

From the Trading Floor

KEY MARKET DRIVERS

- EU Intervention SMP stock sales – good or bad for pricing?
- Australian processors jostle for milk – exercise in tightrope walking
- NZ Dairy Cull – what does it mean?
- Oil price recovery: bad for drivers, good for Dairy prices

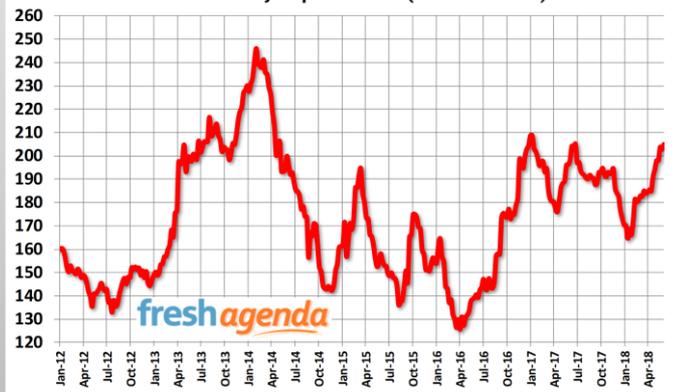
- Interesting to see some decent SMP volumes being released from EU intervention stores over the last few months, likely to accelerate in coming months. There are two schools of thought on what this means for pricing. One says it's bearish for SMP prices as the cheap powders hit the market to displace Fresh stock. To support that notion it's rumoured that at least some of the powder is being consumed "as-is", i.e., not being re-bagged or blended as first anticipated. With intervention pricing up to €500/mt below current fresh market pricing, it may indeed put downward pressure on Fresh stock. The other camp argues that it crystallises the situation and takes it from an un-known to a known. Combined with the slow start to EU spring flush the powder will disappear and not really upset the fresh market (intervention stock now 24months + old), meaning SMP markets will continue their consolidation. My opinion is that if EU milk growth continues strongly into Summer then SMP pricing will have a tough time holding recent gains. However, if milk struggles through a hot dry EU summer, it will be a case of Intervention, what intervention?
- All of Australia's processors are walking a tightrope right now, working their excel spreadsheets on what they can conceivably pay for milk in the upcoming season – knowing that other processors are circling their milk pool. Murray Goulburn, now backed by Saputo are looking to regain lost milk supply and the other processors fiercely defending their positions, all the while trying not to over-pay for milk in these volatile markets. US & EU suppliers would be looking on with some confusion, knowing that their milk prices change daily/monthly in line with market dynamics. In Australia this time is very important as processors have to crystal ball what the next 12months bring and price milk accordingly – either via real prices or "forecasted" prices. Interesting month ahead!
- New Zealand has been dealing with outbreaks of Mycoplasma Bovis in its dairy herd over recent months. The disease causes Mastitis and a range of other diseases in cattle. M. Bovis has so far been found on a number of properties. Affected farms are quarantined and the NZ Government has announced approx. 120,000 cattle are to be culled. The news put a scare through the Dairy industry with prices rallying. The cull represents approx. 3% of the total NZ dairy herd IF all cows to be culled are dairy cows. Whilst heartbreaking for those farmers directly affected, the impact on a broader industry wide basis isn't cause for too much alarm. The phased eradication will take 2 years.
- As we all know from the Petrol/Gas pump, Oil prices have rallied. There seems to be a direct correlation between Oil prices and Dairy prices. One explanation is that many Oil producing countries/regions (Middle East/Venezuela) are very big consumers and importers of Dairy products. When Oil prices are high, income streams and dairy buying into these regions ensues, and when Oil prices are down the opposite occurs. Some of the recent price rallying may be a direct result of that Oil price recovery.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index climbs – The Australasian dairy export index lifted this week on improved commodity prices. Spot quotes for butter rose US\$200/t to US\$5,900/t, SMP followed, lifting US\$25/t to average US\$2,100/t. WMP averaged US\$3,250/t, unchanged from the week prior, while cheddar added US\$50/t to US\$4,100/t. The A\$ rose marginally to **US\$0.7566** – sending the index up **2.1 points to 204.9**.

Australasian dairy export index (Jan 2012-now)



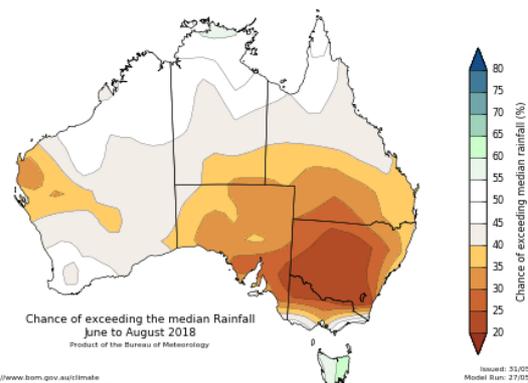
AUSTRALIAN INDUSTRY NEWS

Milk price update

Fonterra Australia has forecast closing farmgate milk price for the 2018/19 season in the wide range of \$5.50 - \$6.20/kgMS. Gippsland's Burra Foods has offered its suppliers the opportunity to lock in a percentage of their milk at a flat \$6/kgMS for the next three years.

