

## From the Trading Floor

### KEY MARKET DRIVERS

- WMP / SMP pricing pauses, which way next?
- E.U. Milk down / US milk continues to grow
- What does 2016/17 milk season look like for Australia? Up, Down or Sideways?
- Lactose continues to remain a little tight on supply and pricing firming.

- For the second event in a row WMP pricing has remained subdued, this was a mild surprise to many in the industry as futures had pointed to a strong rise and sales had been good in the preceding period. The question is where to from here? Some had pointed to a similar rapid rise this time last year and question whether a similar fall across Q4 could occur. Our view is that at the corresponding period last year saw continued milk growth in Europe and intervention build had yet to start, this time round E.U. Milk is falling and intervention remains in place should pricing fall back again. This also coincides with milk falling in Argentina, China, NZ and Australia, which would suggest a big fall that mimics last years is currently looking unlikely.
- E.U. Milk as a whole was down 1.16% YoY in July which continues the slow down in milk across the region. Whilst the fall is not huge and still represents big milk production, the impact is that many EU producers had sold aggressively forward against forecasted milk collections which were set higher than actuals. Therefore the market feels tighter than it may alternatively be as producers scramble firstly to meet contracted obligations before looking at locking in new biz. Meanwhile the US who has been largely absent from International markets for quite sometime, continues to see YoY milk growth, up 1.9% YoY in July. While US pricing for Cheese and Butter remains at higher levels, the rest of the worlds pricing is quickly catching up and we may see US product again making itself readily available on export markets.
- With the MG crisis biting many Australian dairy farmers recently, most have had to cut costs where possible / reduce herd sizes or even leave the industry all together, the forecast was that Australian milk will be down significantly over the 2016/17 season. However as an offset to that, we have seen an extremely wet Spring which has filled Dams & Reservoirs across the country indicating both water and on-farm feeding will be readily available and cheap. This means the dire forecasts of a month or so ago may not be quite so bad as the weather may save the day and call for a re-write of the forecast. Dairy Australia is currently predicting a decline of 2%.
- We continue to see availability on lactose to be tight, particularly for the finer particle size product, pricing is of course responding with firming across the lactose complex from all regions. We are forecasting this to continue into Q4, with Oceania not massive producers of lactose we would look to Northern Hemisphere spring to see the market come back into balance.

Matt Cooper, Director, Ausfine Foods

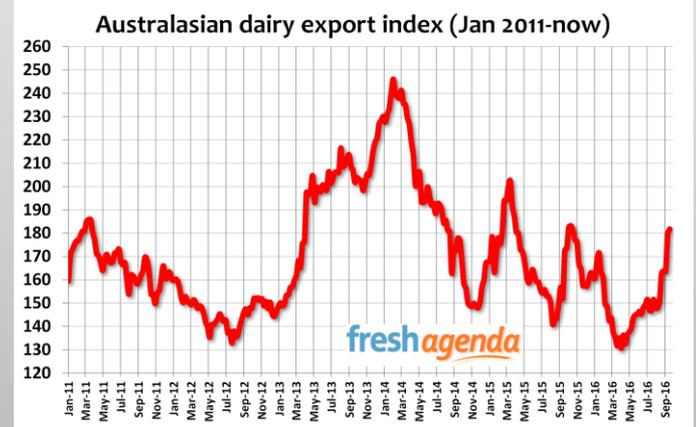
### FUTURES

Futures showed some very interesting action leading into the last GDT: in the first week between events markets were very tight all the way out to mid-2017, with buyers and sellers about \$50 apart and centered around \$3000/MT for WMP – but with very little trading volumes. It was then the buyers that blinked first, with prices for H1 2017 being bid hard on large volumes up to \$3150-3200: we understand lead by a large round of both Chinese and SEA end users looking for cover. With a mixed bag result showing large spreads between contract periods (C1 was max at \$2940, C5 was min at \$2675) we have seen the futures market take this as bearish and not up to the priced expectations, with H1 now closer towards \$3000 again.

Scott Briggs, Derivatives Trading Manager

## DAIRY EXPORT INDEX

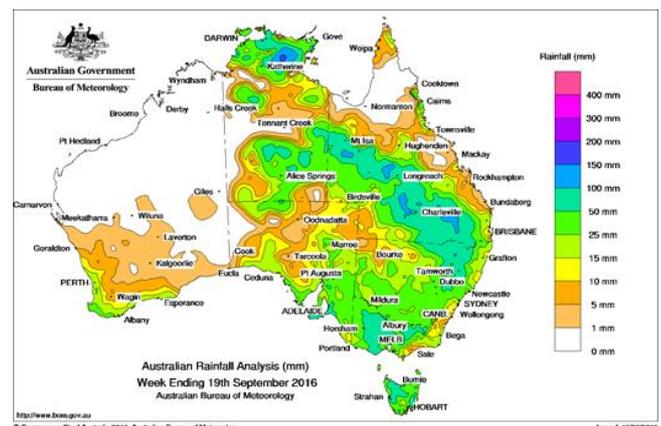
**Index still climbing** – The Australasian dairy export index rose on the back of a weaker A\$. Spot quotes for the major commodities were flat apart from WMP which rose US\$100/t to US\$2,900/t. SMP sat at US\$2,300/t, cheddar at US\$3,400/t and butter remained at US\$3,850/t. The A\$ fell marginally to **US\$0.748**, sending the index up by **2.18 points to 181.79**.



