

## From the Trading Floor

### KEY MARKET DRIVERS

- USA cautiously bullish (whey bounces strong)
- Currency weakness a big issue for importers
- USA wants more Canadian Dairy concessions for NAFTA 2.0
- Sports Nutrition – still the golden child for whey proteins?

- I am currently travelling in the USA and the general feeling here is a cautious optimism around dairy pricing. The firm tone is on the back of record exports over recent months, an apparent muted effect from the big tariff jump in China and genuine feeling that the plants here are not being inundated with milk (in fact seeing some gaps open up where milk has not been readily available). This has been particularly noted in the whey complex with SWP in showing very strong price rebounds. Seems inventories have been depleted sharply (due to aforementioned record exports) and prices have responded accordingly. Most manufacturers who can, will prefer to make WPC80 & WPI90 from their whey streams. Prices in those categories have jumped as the need to justify returns against SWP take effect.
- The weakening of pretty much every other currency in the world against the USD is continuing (although at a smaller rate of late). The big issue for importers exposed to the 2nd and 3rd tier currencies (think IDR / PHP as examples) is the inability, or very high cost, to hedge their currency positions. Those guys are faced with losing a lot of forward points if they want to cover imports (thereby eroding a lot of value if not their entire margin), instead preferring to take the risk with currencies that generally don't move too much against the USD. In the current circumstances importers are conceivably losing 7-10% on orders that are still on the water due to currency devaluation, making the profitability of those trades precarious and importers wary of locking in more biz whilst currencies remain volatile.
- It looks like the USA are pushing for some sizeable concessions from Canada in the current negotiations for NAFTA 2.0. I do not profess to be an expert in how the Canadian Dairy pricing mechanisms work but under the current structure I believe that Canada has a cap on milk production, a floor on milk price paid to farmers, very limited quota given to imports and ridiculously high Tariffs on imports outside quota (think above 300%). Seems the Canadian consumer is the one who pays for the cost of this program via some of the world's most expensive dairy consumer goods but the support for the program remains high. In short the USA wants more access to the Canadian Dairy cabinet but the Canadians are digging their heels in. Could it be the humble block of cheese (so to speak) bringing negotiations to a stand-still?
- We have heard from a number of sources, that some of the froth and extraordinary growth has come out of the Sport Nutrition segment recently with sales slowing. In some segments there seems to be a switch to plant based proteins. This could be due to a belief that plant based protein is more environmentally friendly. The hard-core protein customers remain, and the market for whey protein is still incredibly large with plant protein still very small, but it is worth noting and keeping an eye on for future impact on Dairy derived proteins.

Matt Cooper, Director, Ausfine Foods

## DAIRY EXPORT INDEX

**Index slides** – The Australasian dairy export index fell this week due to a stronger A\$. Butter remained steady, averaging US\$4,400/t, SMP lifted US\$5/t to average US\$2,030/t. WMP averaged US\$2,850/t, unchanged from the week prior, while cheddar lifted US\$25/t, averaging US\$3,800/t. The A\$ lifted to **US\$0.7150** – sending the index down by **0.4 points to 194.8**.

Australasian dairy export index (Jan 2012-now)

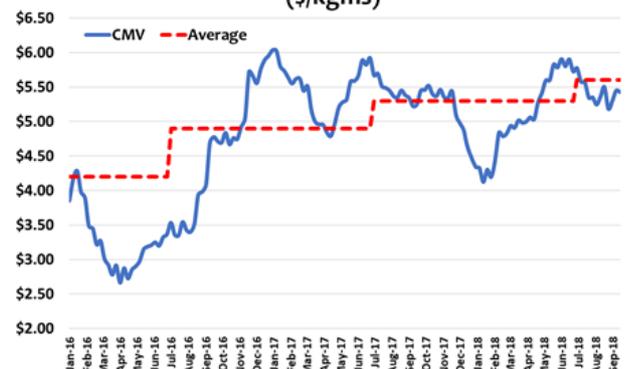


## AUSTRALIAN INDUSTRY NEWS

### Bega raises \$250m

Bega Cheese has raised \$200m through with a placement of fully paid ordinary shares with institutional investors, priced at \$7.20 per share, a 5% discount from the closing price on 7 September. The Institutional Placement will be followed by an offer to all existing eligible Australian and New Zealand shareholders to participate in a Share Purchase Plan (SPP), capped at \$50 million and not underwritten. The placement will be followed by a share purchase plan, expected to raise a further \$50m at a price of \$7.10 per share. The proceeds will be used to reduce debt following the acquisition of the Koroit Facility and improve Bega Cheese's financial flexibility to "take advantage of future growth opportunities in dairy and food".

Australia spot Commodity Milk Value (CMV) (\$/kgms)



## Weather highlights

- In Australia, a trough and cold front will bring showers in SA, VIC and TAS. Warm winds across NSW.
- In New Zealand, periods of rain across the North Island, chance of heavy rains across the South Island.
- In the US, rain across the Midwest. Sunny and humid on the east coast with chance of showers.
- Mixed weather across Argentina; thunderstorms, sunny and warm days ahead. Sunny and chance of rain in Argentina.
- Cloudy and sunny days with chance of showers in France and Germany.

