

From the Trading Floor

KEY MARKET DRIVERS

- Fair to say the Dairy pricing trend has changed
- gDT participation spreads to S.E.A
- Will E.U. / USA origin SMP pricing follow Oceania?
- NZ milk – does milk price jump and does that mean more milk, or debt repayments?
- Geopolitics added to the mix

- We have clearly had a breakout in the dairy charts. This is a big change from the last two years (2014 & 2015) when there was a clear run up over Sept/Oct gDT events only to see the prices crash back down as the scare of an imminent pullback on NZ milk waned. Turns out this time it is true (for now at least) and combined with a pullback in E.U. we have seen pricing jump through the “resistance levels” from previous two years to set new highs (recent highs). The customers who were expecting the chart to repeat and pick-up value parcels on the way back down now have to re-evaluate their buying strategy going forward.
- At the 1st gDT event for November the bulk of the buying load was born by the Chinese with minimal participation from South East Asia or other regions. That appears to have changed in last night's event. China participation fell to around 50% (down from approx. 80% in previous), with SEA stepping in. Interestingly Middle East / North Africa (MENA) remains subdued in their buying. Will they come back? Or is the continued low oil pricing forcing them to remain on their hands?
- A noticeable pricing gap has now opened up between E.U. / USA and Oceania SMP pricing for the first time in quite a while. For a long time now SMP from all 3 regions has essentially been moving in lock-step with each other. This suggests that the current gap will converge (as many buyers have made the different origins interchangeable), the question is whether E.U. / USA come up to Oceania or whether Oceania comes back down to meet the other two. From what we are seeing with limited availability on excess stock down here we are forecasting the former.
- With jump in pricing on gDT attention turns to whether NZ milk pricing will firm. With the last few years being very tough for farmers we would think processors would be eager to pass on the price increases quickly, but does that then mean a response in milk volumes? The question is does the higher income go toward supplementary feed (PKE)? Or does it go to debt repayments? Our feeling is that the banks will be putting pressure on farmers to put additional income toward paying down debt so milk response will be subdued.
- Not only do we need to monitor weather, milk flows, buyer demand & currency, we also need to keep a keen eye on geopolitical events and their potential impact on agriculture and dairy. We are monitoring possible changes in dairy commodity flow's globally in light of Brexit and US election results, as potential impacts on trade agreements and FTA's come to light. Things are quite uncertain currently and this will be a moving target for some time.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index continues its high – The Australasian dairy export index rose again last week on a weaker A\$. Spot quotes for commodities remained at last week's level, with WMP at US\$3,350/t, SMP at US\$2,400/t and butter selling for US\$4,200/t. The A\$ fell to **US\$0.7550**, lifting the index by **3.06 points to 189.37**.



AUSTRALIAN INDUSTRY NEWS

Viplus cops China ban

Viplus Dairy has been banned from selling its products in Mainland China. The Certification and Accreditation Administration (CNCA) gave no reason for the ban, although it has previously blocked Viplus shipments because of incorrect labelling. The Australian government has rejected the Viplus ban, saying it had investigated concerns about the company and found its food manufacturing processes met all the necessary safety and quality standards.

ACCC dairy investigation begins

The Australian Competition and Consumer Commission's (ACCC) has commenced its dairy industry inquiry. ACCC chairman Rod Sims says the inquiry will closely examine the key competition and fair trading issues affecting the dairy industry including competition for milk between dairy processors, contracting practices, availability of price and other market information, the effect of the dairy industry of private label dairy products in domestic markets and options for milk supplies into the global market.

Domino's adds dairy

Domino's was serving up milk shakes at its Brisbane AGM, highlighting the addition of milk shakes and ice cream to its menu across New Zealand and Australia in 2017. Chief executive Don Meij said Domino's is targeting a 10% stake of the ice cream and milk shakes markets in Australia, expecting same store sales to grow between 12%-14% in fiscal 2017, up from 10%-12%.

Weather highlights

- In Australia, chance of showers in eastern VIC, showers later in the week for NSW.
- In New Zealand, wild weather has hit the country following earthquakes with widespread rain.
- Gusty storms will spread across northeastern US, bringing heavy snow fall.
- Chance of thunderstorms in Brazil. Argentina dry and sunny, some rain in central parts of the country.
- Showers across southern Germany. Rain in the Netherlands, scattered showers in France.

