

From the Trading Floor

KEY MARKET DRIVERS

- gDT result is 0.0%
 - Weather events hitting across the globe
 - Drought in EU – what does it mean for milk?
 - Massive Butter gap between Oceania & EU
 - China Tariffs on US product start to bite
- For lovers of perfect numbers, last night's gDT result was for you - returning exactly a 0.0% change. This is truly an extraordinary result considering all of the possible permutations and combinations across the array of products offerings and origins. The consensus in our office was that the gDT was going to be up, primarily on the back of fear from EU drought conditions and fallout from the various trade wars going on with the US. But if you're going to be wrong (which we were) at least we have a nice round number to ponder as an interesting footnote.
 - The crazy hot conditions across Europe are continuing and in some places intensifying. To highlight the extent, normally temperate places like Sweden and Norway are seeing consistent temps above 30 degrees Celsius. Meanwhile, in Australia we are being confronted daily with heartbreaking reports of farmers across the country facing empty dams and severely undernourished livestock as we enter into the second year of drought, all this while we are still in the middle of winter. To potentially exacerbate this, there are growing concerns of an El-Nino developing in the Pacific. For Australia, the large areas affected most severely by drought are not necessarily big Dairy areas. But we are not immune and if the dry persists, it ensures we won't be seeing too much milk growth.
 - Despite the above point on EU drought conditions we have not yet heard of any big drops in milk supply, perhaps because milk cheques are still relatively high. Reports from German milk in late July show that milk is still growing in YoY terms, up 2.1% compared to the same time last year. However there are questions on the quality of the milk (milk solids content) and what it means when feed ear-marked for later in the year is being consumed now. Culling programs are being ramped up with an eye on the future, German culling increased by 21% compared to the same time last year.
 - We are seeing a big price gap between Oceania (primarily NZ) and European block butter price. Using last night's gDT pricing as a benchmark for NZ against Euro pricing reported by European Commission is showing a US\$1500/MT difference. History suggests that gap will close, right now it would be hard to see European butter fall due to the dry conditions and the fact we are entering the period of greatest demand, therefore the question is whether NZ will jump.
 - We are hearing numerous conversations between Chinese customers and US suppliers attempting to maintain their existing biz into China despite the new Tariff regime. There has been talk of discounting product to offset the Tariff rate, however the Chinese government has indicated that the Tariffs are not designed to slow US imports they are designed to largely Stop them. Therefore, if a sell price listed on an invoice is materially different than other benchmarks equivalents, the higher price and relevant duties will apply. Considerable parcels of US origin powders and cheese contracts have been cancelled and are now looking for a new home.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index slides – The Australasian dairy export index fell this week on steady to falling price trends and a weaker A\$. WMP prices averaged US\$2,975/t and SMP remained at US\$2,020/t from the week prior. Butter was firm at US\$4,960/t while cheddar lost US\$100/t, averaging US\$3,700/t. The A\$ dropped to **US\$0.7397** – shaving the index by **2.8 points to 189.2**

Australasian dairy export index (Jan 2012-now)



AUSTRALIAN INDUSTRY NEWS

Milk output shrank in June

Despite a 1.4% dip in June milk production, the 2017/18 season ended 3.1% ahead of the season prior, with milk output reaching 9.3bn litres. Milk production in southern key regions fell 0.4% in June compared to last year with Victorian milk production down 3% on the comparable, partially offset by a 10.3% hike in production in South Australia and a 15.5% increase in Tasmanian output YOY. In the northern producing regions, milk production was down 3.7% in June, due to a 0.6% decline in NSW output and a massive 11.8% drop in milk production in Qld.

BoM outlook brings no joy

Following a dry and warm winter across most of Australia, the Bureau of Meteorology's (BoM) August to October outlook is more of the same. Below average rainfall is expected for most of mainland Australia, most notably in the south east. August is expected to bring a dry end to winter. With dry soils and below average rainfall, low streamflows are expected in two-thirds of forecast locations for July to September. Warmer than average days and nights are anticipated for most of Australia. Cooling waters to the north of Australia brings less tropical moisture and weaker westerly winds to the south, sending less cloud and fewer rain systems to the south-east. With a slow warming trend in the tropical Pacific Ocean, and five of eight climate models suggesting El Niño conditions in spring, the Bureau of Meteorology's ENSO outlook remains at El Niño watch.

Weather highlights

- In Australia, fronts are bringing gusty showers to southern SA, VIC and Tas.
- In NZ, showers in the North Island, rain and showers across the South Island, clearing later in the week.
- In the US, dry and humid weather across the east coast. Chance of thunderstorms, heavy rainfall in the Midwest.
- Spotty showers and thunderstorms in Brazil. Cloudy and sunny in Argentina, chance of rain.
- Cooler air is flowing across Europe with chance of severe thunderstorms and flash flooding from Germany into France through Scandinavia.

