

### KEY MARKET DRIVERS

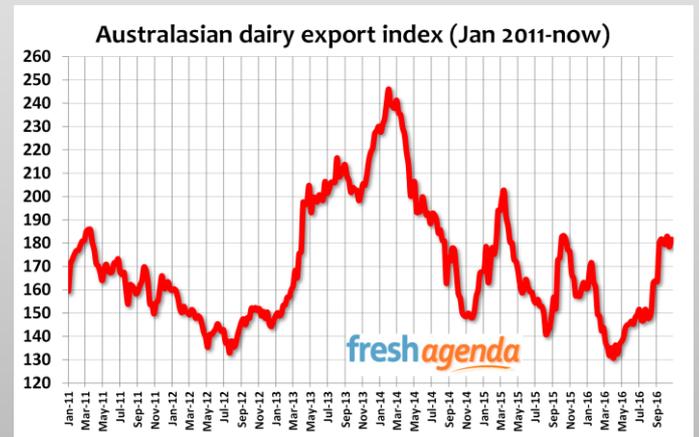
- Chinese buyers come to gDT for WMP
- Weather watch front and center
- Australian milk decline a big concern
- Chinese rapid milk expansion 2013-15

- So just in case you haven't heard, WMP pricing jumped big time on last night's gDT event by an impressive 19.8% which, owing to the fact that WMP quantities make up 50% of NZ origin offerings, dragged the entire auction event up by an overall 11.4%. The jump was due to reduction in volumes offered because of the emerging story of NZ milk being down YoY in the North Island. From what we hear the important point to note in all this is that a large part of the buying was from China and less so from S.E.Asia and other regions. Which illustrates the importance of the China market and the somewhat subdued nature of demand in other regions. So for the rally to continue or even stabilise from here, it becomes a question of what demand from China looks like going forward.
- As milk growth wanes across the world (Oceania / China / E.U.) due primarily to economic signals (lower milk pricing) the impact of unexpected weather events plays a bigger role in that they can exacerbate an already declining milk volume. Case in point are the effects of the wet conditions on NZ milk production, milk was easing anyway due to low milk pricing adding adverse weather conditions and the falls become unexpectedly larger. There are now early forecasts of Europe being hit by an early onset of harsh winter conditions. Weather watch across the globe continues.
- Australian milk continues to track well behind 2015. We are currently showing a fall of -10% milk flow YoY, this number was expected to improve as the peak hit but so far that is not the case. It is the cause of a great deal of concern. Some dairy companies are being hit harder than others, and for those being hit, it is almost at alarming rates. The ramifications of this could be unprecedented for the Australian dairy industry.
- We have lamented in the past of the difficulty in getting accurate and reliable production numbers from China, so take the following with a grain of salt. The China milk numbers we have are showing that China milk production has grown by 3.2 billion litres from 2013 – 2015. (34.3 billion in 2013 – 37.5 billion in 2015). As a percentage it is impressive = 9.3% but as a real figure it would represent over 1/3 of Australian milk production, just in the increase. So during that period not only was the market dealing with an overhang of imports but also digesting an extra 10% of production. The fact that there were any subsequent imports at all during that period probably illustrates the fact that it is a massive market and YoY growth in demand is still formidable, it's just been hard to see through the dire market over the last 2.5 years.

**Matt Cooper, Director, Ausfine Foods**

## DAIRY EXPORT INDEX

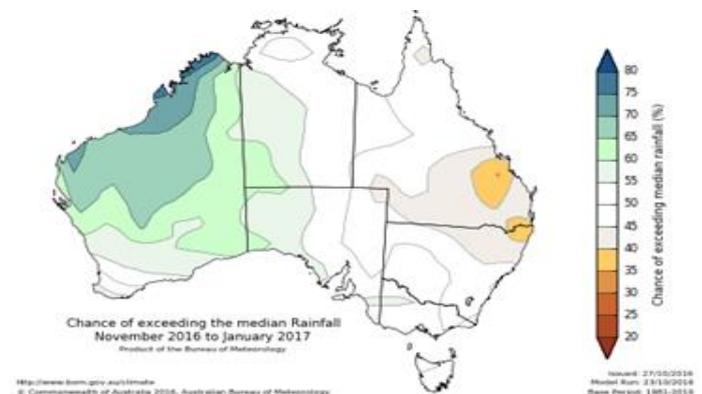
**Index stabilises** – Last week, the Australasian dairy export index fell marginally due to declines in WMP prices. Spot quotes for the major commodities were stable, but WMP shed US\$60/t to US\$2,800/t and cheddar lost US\$25/t to US\$3,450/t. Butter and SMP remained steady at US\$3,980/t and US\$2,300/t, respectively. The A\$ continued to fall marginally to **US\$0.7586**, causing the index to shed **0.61 points to 180.86**.



## AUSTRALIAN INDUSTRY NEWS

### BOM: warmer, drier outlook

The Bureau of Meteorology is forecasting above average rainfall across large parts of WA, except the south west while areas of southeast Queensland may be below average. Most dairying regions have a roughly equal chance of a wetter or drier three months.



