

From the Trading Floor

KEY MARKET DRIVERS

- NZ milk up across winter, strong spring anticipated
- Algerian private buying being sidelined?
- Is there a lot of Fat "staged" in various markets causing recent weakness?

IT'S OUR 100TH EDITION OF THE DAIRY PLANET!!

We began publishing the Dairy Planet back in 2013. Our belief at the time was that there seemed to be a lot of publications that told you what happened in the past but provided little insight into what might happen in the future. Leaning on our position in speaking to many different industry stakeholders around the globe, we thought we may be able to provide some good insights for our customers and suppliers on what is happening right now via the DP which may be useful in forming market views.

The period since 2013 has seen some amazing volatility in the world of Dairy, anyone remember SMP at US\$5300/MT levels that then dramatically fell below US\$1500/MT over a period of approx. one year? The volatility was thanks to the vagaries of China buying patterns, the continued growth in milk in NZ and USA and the removal of European milk quotas. The last 5-6 years have been very tough for many in the industry as the low prices have persisted longer than many thought possible. Having said that, a stand-out of recent times has been the incredible price rebound of Butter as years of dietary advice flipped 180 degrees to recommend that Dairy Fat was actually not the demon it had been made out to be but instead the demon was Sugar. This resulted in the butter fat pricing rebound with the effect on the whole dairy complex still playing out today.

Closer to home in Australia we have continued to see industry consolidation, a flatlining milk curve and farmers walking away from the industry, along with the demise of the once mighty Murray Goulburn. One thing is for sure, it's never dull in the Dairy World.

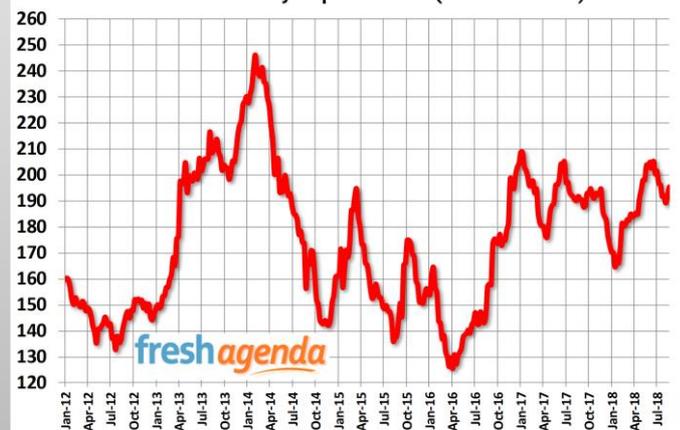
- As we alluded to previously, conditions in NZ are very favourable for a strong spring. Winter conditions have been quite mild along with good rainfall. Cow conditions are reportedly good (broadly speaking) and combined with a strong milk price we are expecting milk to be up considerably across the NZ spring. Enough to offset potential anticipated losses out of EU later in the year? Well, we'll soon know.
- Algeria is a very important market for Dairy suppliers around the world. European manufacturers, in particular pay close attention to this market. While yet to be verified, we are hearing that a lot of private buyers are not being granted permits to import, but are instead directed to Government buying programs (ONIL tender). If true, this may inflate the ONIL tender volumes, thereby sending a bullish signal - but it could be just a matter of moving the deck-chairs out of private into public demand.
- We are hearing rumours of a lot of NZ Fat products being "staged" in various markets, particularly in South East Asia. These products are warehoused in the market but remains unsold ready for prompt delivery to domestic customers (reducing delivery lead-time). The issue is that volumes sound like they are larger than is comfortable and this may explain some of the recent Fat weakness on gDT, which - to be honest - is unexpected. Of course this is just a rumour and should be taken with a grain of salt.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index lifts – The Australasian dairy export index rose this week on stronger commodity values. WMP prices averaged US\$3,000/t, up US\$50/t from the week prior, while SMP was steady at US\$2,020/t, for a fifth consecutive week. Butter and cheddar both rose US\$100/t to average US\$5,100/t and US\$3,800/t, respectively. The A\$ was stronger at **US\$0.7316** – lifting the index by **3.5 points to 195.3**.

Australasian dairy export index (Jan 2012-now)



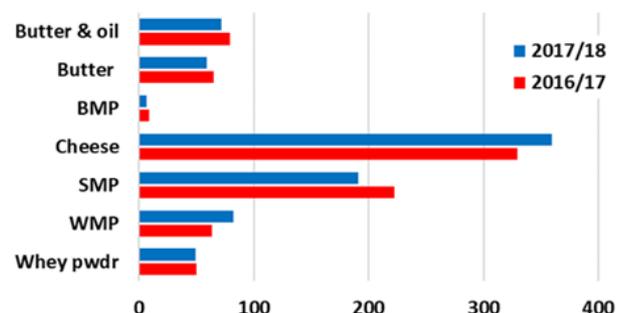
AUSTRALIAN INDUSTRY NEWS

2017/18 mix swung to cheese, WMP

Australian manufacturers favoured cheese and WMP production during the 2017/18 season. Cheese production rose 9% to 359,512t, with cheddar output 8.6% ahead of the comparable for the period. Production of non-cheddar varieties also increased – up 9.5% for the 12-months to June.

WMP manufacture was also prioritized - production lifted 30.2% for the season to 82,499t. In contrast, SMP output dropped 14% in the 12 months to June. In line with lower SMP production, butter output was behind 8.3% for the season while butteroil production fell 10.9%. Imports have picked up some of the slack, butter increased 3.5% to 28,730t while butteroil imports increased 14.9% to 6,807t. Whey powder output dropped 1.5% for the period.

