

From the Trading Floor

2016 A YEAR IN REVIEW

- 2016 year of slow dairy pricing recovery
- Dairy Chickens come home to roost in Australia
- Our 2017 crystal balling
- Merry Christmas to everyone in Dairy Land

- Well what a year 2016 turned out to be. Not sure if we will ever see another year like it!! Brexit / Trump / Leicester City / Chicago Cubs / Western Bulldogs / Terror attacks in Nice, Berlin, North Africa / The wars in Syria, Yemen with USA & Russia involvement. It's been truly a year out of the box. In Dairy terms we have seen a slow grinding recovery in pretty much every segment as European, Chinese, New Zealand, South American and Australian milk saw varying degrees of decline. To recap, WMP went from US\$1950/MT in Feb to US\$3550/MT in Dec, SMP went from US\$1750/MT to US\$2550/MT, Cheddar from US\$2500/MT to US\$4000/MT, and I think we can all agree that Butter & AMF has clearly gone nuts this year. Another volatile year in Dairy.
- 2016 also saw reality finally hit the Australian Dairy industry as Murray Goulburn led the charge in downgrading its milk price in May leading to massive upheaval, which we are still feeling the effects of. MG had held the price paid to farmers at AUD6/kg for the previous 2 years as the rest of the Dairying world cut prices paid to farmers dramatically as commodity prices plummeted. MG tried to stare the market down and wait it out. Unfortunately the market always wins and the timing (at the end of the dairy year) couldn't have been worse. It is going to take some serious recovery from here just to get back to where we were (on milk production).
- So we turn our gaze to 2017 where to from here? In our view, unless New Zealand have amazing weather conditions over summer (promoting milk growth) then Oceania supply is pretty much a non-factor with the result already known (milk down and excess product supply unlikely). So the story really is China, Europe and Currencies. If Chinese milk production stays down then demand for imports will stay strong and will support the global market, if Chinese milk bounces back then we're headed back down. Similarly if European milk recovers in response to higher milk price and the EUR stays down then prices will moderate back down, obviously if the reverse happens then pricing in USD stays where it is. It is hard to see prices continuing to rocket up from here as most currencies around the world are much lower compared to USD so purchasing power remains subdued and alternatives to Dairy products will become more attractive. The continued low oil price will also subdue demand in MENA regions.
- From all of us at Ausfine Foods, we want to wish everyone out there in Dairy Land a very Merry and Safe Christmas. See you all again in 2017, wonder what that will bring?

Matt Cooper, Director, Ausfine Foods

AUSFINE NEWS - PHILIPPINES

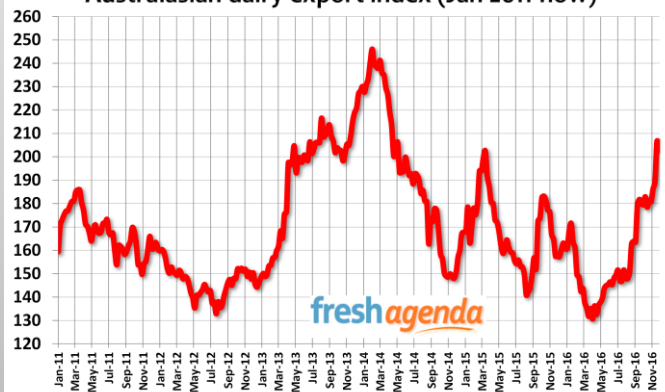
We previously reported that all agricultural shipments arriving in the Philippines needed to undergo import permit (SPS) revalidation at the Dept. of Agriculture prior to release. This caused multi-day delays in clearing shipments. The Dept of Agriculture has since implemented a further memo exempting dairy and chilled shipments from the process. There has been no change, as of writing, to the SPS process for future shipments.

Camilla Brooks, Country Manager, Ausfine Foods

DAIRY EXPORT INDEX

Index climbs – The Australasian dairy export index gained 1.5% last week, mostly due to a weaker A\$. Spot quotes for commodities were mostly unchanged with WMP at US\$3,600/t, cheddar sat at US\$3,800/t and butter remained at US\$4,300/t. SMP shed US\$50/t to US\$2,600/t. The A\$ fell over 1c to **US\$0.7303**, lifting the index by **3.2 points to 211.24**.

Australasian dairy export index (Jan 2011-now)



AUSTRALIAN INDUSTRY NEWS

Clouds gathering over Bellamy's

Bellamy's remains in lock down, having requested a second voluntary suspension period, this time until 13 January. Bellamy's requested a trading halt and then voluntary suspension until 21 December to assess the impact of trading conditions on its financial results, but is still in negotiations with "key supplier/manufacturers" this week.

Meanwhile more than 200 people have reportedly registered for a potential class action against the infant formula marketer for alleged breaches of its continuous disclosure obligations and its conduct in handling Chinese trade. Bellamy's has captured around 3% of the Chinese market, with its product which contains around 55% milk powders – all sourced overseas and blended by third parties.

China lifts Viplus ban

Chinese authorities have lifted the import ban on Viplus Dairy products. Australian trade diplomats had been working on behalf of the company and the Australian Department of Agriculture and Water Resources found – through its own investigation – that Viplus Dairy was "operating in compliance with both Australian and Chinese food safety requirements." The ban had halted Viplus exports to China for five weeks and according to the company's chief executive Peter Cunningham, Viplus Dairy had taken a 40% cut in production for the period. Viplus is part-owned by Chinese interests and has been operating since 2013.

