

From the Trading Floor

KEY MARKET DRIVERS

- NZ the focus for Dairy World this Spring
- Argentinian Peso makes exports front and centre
- Fat continues to slide on gDT
- Cheese or WMP, should milk go to the spray dryer or the Vat

- From the looks of the latest pasture growth index, farmers in the Dairying areas of New Zealand may need machetes to fight through the grass forests to find their cows this Spring!! Probably taking some creative licence there, but the charts are certainly showing some very good pasture conditions, ideal for a strong spring flush. This is shaping up as the best Spring for quite a few years, neither too wet, too dry, too cold or too hot. Goldilocks would be proud!
- A 60% fall in a currency certainly gets people's attention. This precarious situation is the reality for the Argentinian Peso as capital continues to flee for safer harbours. That makes life very difficult for the Argentinian population as they face high inflation and imported goods become very expensive. However, one glimmer of light is for Argentinian exports, particularly Dairy. Coupled with good milk production, we can expect to see a lot more Argentinian product on the market over the next few months.
- Whilst AMF was steady on gDT last night, Butter continued the unexpected falls and weakness in butter fat rolls on, at least for now. From what we can see, butter seems to be tight in most origins (particularly Europe). But these recent falls in NZ fat is giving reason for pause, at least in the short-term, as to whether this slide will continue and put pressure on pricing from other origins. Our take is that there seems to be a genuine overhang of NZ fat causing the weakness in price. If the Kiwis can work their way through the backlog quickly, we could see the fat pricing bounce back. However, if the clearance takes longer than expected (coupled with a strong spring) then we could see fat pricing remain at lower levels for some time as other origins catch up on production on the back of lower exports.
- We have done some crude back of the envelope calculations (which admittedly can be a bit hit or miss) and from what we are seeing on current pricing, it is starting to make more sense to put milk more toward cheese (cheddar) than whole milk powder for those manufacturers that have the capacity to make that choice. Can we expect to see a lot more cheese come to market as stream flow analysis comes in from the finance team?

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index lifts – The Australasian dairy export index rose this week due to a weaker A\$. Butter shed US\$100/t to US\$4,500/t, SMP remained at US\$2,000/t. WMP shed US\$25/t to average US\$2,900/t while cheddar averaged US\$3,700/t – for a second consecutive week. The A\$ fell more than 1c to **US\$0.7192** – lifting the index by **2.7 points to 191.1**.

Australasian dairy export index (Jan 2012-now)



AUSTRALIAN INDUSTRY NEWS

July milk down 4.2%

After falling 1.2% YOY in June, national production dropped 4.2% YOY in July according to Dairy Australia. July milk production in the southern region fell 3.6% compared to the same month last year – this was driven by weaker supply in Victoria (-4.9% YOY) and despite growth in South Australia (+9.3%) and Tasmania (+1.4%).

Production in two out of three Victorian regions was well down, by 7.1% in the north and 6.7% in the west. Gippsland was up 0.4% YOY for the month. In the northern milk supply region, production was down 6.1% YOY in July as drought conditions continue. NSW supply fell 4.6% YOY for the month, while output in Queensland dropped 10.2% YOY.

BoM: Warm and dry spring ahead

Drier than average conditions are likely for southern Australia extending up through NSW (west of the divide) and into central Australia, according to the Bureau of Meteorology's (BoM) latest climate outlook. September and October are likely to be drier than average more broadly across most of the country.

The BoM says there is a 50% chance (double the normal risk) of El Niño forming in the coming months, which means below average rainfall during spring for northern and eastern Australia, and warmer days for the southern two-thirds of the country. A brief positive IOD event may form during spring which would exacerbate El Niño rainfall deficiencies.

Weather highlights

- In Australia, developing low pressure over northeast NSW, triggering showers and inland storms. Light showers over VIC.
- In NZ, persistent rain across the eastern North Island and upper South Island.
- In the US, tropical storm Gordon is expected bring heavy rain and flooding to Gulf Coast states. Heavy downpours expected in the Midwest.
- Mixed weather across Brazil; warm, sunny days with chance of rain. Cloudy with chance of sun in Argentina.
- Mixed across Europe. Cloudy and sunny days with showers across the Netherlands and Germany.