## AUSTRALIAN INDUSTRY NEWS

### Eastern seaboard awash

Last week's wild weather across South Australia and Victoria have caused floodings, which saw water storage levels surge, with the Hume Dam's spillway open for the first time last week with the system's major storage at 97% of capacity. As at the 18th of September the entire GMW system is at 74.5% of capacity. The Resource Manager for northern Victoria announced increases to 2016/17 seasonal determinations in all systems apart from Bullarook last week. The Murray system increased by 22% to 83% of high-reliability water shares (HRWS), the Goulburn and Loddon systems increased by 16% to 73% HRWS. The Campaspe system moves from 70% to 100% HRWS. The increases follow inflows in the past two months that have been greater than for 2014/15 and 2015/16 combined.



## Weather highlights

- In Australia, rain across Victoria and Tasmania, with occasional showers in NSW.
- In NZ, scattered showers on both islands
- In the US, autumn arrives on the eastern seaboard during the weekend, bringing cooler temps. A hurricane will spark floodings and showers across the south-west.
- Dry, warm across southern Brazil and northern Argentina.
- Dry and sunny across the Netherlands and Belgium with chance of rain next week.

## Synlait seeks NZ\$98m to boost growth

Synlait intends to raise NZ\$98m from shareholders for a NZ\$300m expansion program over the next three years. The Canterbury milk processor wants to increase infant formula manufacturing and expand packaging and value added cream manufacturing facilities, including a new second site at its Dunsdanel plant. 32.5m new shares will be offered at NZ\$3 per share at a ratio of two new shares per every nine existing shares. Synlait's after-tax profit has more than tripled at NZ\$34.4m for the financial year ending July.

## EU milk output fell 1.2% in July

In July, cow's milk collection declined 1.2% YOY according to Eurostat. Among major producing countries, Netherlands and Ireland still remain in "growth mode" albeit at lower expansion rates of 4.9% and 2.5% respectively. France saw a weaker 2015 comparable allowing for a marginal 0.2% YOY growth in July. Official monthly Eurostat were only available July, but more recent weekly data shows that in the 2 weeks to September 10, UK daily deliveries averaged 7% lower than in the same period of 2015. Average weekly data illustrates German and French August production declined 2.4% and 2.2% in YOY terms respectively. During the first week of September, German output declined 4.5% YOY and French production fell 5.1% YOY.

EU-28 YOY milk output growth



## Chinese IMF imports strong

Chinese infant formula imports surged in the first seven months of 2016 to 114,700t, up 31.7% YOY with import values up US\$1.57bn, a 30% YOY increase. Netherlands accounting for 36% of import, while Ireland's share of

imports was 17%. Imports from New Zealand and Germany were 11% and 10%, respectively. Meanwhile, feed imports are rising as well. Total Lucerne imports have increased by 9.4% in July compared to the same period last year, while the price of the main feed used to raise Chinese cattle fell 19%.

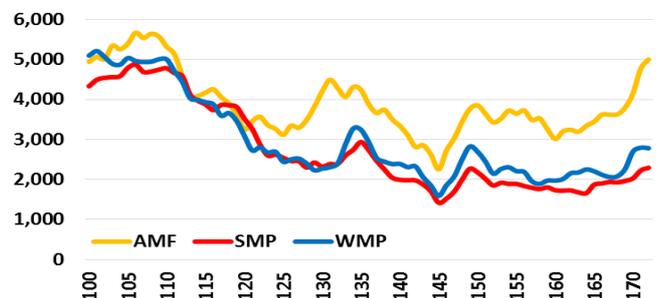
## US cheese demand rises marginally

In July, domestic commercial disappearance of cheese rose only 0.9% YOY according to USDA ERS data, the lowest expansion rate observed during the first seven months of 2016. In YTD terms, domestic demand is up 3.6% to 3.02mt. The general trend masks a notable difference across varieties, with American cheese demand rising 0.4% over this period, and demand for "Other Cheese" jumping nearly 6% on the back of the continuing strong expansion in foodservice sales.

## GDT index up 1.7%

It seems there is no stopping the upward trajectory for the fourth GDT auction in a row - the GDT index rising a modest 1.7% with an offering of 35,086t, slightly less than at previous auctions. The weighted average WMP price declined 0.4% to US\$2,782/t with mixed contracts. SMP weighted average price rose 3.1% to US\$2,293/t. Fats had another great event, with the butter weighted average price rising 3.4% to US\$3,892/t and AMF jumped 4.8% to US\$4,998/t.

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



## DAIRY FUTURES

**Powders higher** – Powders trended up this week, while cheese futures were flat. CME butter remains under pressure

	21-Sept	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME	
Oct-16	2,400	2,127	3,120	3,777	4,980	4,398	
Nov-16	2,460	2,218	3,150	3,799	4,875	4,421	
Dec-16	2,500	2,285	3,125	3,750	4,875	4,400	
Jan-16	2,525	2,364	3,180	3,682	4,850	4,356	
Feb-16	2,565	2,425	3,200	3,682	4,700	4,371	
Mar-16	2,600	2,459	3,200	3,693	4,660	4,398	
Change	4%	1%	5%	0%	2%	-4%	
Op interest	7,374	3,212	24,084	14,456	516	4,616	