

**AUSFINE ARE EXHIBITING AT SIAL, PARIS THIS YEAR.
WE WOULD LOVE TO SEE YOU THERE
YOU CAN FIND US AT DAIRY HALL 7B 03**



From the Trading Floor

KEY MARKET DRIVERS

- gDT softness continues – same as last year?
- Flippers and Snorkels required for large parts of Australian dairy areas
- US looms as region with excess product
- Protein markets push higher

- In the lead-up to last night's gDT event there was a general feel of softness creeping into the market as Chinese buyers appeared to be more comfortable with their recent purchasing levels and apparent lack of big participation in the event from other regions. That softening view came to fruition with both WMP and SMP down 3.8% and 3.9% respectively. The concern is the flat curve in both product categories out in contracts 4-6. If you compare the current gDT chart to the same time last year there is an eerie correlation. October 2015 saw the start of another strong correction down. The difference this time is lower production outlooks in E.U., China, South American and Australia, which should moderate the big falls repeating, but buyers have long memories and don't want to be caught again this time.
- There is a famous Australian poem that refers to our country as the Land of Drought and Flooding Rain, 2016 typifies both. We had widespread drought conditions across a lot of Australia in summer with farmers in desperate times. We now move the clock forward 6 months and large parts of Australia has experienced one of its wettest Winter and Spring periods on record, and the rain is forecast to continue. Whilst the rain was very welcome earlier in the year it is now becoming a problem with flooding and swollen rivers, if it does indeed continue we will see milk production hit even harder than first anticipated. Interestingly the wet weather has continued across the Tasman and is now effecting large parts of the Waikato, New Zealand's dairy engine room. They are down YoY on milk in the region and if it continues, will have a bigger impact on NZ production than anticipated.
- US is the one region remaining that is showing continued milk growth. Reports of very high inventories of Cheese, Butter and NFDm are hanging there ready to hit the export market with anecdotal evidence that it's already happening. Expect US export numbers to show an uptick in coming months.
- We are seeing continued strength in the protein markets, especially in WPCs. Whilst the growth in pricing has moderated a little lately it is still looking strong with robust demand.

Matt Cooper, Director, Ausfine Foods

FUTURES

WMP futures curve has flattened significantly and now stands sub \$3000/MT until Aug 2017! It would appear that a fair bit of the buying up until now on GDT has been done by traders now using the futures curve to lock in a "cash and carry" style trade, probably in China. This seems to be dampening short term demand for WMP with the big question being at what prices does real end user demand kick in – will they hold out for \$2000-2200 or start to see \$2400-2600 as value? With continued falls in Arg/AU milk supply, a very wet start in Nth Island NZ, optimization away from WMP and the fact Oceania WMP is \$300-400 cheaper than other origins, mid 2000s would look like a better risk/reward than waiting for the last \$100-200

Scott Briggs, Derivatives Trading Manager, Ausfine Foods

DAIRY EXPORT INDEX

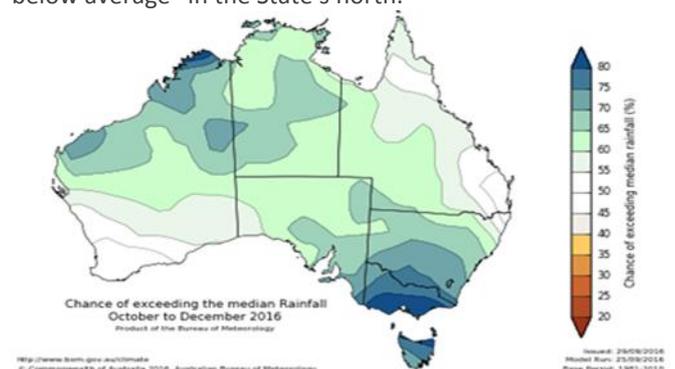
Index slightly down – The Australasian dairy export index again lost a little ground on a stronger A\$. Spot quotes for the major commodities were stable, apart from butter, which gained US\$50/t to US\$3,900/t. SMP sat at US\$2,300/t for its fourth consecutive week, while WMP and cheddar remained at US\$2,800/t and US\$3,500/t, respectively. The A\$ climbed to **US\$0.7662**, shaving the index by **0.44** points to **179.62**.



AUSTRALIAN INDUSTRY NEWS

Cooler and wetter months ahead

Bureau of Meteorology's October to December outlook is for a strong chance of above average rainfall in southeast and northwest Australia with cooler days and nights likely for most of Australia. A negative Indian Ocean Dipole and warmer than average ocean and sea surface to the north and east of Australia is contributing to La Niña-like impacts in Australia, likely to add to the extreme wet that has drenched the region in the past few months. Victoria as a whole had its second-wettest September on record, with areas of highest September rainfall on record in the State's north and west. Maximum temperatures were generally below average, while minimum temperatures were warmer. Daytime temperatures were cooler than average for much of the north and west of the State, including an area of "very much below average" in the State's north.