### MG steps up

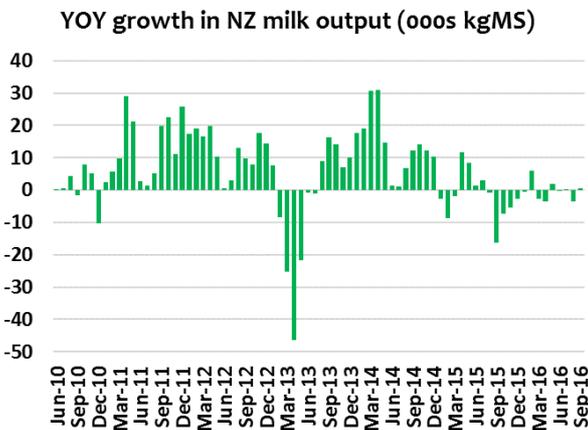
Murray Goulburn (MG) has announced a two part step up totalling \$0.26kgMS with half paid now and half later to current and new suppliers at 30 June 2017 "to reward continuity of supply". The step-ups take MG's weighted average available FY17 farmgate milk price to \$4.86kgMS and its full-year forecast to an estimated \$4.95kgMS.

## Weather highlights

- Rain next week in Gippsland, dry in southern NSW.
- In New Zealand, rain across both Islands early next week.
- In the US, a pair of storms has flooded northwestern California, dry across the Mid-West.
- End of the week will bring showers and thunderstorms to Brazil. Sunny in Argentina.
- Chances of showers across northern France. Rain across central regions of Germany.

## NZ milk output flat in Sept

September milk solids production rose 0.3% YOY, while milk volume (litres) increased 1.1% according to Dairy Companies Association of New Zealand (DCANZ). During the first four months of the 2016/17 season, milk production was down 0.8% (in solids) and 0.2% (litres) over the same period in the prior season. Heavy rainfall on the North Island and the lack of sunshine are rumoured to have had a major effect on milk production during this period as pasture growth conditions were unfavourable



## Irish milk supply dipped in Sept

Irish milk production fell 3.5% in September, only the 2nd month since March 2015 where output has failed to beat the prior year comparative. Parts of the country – chiefly the south and west - recorded their wettest September weather in a decade, while heat wave conditions were a feature of the weather in the east.

The Irish stats office revised August data on milk deliveries down, suggesting output rose only 0.9% for the month.

## US butter recovers

US butter prices recovered more than 9% or \$350/t last week in US wholesale markets as fears of lower product availability, despite healthy stockpiles. While a large jump, this reversed just part of the slump over the previous 4 weeks that resulted from a fear of over-supply. The quick reversal in export competitiveness has helped in some way to drive the recovery, with a strong rise in EU prices driving some greater interest in cheaper US butterfat. However, with seasonal demand picking up over the festive season, butter prices are likely to stabilise.

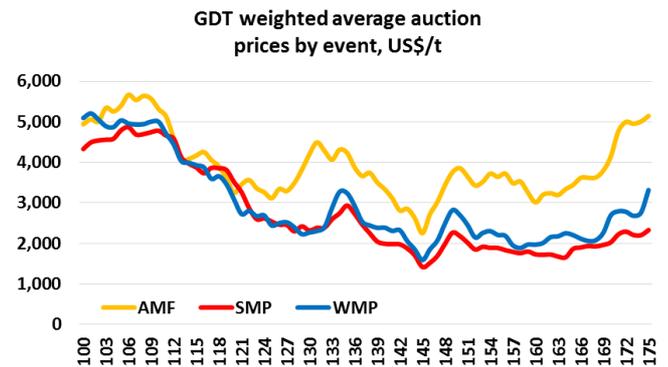
## Supply risks in global outlook

The latest update of Freshagenda’s Global Dairy Directions analysis has highlighted the key supply-side risks for the global dairy markets. While the engineered milk shortage in the EU has seen local spot milk prices spike in recent weeks, and signals to farmers are mixed, further contraction is expected to shift product mix away from SMP. However, this may be offset by increasing US availability, as expanding milk output there is met with already ample cheese stocks. In New Zealand, the reality of drastic cuts to milk production is yet to materialize, with pasture conditions mixed across the country. Based on an assumption of lower EU and New Zealand milk output, the market is shifting toward a stronger “net demand” situation in early 2017.

## GDT index up 11.4%

The GDT price index jumped a massive 11.4% this week, on strong WMP values and a smaller offering of 27,735t.

The WMP weighted average price rose 20.2% to US\$3,317/t with the December contract increasing of 31%. SMP climbed 5.7% to US\$2,329/t, with December again the strongest contract period, up 14.5%. Butter prices rose 4.1% to US\$4,146/t on average, while AMF prices recorded a 2.8% increase to US\$5,146/t. Cheddar prices increased 1.3% to US\$3,332/t.



## DAIRY FUTURES

**WMP & cheese well up** – NZX WMP and CME cheese were the stronger performers this week, Other futures were slightly up or stable.

19-Oct	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Nov-16	2,330	2,097	3,085	3,717	4,910	4,233
Dec-16	2,390	2,194	3,150	3,660	4,950	4,257
Jan-16	2,420	2,260	3,190	3,691	4,925	4,394
Feb-16	2,410	2,320	3,200	3,710	5,010	4,464
Mar-16	2,430	2,378	3,210	3,713	5,010	4,530
Apr-16	2,450	2,427	3,230	3,724	5,010	4,612
Change	0%	2%	5%	3%	1%	1%
Op interest	3,127	3,067	18,472	13,079	179	3,208

[www.ausfine.com.au](http://www.ausfine.com.au)

Ausfine Foods International Pty Ltd ■ ABN 12 006 926 129

T +61 3 9583 3588 ■ F +61 3 9583 4344 ■ E sales@ausfine.com.au

Suite 10, Level 4, 205 – 211 Forster Road, Mount Waverley VIC 3149 Melbourne, Australia