

## From the Trading Floor

### KEY MARKET DRIVERS

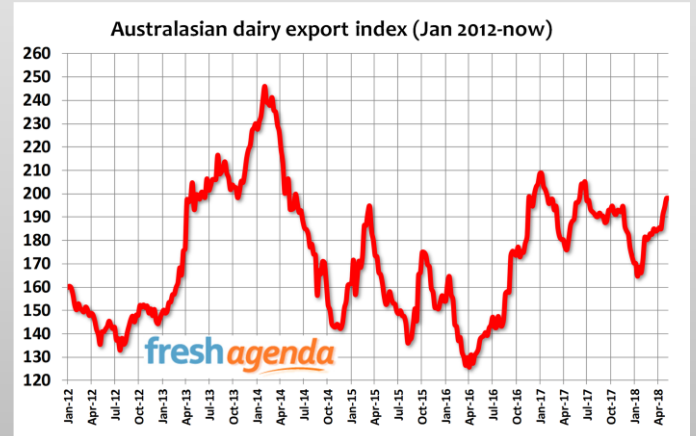
➤ Discussion of SMP price drivers

- I was asked today what my thoughts are for Skim Powder Pricing into Q3. Here are the drivers that I see and shudder a price call (cue ridicule when it goes completely out of this range)
- Certainly, some strenght in SMP as we have all seen. Here are my thoughts on the drivers:
  - Slow start to Euro season
  - Question marks around NZ season (hangover from previous messaging to the market)
  - Steadily improving world economy
  - Butter market strength driving everything
  - Producers believe market is firming, causing reduced availability
- However, there are some bearish signals coming back as an offset:
  - Euro season now in full swing after the delay
  - EU skim conc is still very cheap; makes sense to produce a lot of SMP
  - Current NZ season will end up only being down aprox. 1% and maybe even flat
  - Build into next NZ season is looking good as conditions are described as excellent
  - USD strength
  - Butter production will remain strong leading to ready availability of SMP
  - ButterFat pricing flowing through to milk cheques will keep plenty of milk flowing everywhere
  - A lot of SMP due to be released from EU intervention in coming months will displace other SMP (even though some are seeing this as a bullish move)
- Due to the strength in butter, it's my overall opinion that the market wants to move up, however EUR has fallen making Euro SMP more competitive on pricing right now
- For Q3, I think we will stay off our lows but there will remain plenty of product around to hit demand. Milk production is unlikely to fall anywhere due to improving milk cheques
- My prediction on pricing is US\$1,800/t – US\$2,200/t, depending on origin/spec and customer on CIF basis

Matt Cooper, Director, Ausfine Foods

### DAIRY EXPORT INDEX

**Index edges up** - The Australasian dairy export index was steady this week as commodity prices were unchanged. Spot quotes for butter stayed at US\$5,665/t and SMP averaged US\$2,000/t. WMP sat at US\$3,300/t and cheddar remained at US\$3,925/t. The A\$ fell marginally to **US\$0.7540** – lifting the index by **0.1 of a point to 198.1**.



## AUSTRALIAN INDUSTRY NEWS

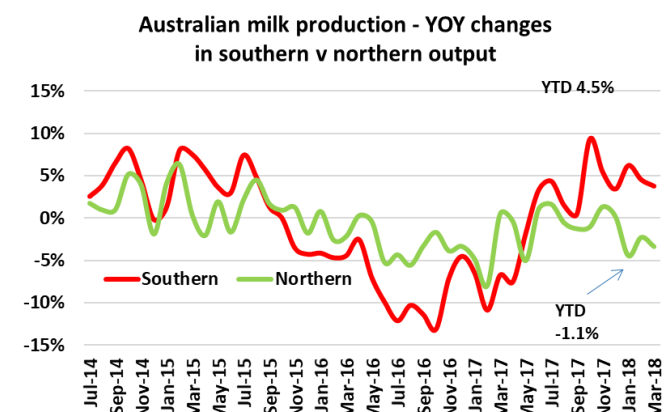
### Fonterra fixes price, Saputo steps up

Fonterra Australia has announced its Fixed Base Milk Price (FBMP) for the 2018/19 season will be \$5.90kgMS, flowing from its annual tender process.

Meanwhile, Saputo announced a retrospective step up in its farmgate milk price for the 2017/18 season for all Warrnambool Cheese and Murray Goulburn suppliers in the Southern Milk Region and New South Wales to \$5.68kgMS, up from \$5.60kgMS.

### March milk up 2.5%

Dairy Australia reports March milk output lifted 2.5% YOY, marking the 10th month of consecutive monthly increases. Season-to-date production is ahead 3.4%. Victorian milk rose 1.4% YOY in March, with a 7.7% jump in the north.