NIWA: Weak El Nino could happen

New Zealand's weather forecaster NIWA has released its outlook for the September to November period, with near normal (40% chance) or below normal (30% chance) for all regions except the east of the North Island. Soil moisture and river flows are forecast to be near normal (35-40% chance) or below normal (35-40% chance) for all regions of New Zealand except for the east of the South Island, where below normal soil moisture levels and river flows are expected (50% chance). There is a 65% chance of a transition to El Niño in the next three-month period, increasing to a 78% chance in the March to May 2019 period. Indications are that the event – if it eventuates – will not be strong.

Irish July production down 3.1%

Irish milk production fell 3.1% YOY to 874mt in July, according to the Irish Central Statistics Office. This was the third YOY fall in the past 4 months for which data is available, bringing supply for the year to July down 0.6% on the comparable at 4,812mt. Meanwhile, milk deliveries in the UK rose 1.5% YOY in July according to Eurostat. This was the third consecutive monthly expansion and brought supply for the year to date 0.6% ahead of the comparable to 9,075mt.

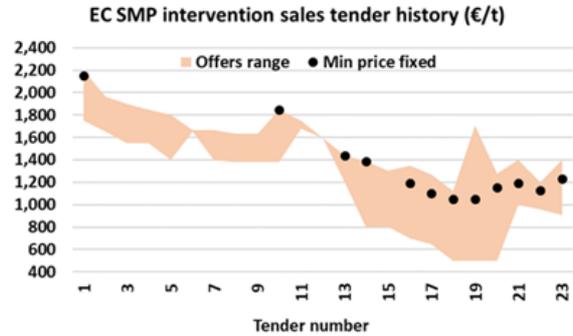
US July milk prices at 5-month low

USDA's Agricultural Prices report indicates the all-milk price fell 90 cents between June and July to US\$15.40/cwt or US\$0.35/litre. The July all-milk price was 11% lower in YOY terms and 4.3% below the 2016 comparable. According to the Margin Protection Program (MPP) formula, producer margins fell 8.8% from June to a 3-month low. Farmgate margins are expected to improve through to October however, with dairy prices projected to rise faster than feed costs.

EC sells 31,493t of SMP in tender

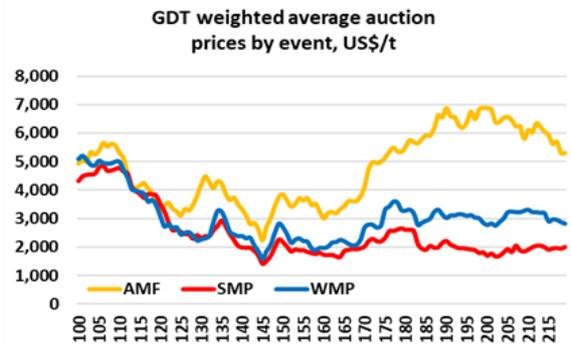
The 23rd SMP tender under Regulation No (EU) 2016/2080 resulted in the European Commission (EC) selling 31,493t of SMP at a minimum price of €1,230/t. This was higher than the average price achieved during the previous tender of

€1,125/t. There were bids in the €905-€1,401/t range with 64,207t of product offered. So far, 134,006t of product has been sold through the tendering process. The next tender is scheduled for 18 September with 154,797t of SMP available.



GDT: mixed outcome

At GDT event 219, the GDT price index fell 0.7% on mixed results for commodities and a product offering of 38,811t. Butter lost 2.8%, averaging US\$4,271/t. Meanwhile, AMF averaged US\$5,316/t, down 0.1% with contracts in the short-term increasing. Cheddar rose 4.2%, averaging US\$3,631/t, with most contracts gaining apart from January deliveries, down 0.7%. Powders were mixed with WMP prices down 2.2% to average US\$2,821/t, weighed by signals of a good NZ season ahead. SMP averaged US\$2,005/t, following firmer US and EU trends, rising 2.8%, with all contracts lifting.



DAIRY FUTURES

Futures on repeat – Fats were mixed as butter continues to fall and AMF remained flat. Powders lifted. All prices quoted in US\$/t.

5-Sep	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Oct-18	2,080	2,064	2,860	3,768	5,535	4,868
Nov-18	2,075	2,105	2,885	3,750	5,585	4,868
Dec-18	2,095	2,122	2,890	3,706	5,600	4,851
Jan-19	2,115	2,138	2,880	3,660	5,650	4,850
Feb-19	2,110	2,146	2,905	3,633	5,650	4,850
Mar-19	2,125	2,161	2,910	3,635	5,700	4,905
Change	2%	2%	1%	1%	0%	-3%
Op interest	3,565	4,631	13,979	13,642	2,742	4,072

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