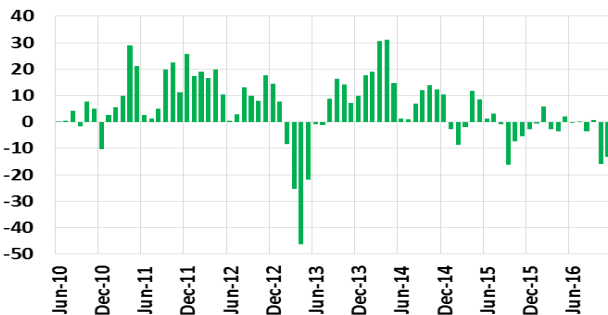
Weather highlights

- In Australia, sunny and dry in VIC, possible showers in NSW on the weekend.
- In New Zealand, scattered showers in the west of the South Island, some rainfall in the North Island.
- Snow is expected to cover the northwest and a potential snowstorm is lingering over the central plains and the Upper Midwest.
- Argentina dry and sunny, thunderstorms in southern Brazil.
- Dry and sunny in southern Germany and south-eastern France. Rain in the Netherlands in the weekend.

NZ milk output fell 5.3% in Nov

New Zealand milk production declined 5.3% YOY in November to 234.8m kgMS according to Dairy Companies Association of New Zealand (DCANZ). In milk volume terms, November production fell 4.5% to 2.85m tonnes. Despite improved pasture growth conditions, producers were affected by poor pasture quality. Season-to-date (June-November 2016) output was down 3.7% (total solids terms) and 3% (volume terms).

YOY growth in NZ milk output (000s kgMS)

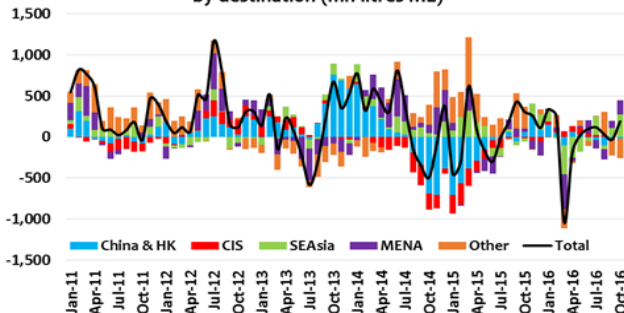


Global trade expands in Oct

Freshagenda's latest Global Dairy Directions Trade Trends report shows global dairy exports were up 3.8% or 181m litres (milk equivalent) higher YOY in October. SE Asia and MENA were the key markets in October – absorbing 433m litres milk equivalent. SE Asia remains a bright spot for dairy trade - increasing demand for cheese and SMP.

Dairy exports for the first 10 months of 2016 fell 213m litres milk equivalent compared to the same period in 2015. This largely reflects low first half activity, as the four months to October have been the highest for several years.

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



US milk output up 2.4%

National milk production rose 2.4% YOY in November, with cow yields once again accounting for most of the increase. Per cow yields jumped 2.2% and cow numbers rose 0.2% YOY, an increase of 17,000 head on the same month in 2015, and 4,000 more than the previous month. Leap-year adjusted YTD milk growth was up 1.5%.

Brazil: rain hampers milk recovery

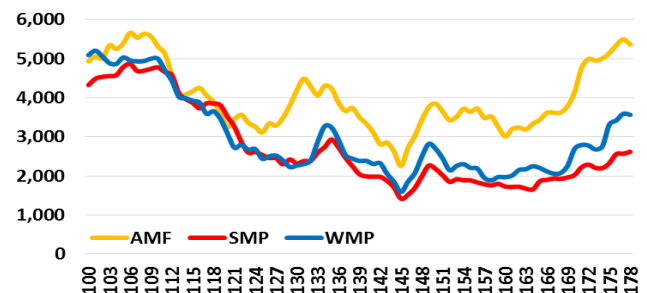
Heavy rains across Brazil's main dairy state Minas Gerais is affecting production, with milk deliveries down 5.08% YOY in January through to September. The average milk prices received by Brazilian dairy farmers in November was down 10.9% from the previous month to US\$0.42/l, but 27.3% above the same month in 2015.

GDT index trimmed

All good things must come to and end, and so the GDT price index lost 0.5% this week, on softening WMP prices and a slightly smaller offering of 22,321t.

The WMP weighted average price slid 0.7% to US\$3,568/t with all contracts down except for January and March delivery. SMP prices edged up 2.0% to US\$2,621/t, with the highest increase in the June contract, up 5%. Butter average prices lifted 0.7% to US\$4,290/t, however the June contract was down 7.4%. AMF prices averaged US\$5,367/t, down 2.4% from the previous event. Cheddar prices increased 2.0% to average US\$3,826/t, the June contract lifting 17.2%.

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



DAIRY FUTURES

Powders mixed – NZX WMP lost ground this week, while SMP trended up. NZX AMF was flat, but CME butter gained.

	7-Dec	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME	
Jan-17	2,760	2,329	3,525	3,832	5,450	4,884	
Feb-17	2,775	2,423	3,500	3,847	5,470	4,916	
Mar-17	2,775	2,469	3,500	3,909	5,490	4,950	
Apr-17	2,770	2,513	3,545	3,935	5,460	4,983	
May-17	2,760	2,549	3,570	3,940	5,425	5,002	
Jun-17	2,760	2,584	3,580	3,946	5,425	5,028	
Change	1%	3%	-2%	-1%	0%	5%	
Op interest	5,309	3,382	27,743	13,184	389	3,131	