# GLOBAL DAIRY MARKETS

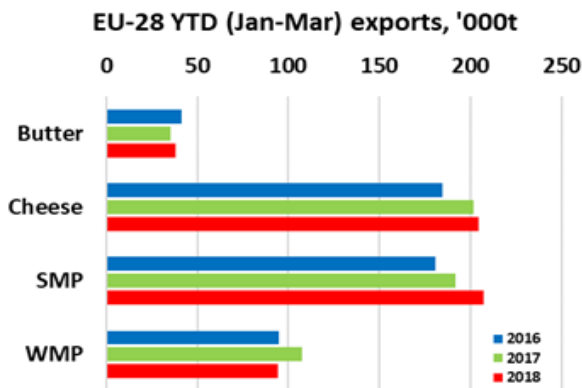
## Weather highlights

- In Australia, sunny and possible showers across Gippsland. Mostly sunny in NSW.
- In NZ, showers and rain across both Islands.
- In the US, thunderstorms across the east, showers across the northwest.
- Sunny in Brazil. Mixed weather in Argentina; rain and sunny.
- Mixed weather in Europe. Showers and sunny in France. In Germany, thunderstorms and showers.

## EU SMP exports up 8%

After increasing 35% last year to 780,000t, EU SMP exports were up 8% for the first three months of 2018. SMP exports expanded for the 13th consecutive month in YOY terms during March. Cheese exports lifted 1.3% to 204,230t for first three months of 2018, despite weaker sales to key markets including US, Japan and South Korea.

Despite falling in March, butter exports lifted 7.6% to 38,020t for the year to date, with increased shipments to most major markets, except US, China and Lebanon. WMP year to date exports were weaker – down 12% to 94,318t. There were mixed trends for the top 10 destinations, but exports to the key market of Algeria fell 61% against the comparable period.



**USDA lowers milk growth outlook** In the May WASDE report, the 2018 US milk supply forecast was reduced from the previous month on lowered dairy cow numbers and slower growth in average yield per cow. USDA now expects a 1.5% increase in national output in 2018 to 99.2bn kgs with a further expansion of 1.3% next year. This would follow a 1.5% expansion in 2017.

Class III and IV prices for the current year were raised given stronger prices for cheese, butter, non-fat dry milk (NFDM) and whey powder. As a result, the 2018 all-milk price forecast range was increased to US\$31.9-32.9c/l. All-milk prices for 2019 were forecast slightly higher and currently stand in the US\$32-34c/l range.

## Butter moves higher

European butter prices have firmed during May, despite the northern hemisphere seasonal production peak, as well as

milk growth recovery in key EU-28 suppliers Germany and France. According to local contacts, demand for fats is firm but, in the reported data, butter production is not lifting with greater manufacturing milk availability. Uncertainty with regard to prices, milk supply growth and product mix decisions is prompting manufacturers to hold back on butter sales.

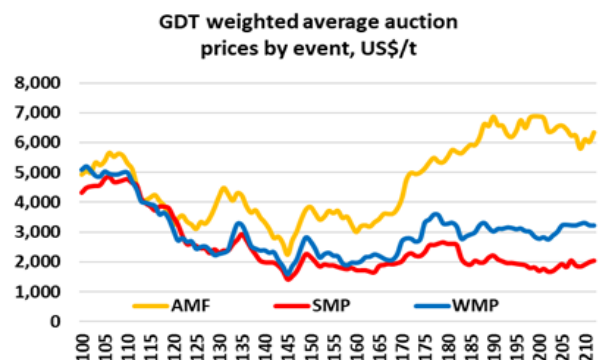
On the EEX dairy derivatives market, butter contracts for May-December delivery on average lifted more than 5% during the past couple of weeks. NZX butter futures remained at a significant discount to EEX (20-30%) and trade is in the US\$5,460-5,775/t range for delivery through to the end of 2018.

## GDT rises 1.9%

The GDT price index rose 1.9% on a slightly smaller offering of 18,161t.

Average butter prices rose 2.5% to US\$5,787/t. AMF had some catch-up to do given the implied fat value in butter prices, contracts jumped 5.3% to US\$6,354/t on average. SMP rose 2.4% to average US\$2,047/t, reflecting short-term availability for some buyers.

Cheddar rose strongly with the higher value of both fat and protein – up 4.5% to US\$4,205/t. While derivatives were higher, fundamentals for WMP apparently did not support a rise and the demand pull to cover short term exposures for buyers didn't occur at this event.



## DAIRY FUTURES

**Futures mixed** – NZX powders were mixed. CME butter gained while NDM lost ground. All prices quoted in US\$/t.

	16 May	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange		NZX	CME	NZX	CME	NZX	CME
Jun-18	2,100	1,857	3,240	3,768	6,275	5,352	
Jul-18	2,100	1,903	3,250	3,788	6,260	5,404	
Aug-18	2,100	1,932	3,260	3,843	6,260	5,469	
Sep-18	2,075	1,962	3,270	3,871	6,260	5,467	
Oct-18	2,080	1,980	3,265	3,862	6,190	5,467	
Nov-18	2,080	2,008	3,260	3,845	6,145	5,478	
Change	1%	-2%	-1%	1%	0%	2%	
Op interest	1,736	4,618	16,044	15,867	1,324	5,060	

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

Ausfine Foods International Pty Ltd ■ ABN 12 006 926 129

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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