Weather highlights

- In Australia, mixed weather across VIC, showers across NSW next week.
- In NZ, showers across both islands.
- In the US, dry with chance of showers in California while the east coast braces for Hurricane Matthew.
- Warm, humid and chance of showers and thunderstorms in Brazil. A few showers in Argentina.
- Mixed weather across the Netherlands and Germany. Dry in Ireland.

Westland in JV with Ausnutria

Westland Milk Products is building a new infant formula plant in a joint venture with Hong Kong-listed Ausnutria Dairy. Westland will retain a 40% stake, while Ausnutria will retain the other 60%. Ausnutria will inject NZ\$4.5m of cash and loan NZ\$32m to the subsidiary to build a blending and canning plant. The plant's initial capacity is expected to be about 20m cans of milk formula or 15,000t, depending on product mix. Ausnutria has agreed to buy a minimum of 3,000t of infant and toddler nutritional product from Westland in the first year of a five-year supply contract, rising to 5,000t in each of the following years.

52,000 EU farmers to reduce output

The EU milk production reduction scheme has been almost fully subscribed with applications from 52,101 farmers across Europe to reduce milk production by 1.06mt. In France, 12,957 farmers applied for the 14c/l reduction for 100,000t, followed by 9,947 German dairy farmers who applied for aid for 286,000t. Ireland had the third highest number of dairy farmers applying for the scheme, with 4,447 farmers applying for 74,225t of milk, even though a lot of media attention in the industry pointed to the false economics of the scheme. In Austria and the Netherlands 4,000 dairy farmers also applied for the scheme.

US cheese, butter prices slide

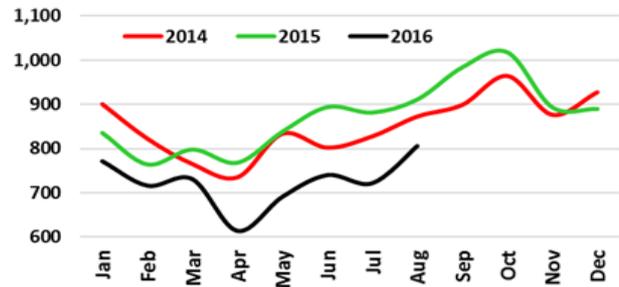
CME cash cheese (block) prices retreated for a third consecutive week to close last week at US\$3,378/t, a 3-month low, and down 18% since peaking in mid-August. According to local analyst Matt Gould, this downward trend is due to supply, brought about by a shift in product mix, with California's processors favoring more milk going into cheese instead of milk powder during August. CDFA data shows California's cheese production rose 8% YOY for the month, leaving less milk available for non-fat dry milk (NFD) with its production down 32% YOY in August, the lowest level in 33 months.

Argentina's milk recovering

Milk output from the beleaguered Argentinian industry came some way back towards the 2015 comparative, down 11.6% during August on the same month last year, after being behind more than 17% for the previous 4 months. The YTD total for the first 8 months was 13.4% down. Milk

prices are recovering to provide some relief with August milk prices averaging ARS\$4.27/litre, having climbed from ARS\$2.75/litre at the start of the year, but the weak local currency means milk is worth just US28c.

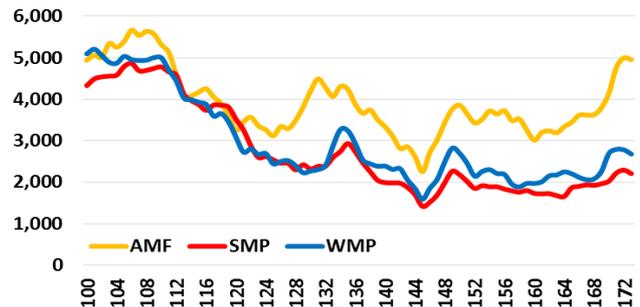
Argentina milk deliveries (mil litres)



GDT index falls 3%

This week's GDT event has ended the upbeat trend of the past two months, the index fell 3% with 33,937t sold - a slightly lower quantity than at the previous event. The weighted average WMP price fell 3.6% to US\$2,681/t with all contracts down apart from December, which increased 0.3%. SMP weighted average price fell 3.7% to US\$2,209/t. Fats were less affected, with butter weighted average price flat at US\$3,891/t and AMF declining by 0.9% to US\$4,954/t.

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



DAIRY FUTURES

Powders under pressure – Powder futures retreated this week along with butter. AMF and cheese were flat.

	5-Oct	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME	
Nov-16	2,370	2,127	2,785	3,556	5,010	4,243	
Dec-16	2,390	2,181	2,830	3,563	4,980	4,212	
Jan-16	2,420	2,254	2,840	3,560	4,975	4,235	
Feb-16	2,440	2,344	2,875	3,594	4,925	4,266	
Mar-16	2,575	2,385	2,875	3,624	4,870	4,321	
Apr-16	2,600	2,425	2,910	3,638	4,800	4,323	
Change	-3%	-5%	-4%	0%	0%	-2%	
Op interest	3,853	2,645	18,475	13,445	307	3,564	