

## From the Trading Floor

### KEY MARKET DRIVERS

- gDT - WMP up slightly / Fat goes crazy / SMP plays catch-up
- gDT – age guarantee product fails to fire
- China – demand strong on back of falling local milk (poor prices / weather)
- European skim conc drives E.U. SMP pricing up

- It's fair to say that NZ WMP is the main driver on the Global Dairy Trade auction platform due to the volume traded, eclipsing all other categories. So even though the gDT showed an overall print of a 7.7% increase, no doubt the WMP result of up by 3% and a relatively flat curve across the 6 contract periods would've given the NZ industry cause for pause. In the lead up we had heard of contracts for WMP being done in the early US3000s/MT and the expectations were that gDT would've pushed toward that mark, not to be – well at least not yet. Everything else, particularly Fat (AMF / Butter) rose strongly. Demand for Fresh Cream within the domestic markets of the major production areas (E.U. / Oceania / USA / South America) has taken fat away from Butter / AMF production and shortages have quickly become evident, driving short term prices. Oceania SMP pricing firmed by 10% to come more in line with E.U. and US origin pricing.
- Interesting to see that with the exception of Contract 5 on WMP, the guaranteed Age product across WMP and SMP failed to sell, indicating customers are not willing to bid up that category to ensure min age at time of shipment.
- Reports continue to filter through that milk production is down in China due to continued pricing below cost of production (China has a high cost of production per Litre due to method of farming relying heavily on imported feed) and a very Hot spell that impacted severely on Cow health and therefore production for those farms that don't have temperature control systems in place. This falling milk would've contributed to the renewed demand we have seen from the Chinese market.
- We are hearing that pricing for skim concentrate has risen quickly over recent weeks in E.U. Going back a few months you couldn't give spot loads of Skim conc away, leading to very profitable positions for those processors that could deal with the spot availability and sell to Intervention. Those days appear to be behind us right now as falling milk production bites and pricing firming for those spot loads, putting upward pressure on the resulting Skim Milk Powder sell price, now above intervention levels for the first time it quite a while.

Matt Cooper, Director, Ausfine Foods

### FUTURES

The WMP futures curve, both pre and post GDT, continue to paint a very strange picture – trading basically a flat \$3000/MT from prompt through to mid-2017. This kind of flat curve is atypical in most commodity markets, but given the NZX is still somewhat illiquid it is probably a function of different people playing in different months – in the front of the curve we have seen a lot of Asian buying to protect against GDT rises, pushing that part up; but on the back we have seen a lot of farmer hedge related selling, depressing that part of the curve relatively speaking. Buyers seem to be unwilling to push through the psychological \$3000 “pain barrier”.....that said, as we go to press, buyers have stepped up to that level for over 3000MT on what we understand to be a large Asian end user.

Scott Briggs Derivatives Trading Manager

### AUSFINE NEWS - INDONESIA

European product is no longer dominating the market as price has moved up and supply has dropped. Customers are predicting the price will increase considerably towards end of the year and will have a small correction in Q1 next year. Demand still not very stable, spot buying still the preference over long term contracts.

Mei Ling, Ausfine Foods Indonesia

## DAIRY EXPORT INDEX

**Index steady** – After rising for four consecutive weeks, Freshagenda's dairy export index took a breather this week as commodity prices stalled. Spot quotes were unchanged across the board with WMP sitting at US\$2,700/t and SMP stuck at US\$2,050/t. Butter remained at US\$3,250/t and cheddar sat at US\$3,200/t. The A\$ climbed marginally to **US\$0.757**, causing the index to shed **0.3 point to 163.6**.

Australasian dairy export index (Jan 2011-now)



## AUSTRALIAN INDUSTRY NEWS

### MG to review support

Murray Goulburn (MG) chair Phil Tracey has sent a letter to suppliers acknowledging problems with the company's Milk Supply Support Package (MSSP) that was intended to alleviate the short term cash flow impact of last season's price cut. However, Tracy acknowledged that the MSSP hasn't addressed "farmers most significant concerns and is potentially proving counterproductive from the perspective of their continued loyalty". The Board and Management are reviewing the MSSP with the intention of providing a better solution to support "the long term interests of suppliers and MG."

### China suspends CDC's licence

Chinese authorities claim to have found traces of E.coli and staphylococcus in Camperdown Dairy Company (CDC)'s fresh milk. CDC has denied the claim, saying it has the test results to prove the Chinese wrong, and that the federal government had confirmed the company has "no safety issues". A spokesperson for the Agriculture Minister said the Department of Agriculture was working with the Chinese authorities to investigate reports of non-compliance, and that the issues at hand related to milk quality and were not food safety issues. Meanwhile, Chinese authorities have put the entire Australian dairy industry under 'strengthened supervision'. News of Camperdown's suspension and increased supervision was posted on the official Xinhua newsagency and quickly picked up on other news sites.

