

From the Trading Floor

KEY MARKET DRIVERS

- CME Spot Prices on a Rollercoaster Ride
- gDT prices make first big moves in quite some time
- What a difference a month makes in sentiment
- NZ looking great going into depths of winter, what will Spring bring?

In late June we saw some dramatic falls on the US CME cheese spot market, particularly in Barrels which reached 9 year lows, only to then see a steep recovery. This was met with knowing nods out of the US that the market was stabilising to more normal levels and that the barrel recovery would continue, although at a steadier pace as the volatility moderated. Then we came to last night (Aussie time) where the spot fell steeply again with Barrels down 6.75 cents (on 16 trades) and blocks down 3.25 cents. While this has all been happening cheese futures have largely been standing on the sidelines like a tired parent with arms crossed watching a child have a temper tantrum, pretty much refusing to react. As parents know this will end in two ways: the child runs out of breath and goes to sleep or the tantrum continues and the parent must react, let's see which is first to break!!

Last night we saw the biggest moves on gDT since February. Recently the pricing moves have been very mild, a nice relief for the industry that has been crying out for some pricing stability. But the volatility returned last night with steep falls across the board but in particular in the WMP, SMP and Cheddar segments. One comment from a participant we heard was that the event was over quite quickly which speaks of subdued interest. Last night's event lasted less than 2 hours, while the majority of recent events have lasted well over the 2-hour mark. Of course it is important to keep in mind that the gDT is priced in USD and with recent USD strength this may just be a case of revaluing product closer to the buying power of a majority of non-US participants.

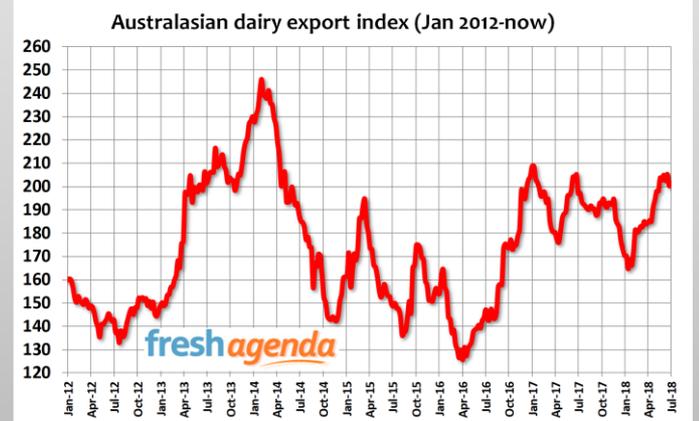
Again speaking of market volatility (this should be renamed the volatility edition), only very recently (early last month) there were definite signs of a sustained broad based market recovery as we had some clarity around stock finally moving out of EU intervention stores at material volumes, and evidence of EU and USA milk growth moderating. Move forward a month and now we are back to falling CME spot & gDT pricing, tariff moves and currency volatility. As per usual over recent years no state of affairs lasts for too long.

Looking at the NIWA New Zealand climate maps www.niwa.co.nz/climate/daily-climate-maps we can see that NZ is well placed for ground moisture and if all goes well on the weather front between now and September they SHOULD have a good Spring. Of course that SHOULD is a big question mark, the last three years have proved that nothing is a given when predicting NZ spring weather. But if it was to go to plan, then we would expect a very big spring flush of milk on the back of good conditions and strong milk pricing.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index rises on \$A – The Australasian dairy export index rose this week on stable commodity prices and a weaker Australian dollar. Spot quotes for butter remained at US\$5,600/t, while SMP was again quoted at US\$2,100/t. WMP remained at US\$3,200/t, for the third consecutive week. Cheddar was US\$3,900/t. The A\$ fell marginally to **US\$0.7401** – adding **1.1 points** to the index, which now stands at **201.5**.

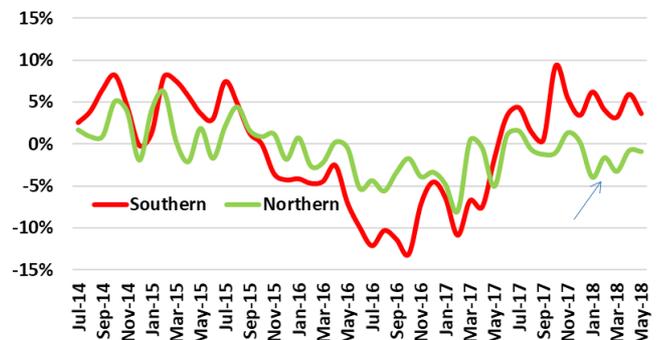


AUSTRALIAN INDUSTRY NEWS

May milk output stalls

Australian milk production stalled in May, increasing 2.5% YOY, putting season-to-date output ahead 3.4%. Victorian production was line-ball with May 2017, just 0.3% ahead.. Victoria was ahead 3.4% for the season to date, while Tasmania and South Australia also expanded – up 9% and 8.3% respectively for the 11-month period.

Australian milk production - YOY changes in southern v northern output



Bega and Burra Koroit front-runners

The Australian Financial Review is reporting Burra Foods and Bega Cheese remain in the race for the ex-Murray Goulburn (MG) plant at Koroit, with Parmalat opting out. The deal is due to be finalised by the end of the month, with approval needed from the Australian Competition & Consumer Commission (ACCC).