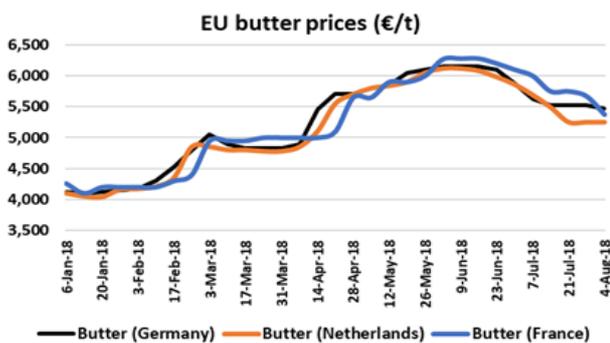
NIWA: Shaping like El Niño weather

In its seasonal climate outlook for August to October, New Zealand's weather bureau NIWA predicts an advancing weak El Niño will mean a greater likelihood of warmer, drier conditions over the coming three months. The outlook is shaping as typical for the phenomenon, drier in the east, wetter on the west coast, especially on the South Island. Based on international models, NIWA predicts a 55% chance of El Niño developing during August to October with the likelihood of El Niño increasing beyond the NZ summer.

EU price soft despite the heat

Despite the raging heat, weekly product prices aren't reflecting any alarm in the trade at this stage of the summer. Maybe it's the fact that most of the trade are enjoying Europe's beaches, as prices have been steady to subdued across major commodity categories.

French prices have been weakest in recent weekly data from each of the three biggest producers, but German prices have also softened – milk supply was still well ahead of the prior year when these prices were reported last week.



US exports surge in June

US cheese exports increased 12% YOY in June to 34,276t. Sales to Mexico increased 43% to 12,218t – the second-highest month ever. Exports to Australian more than doubled, offsetting declines in shipments to South Korea and Japan which fell 7% and 4% respectively. Exports to China also fell, by 14% YOY. Exports of NFDMS/SMP increased 24% to 57,018t, driven by a 49% increase in South East Asian sales, while Mexico shipments rose 11% YOY. Butterfat sales

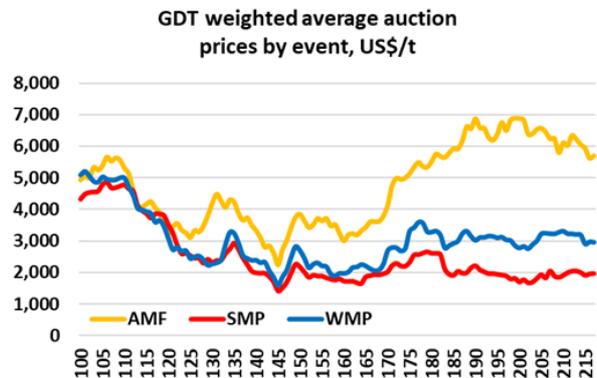
increased 9% YOY to 3,814t. USDEC noted June was the eighth consecutive month of growth in exports, “despite tariff headwinds”. The buying is ahead of the July imposition of Chinese and Mexican retaliatory tariffs.

Cheese markets weaker

Oceania cheddar prices have weakened in the past few weeks - by US\$400/t since early June per NZX quotes - as the threat of stronger US exports aimed at Asian markets grows. While the US wholesale cheddar market is making a tentative recovery from the negative reaction to tariff announcements, it remains plagued by high stocks, and a butterfat market that is also struggling with stocks and weak demand growth. Latest US trade data indicates higher monthly cheese trade, but this includes a rush of pre-tariff sales to Mexico. US cheese exports so far in 2018 have been up 7%.

GDT index flat

At GDT event 217, there was no change in the price index as powder contracts were flat while butter prices fell. Butter lost 3%, averaging US\$4,802/t, and recording falls across all contract periods. Butter for January delivery dropped 9.9%, averaging US\$4,545/t. Meanwhile, AMF averaged US\$5,709/t, up 1.4% as contracts with short-term delivery rose. Cheddar rose 1.9% to average US\$3,663/t with contracts all increasing. SMP prices increasing 0.7% to average US\$1,972/t. WMP averaged US\$2,958/t, shedding 0.5% with mixed contracts results.



DAIRY FUTURES

Futures mixed – Powders trended higher, apart from CME NDM. Cheese lost ground while fats were higher to steady. All prices quoted in US\$/t.

8 August	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Sep-18	2,040	1,907	2,990	3,567	5,675	5,105
Oct-18	2,050	1,944	3,015	3,675	5,680	5,157
Nov-18	2,055	1,964	3,000	3,671	5,730	5,175
Dec-18	2,065	1,985	3,000	3,638	5,800	5,156
Jan-19	2,090	2,011	2,985	3,589	5,875	5,071
Feb-19	2,120	2,015	3,020	3,576	5,900	5,060
Change	2%	-2%	1%	-1%	0%	1%
Op interest	4,516	5,685	16,633	15,585	2,688	4,639

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