Earthquake hits NZ farms

Sunday night's magnitude 7.5 earthquake in North Canterbury damaged several dairy sheds and knocked out electricity supplies. In the northern parts of Marlborough, farmers could milk their cows in the morning, but disrupted communications have made it difficult to determine damages to farms in Kaikoura. Fonterra released a statement saying road conditions in Kaikoura meant around 30 farms in the area wouldn't have their milk collected. Fonterra's farm source chief operating officer Miles Hurrell said farmers might be forced to dispose of their milk.

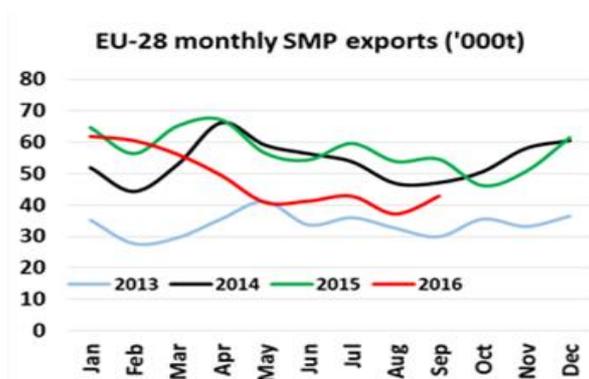
USDA lowers milk forecast

In its November World Agricultural Supply and Demand Estimates (WASDE) Report, the USDA lowered 2016 and 2017 milk production forecasts as recent data indicated that the US cow inventory increased less rapidly than previously expected. However, average yield per cow increased from last month. The USDA now tips a 1.9% YOY increase in national milk production in 2016, and a further 2.1% rise in 2017.

As YTD (September) non leap-year adjusted output was up 1.7%, average Q4-16 YOY growth would have to rise 2.4% for a full year impact of 1.9%. With this, the US will remain the only major milk producing region in expansion mode during the final quarter of this year, with favorable weather conditions, low input costs and higher quality feed encouraging output growth..

EU powder exports track lower

SMP exports fell 19% during the first three quarters of 2016 compared to the same period last year, to 433,091t. The fall mostly reflects that product was diverted into more attractive public intervention, with 334,551t accumulated in the week ending 11 September. During this period, shipments to EU's two major markets have each fallen in YOY terms, Algeria by 30% and China by 7% respectively.



Belarus' exports rise

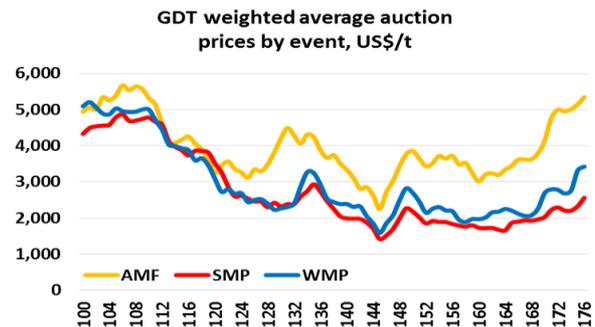
Belarus dairy shipments continue to expand with the continued enforcement of the Russian embargo and the local dairy industry's failure to improve self-sufficiency. During the first three quarters of 2016, Belarus cheese exports were 18% higher than the same period in 2015. Over the same period, butter shipments rose 13%.

Cheese and butter export growth rate has slowed more recently, given stronger prior-year comparatives, and despite a stabilizing Russian economy, with cheese shipments up 5% YOY in September. In the same month, butter exports increased 28% YOY.

GDT index lifts 4.5%

The GDT price index gained another 4.5% this week, on a smaller offering of 23,902t.

The WMP weighted average price rose 3.2% to US\$3,423/t with the May contract recording the highest increase of 6.2%. SMP prices gained 9.8% to average US\$2,562/t, with February and March contracts up 10.4% and 10.8%, respectively. Butter prices edged up by 1.1% to US\$4,139/t on average, while cheddar weighted average prices jumped 11% to US\$3,697/t with a fairly consistent spread of rises across the five contract periods available.



DAIRY FUTURES

Powders up, fats stable – Powder futures trended up this week, while fats were unchanged.

	16-Nov	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME	
Dec-16	2,480	2,098	3,480	3,794	5,190	4,344	
Jan-17	2,625	2,249	3,530	3,680	5,220	4,365	
Feb-17	2,650	2,331	3,560	3,666	5,240	4,420	
Mar-17	2,650	2,375	3,585	3,655	5,300	4,498	
Apr-17	2,650	2,437	3,610	3,671	5,430	4,520	
May-17	2,700	2,478	3,600	3,693	5,350	4,580	
Change	2%	3%	2%	0%	0%	0%	
Op interest	3,673	3,435	23,395	13,672	199	3,598	

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