Australian July-June dairy product output



Source: Dairy Australia

GLOBAL DAIRY MARKETS

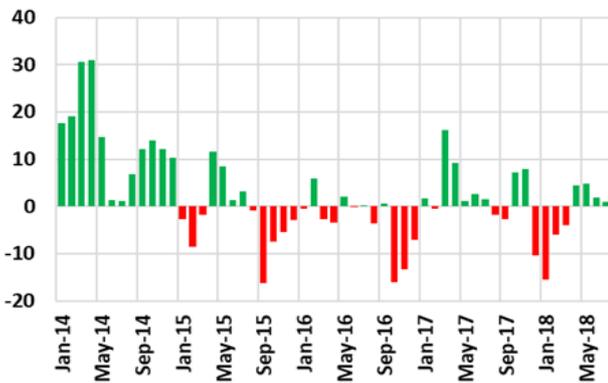
Weather highlights

- In Australia, a weak high is bringing chilly winds, light showers to Tasmania, Victoria and far southern NSW.
- In NZ, chance of showers in the North Island, mainly fine in the South Island with chance of some rain.
- In the US, rain is moving across the upper Midwest and eastern states.
- Chance of showers across southern Brazil. Argentina is sunny with chance of rain and drizzle.
- Rain will move across central Europe late in the week with possible thunderstorms for Poland and Germany.

NZ milk intake lifted 5.6% in July

Dairy Companies Association of New Zealand (DCANZ) released July milk production data, with national milk output up 5.6% YOY on a volume (litres) basis but up 8.6% YOY on a milk solids basis, reflecting the higher requirement for winter milk volumes by Fonterra. July was the fourth consecutive month of YOY increases in milk production but added the smallest volume increase.

YOY growth in NZ milk collection (000t MS)



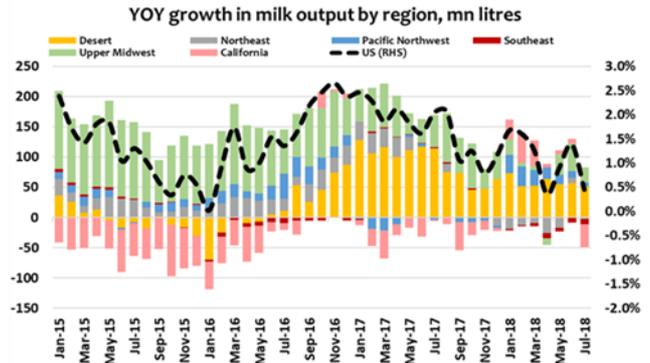
EU June milk up 1.1%

According to data released by Eurostat and AGEA, EU-28 milk deliveries for June rose 1.1% YOY to 13,659t. This followed a 1.6% expansion in May. EU-28 production rose 1.8% to 80,958mt for the first six months of 2018.

June milk supply rose YOY in most major producing member states. The exception was the Netherlands, where output declined 1.5%. German production growth slowed to 2.4% in June, while French supply recovered, increasing 1.3%, the strongest pace in 4 months.

US milk up only 0.4% in July

US milk production rose 0.4% YOY in July – the weakest YOY expansion in three months, solely the result of a lift in average yields as cow numbers were lower for the first time since May 2016. Year to date national supply rose 1.1%, following a 1.4% increase last year. The number of cows on farms nationally in July was 9,396m head, down 8,000 head from June and compared to the same month in 2017. This was the first year-on-year fall in cow numbers since May 2016.

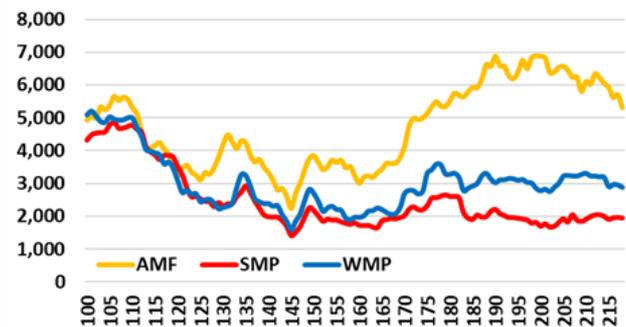


GDT: fats hammered

At GDT event 218, the price index fell 3.6% as all commodities fell, except rennet casein. Butter lost 8.5%, averaging US\$4,392/t. There were falls across all contracts. Meanwhile, AMF averaged US\$5,321/t, down 6.8% with all contracts lower. Cheddar was also down 4.9%, averaging US\$3,484/t, with falls in all contract periods.

Powders dropped with WMP prices down 2.5% to average US\$2,883/t, with all contracts down. SMP averaged US\$1,951/t, shedding 1.1%.

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



DAIRY FUTURES

Futures mixed – Fats were mixed as butter plummeted and AMF was flat. Powders gained. All prices quoted in US\$/t.

22 August	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Sep-18	2,075	1,940	2,985	3,587	5,700	4,950
Oct-18	2,080	2,050	2,975	3,642	5,700	4,965
Nov-18	2,080	2,072	2,985	3,646	5,730	4,965
Dec-18	2,070	2,090	2,970	3,627	5,795	4,949
Jan-19	2,055	2,099	2,995	3,602	5,835	4,938
Feb-19	2,070	2,105	2,995	3,576	5,865	4,950
Change	3%	5%	1%	-2%	0%	-6%
Op interest	4,111	4,971	16,945	16,323	2,593	5,000

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