year, a difference of 23,241t. Over the same period, WMP shipments to China & Hong Kong rose 24% over the prior-year comparative to 182,202t. New Zealand's first half SMP exports to China & HK were up 0.8% and total cheese exports rose 9% during the first six months of 2016 to 180,637t while butter shipments declined marginally, down 0.4% to 142,320t.

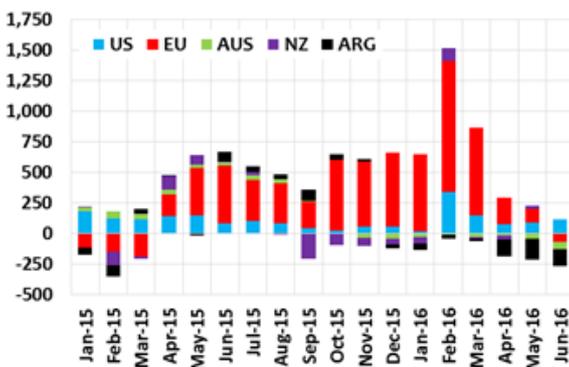
NZ WMP exports to China & HK ('000t)



Global milk dips below last year

Milk production by the leading global dairy exporting countries is slowing fast. Freshagenda's July Global Dairy Directions analysis estimates the total output from the top 5 exporters was only marginally positive in May, (16m litres), but projects a decline of 145m litres for June with the EU, Australia and Argentina all below prior-year levels offsetting flat New Zealand output and a 120m litre expansion in the US. Compared to last year, the top five

Milk production, YOY growth (mn litres)



exporters produced 2,918ml milk more in the first five months of 2016.

CME butter prices crash

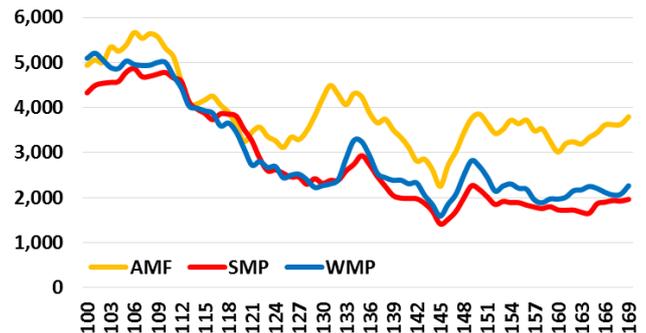
CME butter prices slumped US\$347/t to US\$4,706/t at the end of last week. Part of the decline could be explained by a 2.5% YOY rise in California's butter output during June. Previously, California's butter output had been tracking below prior-year levels with significant falls during April and May. On the other hand, cheese block prices continued to rise for the fifth consecutive week, up US\$55/t to US\$3,818/t, while NFDM prices rose US\$11/t to US\$1,873/t.

GDT jumps 6.6%

The GDT price index, jumped 6.6% this week, on an offering of 34,928t, up on the 31,348t sold at the previous event.

The weighted average WMP price climbed 8.9% to US\$2,265/t, with increases fairly uniform across the contract periods to February next year. In comparison, SMP rose a modest 2% to US\$1,965/t, after falling at the last event. Butter rose 6.8% to US\$2,871/t, followed by AMF up by 4.7% to US\$3,797/t. This week's high-jumper was rennet casein, up an impressive 16.6% to US\$6,161/t.

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



DAIRY FUTURES

Futures mixed – This week powder futures were up or stable, while fats trended down.

3-August	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Sep-16	2,050	2,029	2,300	3,990	3,680	4,963
Oct-16	2,120	2,139	2,385	3,946	3,780	4,972
Nov-16	2,135	2,201	2,400	3,836	3,775	4,971
Dec-16	2,180	2,255	2,425	3,750	3,840	4,696
Jan-16	2,235	2,340	2,525	3,721	3,870	4,585
Feb-16	2,240	2,382	2,560	3,715	3,900	4,542
Change	0%	2%	2%	1%	-1%	-1%
Op interest	4,298	3,342	13,317	15,625	479	3,983