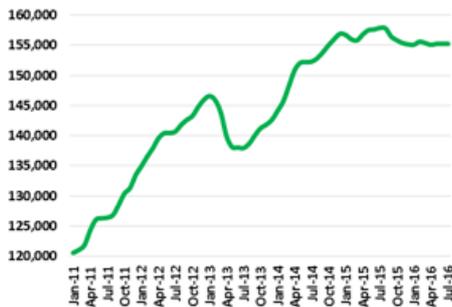
## Weather highlights

- Showers across Gippsland and NSW/VIC border in the weekend.
- In NZ, scattered showers during the week on both islands.
- End of the week will see a heatwave move across Eastern states in the US, cool weather to hit western states.
- Possible scattered showers in southern Brazil. Mostly dry in northern Argentina.
- Sunny and dry in France with possible showers during the week in the Netherlands. Dry in southern Germany.

## NZ July milk up, outlook dry

NZ milk production rose 0.2% YOY to 19.92m kg of milksolids in July. In volume terms, July output rose 0.9% YOY to 231mt. Meanwhile the latest NIWA Seasonal Outlook is for mostly dry conditions in the east of the Sth Island, with above average temperatures in most regions, with a 55% chance of La Nina conditions developing over the next 3 months.

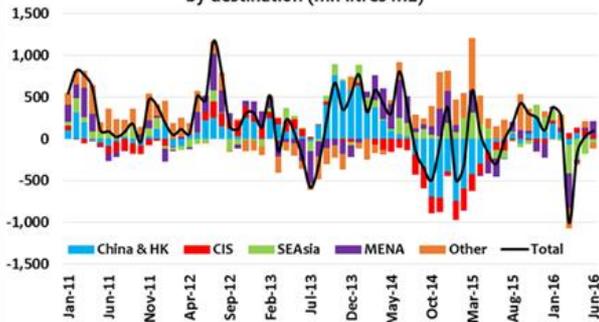
**New Zealand milk production  
12-month rolling average (m kgMS)**



## Global outlook improves

Freshagenda's latest Global Dairy Directions analysis indicates a stronger recovery is in prospect for late 2016 and early 2017. With greater incentive for European producers to cut milk supply in Q4-2016 and higher cow culling, EU milk output is expected to slide well below comparatives as the year progresses, and SMP output will be severely cut. Coupled with output cuts in other regions, projected demand is expected to outstrip supply, although trade will remain sluggish – rising prices could flush some buyers out.

**YOY growth, total global dairy exports  
by destination (mn litres ME)**



## Ireland still growing

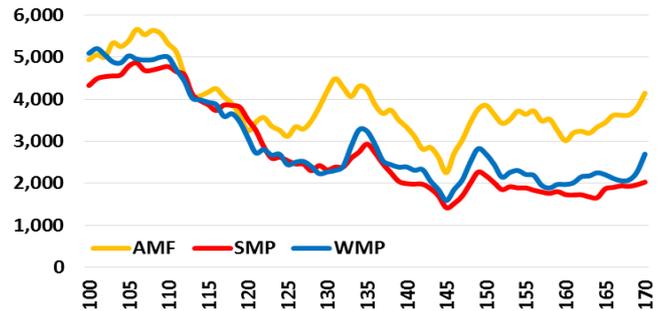
Irish milk output rose 2.5% YOY to 788.3m litres in July, and is up 8.8 for the year to date. Milk sold for human consumption rose 3.2% YOY to 44.6m litres, but butter output fell 14.7% YOY to 19,300t. During 1H-16, cow culling was lower when compared to other leading EU milk producers. In the meantime, other leading EU milk producers are slowing. During the 2-week period ending August 20, UK daily deliveries were 5.9% lower than the same period last year. In addition, German and French supply continues to track lower through week 33.

## GDT rise 7.7%

Another stellar GDT auction result this week with the GDT Price Index rising 7.7% with an offering of 36,748t, slightly less than at the previous event.

The weighted average WMP price was up 3.7% to US\$2,793/t, with all contract periods higher except for January - down 0.2%. SMP weighted average price jumped 10% to US\$2,224/t on a 12.7% increase for October contracts. Fats took the lead with AMF surging 15.4% to US\$4,769/t and butter rising 14.9% to US\$3,764/t, with October contracts up 22.6% to US\$4,035/t.

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



## DAIRY FUTURES

**Futures mostly higher** – Powders and cheese futures trended up this week, with NDM recording the largest jump. CME butter was under pressure.

	7-Sept	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange		NZX	CME	NZX	CME	NZX	CME
Oct-16		2,325	2,147	2,950	3,997	4,600	4,741
Nov-16		2,320	2,286	2,965	3,913	4,600	4,721
Dec-16		2,355	2,350	2,980	3,816	4,600	4,554
Jan-16		2,435	2,420	3,000	3,721	4,600	4,409
Feb-16		2,460	2,422	3,020	3,704	4,600	4,409
Mar-16		2,485	2,480	3,010	3,708	4,600	4,411
Change		1%	8%	1%	2%	1%	-1%
Op interest		6,114	2,995	15,449	14,203	509	4,126