Weather highlights

- A cold front bringing gusty showers to Tasmania, SA and Victoria. Offshore trough bringing coastal showers
- In NZ, warning of heavy rains in Canterbury and Otago over the weekend.
- In the US, widespread showers and thunderstorms from Southern Plains to the great lakes.
- Mostly sunny in Brazil, risk of thunderstorms in some regions. Sunny across Argentina.
- High pressure affecting weather across Europe, dry warm weather across Germany and France.

Fonterra up 6.6% in May

Fonterra's NZ milk collections increased 6.6% YOY in May to 70.9m kgMS. This brought aggregate Fonterra New Zealand milk collection for the season ending 31 May 2018 to 1,505m kgMS - down 1.4% on 2016/17. Fonterra's milk intake fell 2.6% in the North Island, while South Island deliveries rose 0.5% in 2017/18. Fonterra milk collection is forecast to reach 1,525 million kgMS for the 2018/19 season - up 1.3% on 2017/18.

Milk prices up in May

The USDA Agricultural Prices report indicates the all-milk price was US\$0.37/litre in May, 2.5% higher than April, but 3% below the same month last year. May was the third consecutive month the all-milk price increased in YOY terms.

Farm margins are reportedly "at-or below break-even" with the May average 26% lower than the five-year average and 55% below the all-time high reached back in September 2014. The USDA expecting the national herd to remain stable through to the end of the first quarter 2019.

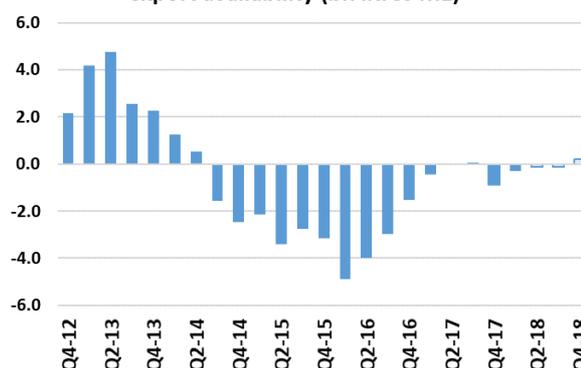
EU milk growth to slow

The EU MMO expects 2018 milk collections are projected to increase 1.2%, with YOY growth through to the end of Q3-18 while the fourth quarter is expected to be on par with the 2017 comparable. The report projects a nearly equal expansion in SMP and butter production this year (+2.6%) while cheese output is expected to increase 2.1% with a growing use of industrial product and expanded markets for value-added cheese. Production of fresh drinking products and WMP in 2018 is expected to drop by 0.7% and 1.7% respectively. For 2019, EU-28 milk collections are expected to increase 0.8%.

A stable global market

Freshagenda's June Global Dairy Directions (GDD) quarterly report indicates the world dairy market remains stable and relatively firm, driven mostly by the limited growth in milk output and sustained shortage of butterfat in the EU, although weaker demand signals threaten to weaken butter prices. Good demand has kept cheese prices firmer. The outlook remains variable across major commodity products, but values are likely to be steady in the short-term with reduced EU milk availability.

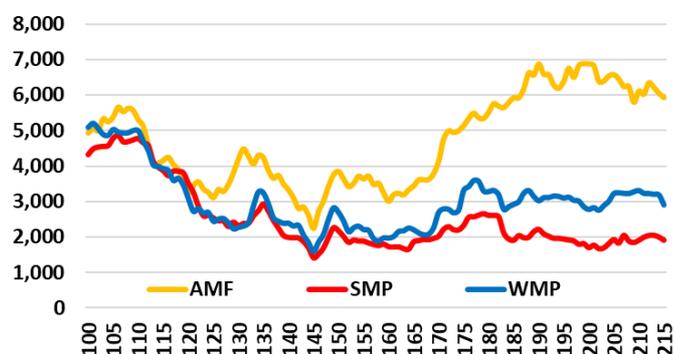
12-mth rolling global import demand less export availability (bn litres ME)



Fats soften on GDT

The GDT price index fell 5% - the largest fall this year. Average butter prices fell 3.9% to US\$5,390/t as all contracts were down. AMF averaged US\$5,937/t - falling 2%, dragged down by a 4.9% and 4.7% drop for contracts with Nov-18 and Dec-18 delivery respectively. Cheddar recorded a 3.5% fall to US\$3,713/t, hit by 4.2% and 5.2% declines for Oct-18 and Nov-18 deliveries respectively. WMP prices were down 8.9% to US\$2,905/t with double-digit falls for Oct-18 and Jan-19 deliveries. SMP prices fell for the second consecutive time at US\$1,913/t, with a 14.1% fall for Jan-19 deliveries.

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



DAIRY FUTURES

Futures mostly lower – Most futures moved lower, with the exception of NZX WMP. All prices quoted in US\$/t.

4 July	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Aug-18	1,960	1,705	3,150	3,510	6,040	4,966
Sep-18	1,950	1,732	3,145	3,622	6,040	4,988
Oct-18	1,945	1,769	3,150	3,682	6,025	5,038
Nov-18	1,950	1,802	3,150	3,684	6,020	5,065
Dec-18	1,950	1,830	3,135	3,668	6,005	5,060
Jan-19	1,960	1,843	3,130	3,649	6,040	5,028
Change	-2%	-2%	0%	-1%	-1%	-2%
Op interest	5,418	4,075	19,964	16,985	1,417	4,834

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