BoM: Warm and dry winter ahead

The Australian Bureau of Meteorology's winter outlook is for drier and warmer conditions. The autumn break arrived in southern Victoria mid-May, however, along the east coast and in the south west of the country, farmers are still waiting for rain. Below average rainfall is likely for southeast Australia with a particularly dry outlook for June. Climate drivers are neutral and are likely to stay this way during winter.



Weather highlights

- In Australia, mixed weather across Victoria. Possible showers and sunny in NSW.
- In NZ, frosts and showers hit the South Island, while gales and showers are spreading across the North Island.
- In the US, mixed conditions across the Midwest. Sunny and warm in Cali.
- Sunny and cloudy in Brazil. Mostly sunny in Argentina with chance of rain.
- Mixed weather in Europe. Chance of showers in Germany. Sunny, rain and cloudy in the Netherlands.

Volatile weather ahead for NZ

Metservice's June outlook shows swinging temperatures and volatile rainfall. The west and south of the South Island are expected to be much drier than normal during June, while the north and east North Island is likely to see above average rainfall.

NIWA has forecast near normal or above normal rainfall for June through to August in the north and east of the North Island and east of the South Island. Normal or below normal rainfall is expected for the west of both islands, with near normal rainfall likely for the north of the South Island.

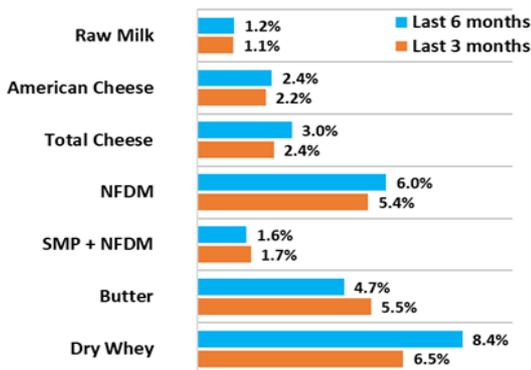
US April cheese output up

US cheese output rose 2.6% in the first four months of 2018 according to the USDA. American cheese (Cheddar, Colby, Monterey Jack) production grew just 1.6%, while output of other cheese varieties such as Mozzarella increased 3.3% relative to the same period last year.

SMP production was down 12.6% for the year to date. However, NFDM production was up 5.1% - increasing combined SMP/NFDM output by 0.9% for the period. This was despite April NFDM output falling 3.8% YOY.

Whey production remained robust as output of dry whey rose 7.3% for the year to date while WPC output increased 4.7% relative to the same period in 2017. This masked a 3.5% drop in WPC 25-49.9% production and a 9.8% expansion in WPC 50-90% output. Butter production rose 4.7% between January and April, while lactose output increased 1.7%.

US product output growth to April-18



Ireland down 5.9% YOY in April

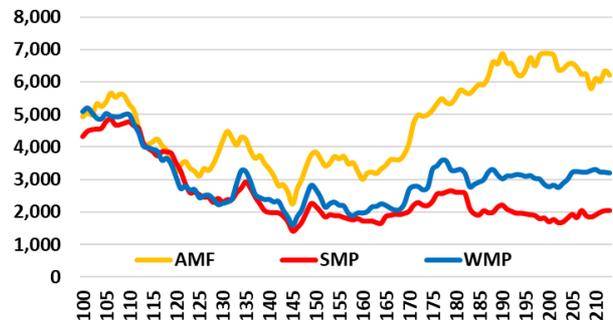
According to official Eurostat data, Irish milk deliveries fell 5.9% YOY in April. Year to date supply was 0.9% behind the prior year comparable. Dutch and UK production fell 1.7% and 0.8% YOY respectively. Polish production rose – up 3.6% relative to the same month in 2017.

The most recent data to week 20 (ending 20 May 2018) indicates German production rose 2.3% YOY while French output was flat relative to the same week in 2017. In Germany, high summer temperatures are causing cow heat stress and also affecting milk composition. Conditions in the north are dry which negatively impacts feed quality. UK milk deliveries continued to track lower – after falling in April, dropped 0.5% in the first 26 days of May but were flat in the last week of available data.

GDT index falls 1.3%

The GDT price index fell 1.3% on a larger product offering of 21,580t. Average butter prices fell 3.6% to US\$5,581/t as all contracts were down. AMF averaged US\$6,222/t, falling 2.1%, dragged down by a 4.6% drop for contracts with April delivery and a 1.6% fall for October deliveries. Cheddar recorded a 4.9% fall to US\$3,998/t, hit by a 7.1% drop for July deliveries. Powders were mixed with SMP up 0.2%, averaging US\$2,051/t and WMP down 0.7% to US\$3,205/t, recording falls across all contract, apart from December deliveries which rose 0.2%.

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



DAIRY FUTURES

Futures mixed – NZX powders trended up to flat. CME NDM and cheese both lost ground. All prices quoted in US\$/t.

6 June	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Jul-18	2,170	1,849	3,210	3,649	6,325	5,297
Aug-18	2,190	1,863	3,250	3,752	6,300	5,330
Sep-18	2,200	1,890	3,265	3,807	6,300	5,346
Oct-18	2,200	1,915	3,270	3,803	6,320	5,379
Nov-18	2,160	1,941	3,240	3,772	6,300	5,368
Dec-18	2,100	1,959	3,235	3,750	6,210	5,281
Change	4%	-5%	0%	-3%	1%	-4%
Op interest	5,534	4,320	15,626	16,720	1,544	4,536

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