## Cooler September for NZ

New Zealand weather forecaster MetService predicts cooler weather for the first half of September across the country, while temperatures are expected to be more variable in the second half of the month.

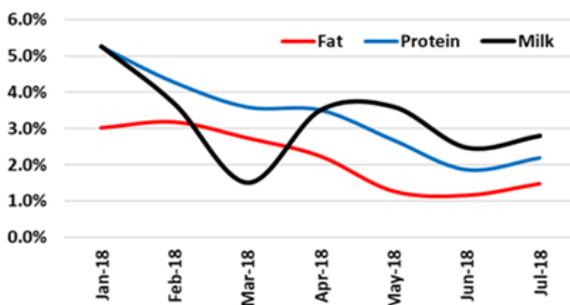
Rainfall is expected to be below or near average for most of the country. However, wetter than normal conditions are in store for the east coast of the North Island. Rainfall will be near normal in the north of the North Island and in the north and central parts of the South Island.

## EU milk growth normalizing

Based on 67% of average Eurostat-reported milk production, EU output rose 0.9% YOY in July. This was despite negative trends in Ireland (-3.1% YOY) and the Netherlands (-1.2% YOY). Among other key producers, Germany's production lifted 2.8% YOY for the month while output of solids tracked considerably lower as a result of unusually hot and dry weather in some parts of the country.

German production has recovered however, up 0.3% YOY in week 34 after negative trends for most of August. According to daily milk collections data, UK's supply rose 0.7% in August.

YOY growth in German production

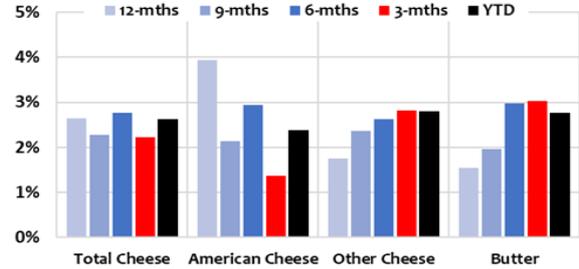


## Strong US cheese demand in July

During the first 7 months of 2018, domestic cheese disappearance rose 2.6% over the same period last year to 3.2mt, reflecting a 7.1% YOY lift in July. Between January and July, American cheese demand rose 2.4% while disappearance of other cheese varieties (such as mozzarella) lifted 2.8%. We estimate that American cheese days-in-stock

increased 7.3% from the prior month to 59.1 days, which was 6.3% lower than in July 2017. Other cheese days-in-stock declined 3.7% to 26.3 in July, 2.1% higher than in the same month last year.

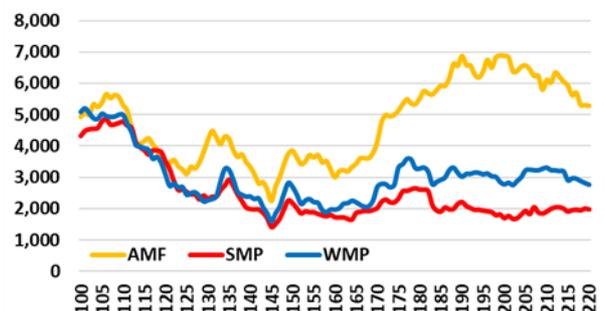
US domestic commercial disappearance growth  
All periods to July-18



## GDT index down 1.3%

At GDT event 220, the GDT price index shed 1.3%. WMP fell 1.9%, averaging US\$2,768/t most contracts down except for October deliveries up 0.8%. SMP averaged US\$1,980/t, shedding 1.2% with the biggest fall recorded for November deliveries down 2.9%. Butter was flat averaging US\$4,270/t and AMF averaged US\$5,294/t, down 0.4%. Cheddar dropped 3.5%, averaging US\$3,503/t with December deliveries plummeting 8.9%, the only gain recorded for cheddar contracts with November delivery, up 1.1%.

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



## DAIRY FUTURES

**Futures mixed** – Powders and cheese lost ground while fats were mixed. CME butter gained, while NZX AMF was flat. All prices quoted in US\$/t.

| 19-Sep      | SMP   | NDM   | WMP    | Cheese | AMF   | Butter |
|-------------|-------|-------|--------|--------|-------|--------|
| Exchange    | NZX   | CME   | NZX    | CME    | NZX   | CME    |
| Oct-18      | 2,040 | 1,951 | 2,665  | 3,609  | 5,440 | 5,004  |
| Nov-18      | 2,080 | 1,963 | 2,680  | 3,629  | 5,420 | 4,993  |
| Dec-18      | 2,100 | 1,973 | 2,710  | 3,576  | 5,445 | 4,922  |
| Jan-19      | 2,100 | 1,987 | 2,725  | 3,569  | 5,525 | 4,861  |
| Feb-19      | 2,120 | 2,002 | 2,760  | 3,574  | 5,550 | 4,828  |
| Mar-19      | 2,140 | 2,026 | 2,780  | 3,600  | 5,600 | 4,852  |
| Change      | -1%   | -4%   | -2%    | -1%    | 0%    | 2%     |
| Op interest | 4,069 | 5,184 | 21,020 | 14,812 | 2,612 | 4,492  |

[www.ausfine.com.au](http://www.ausfine.com.au)

Ausfine Foods International Pty Ltd ■ ABN 12 006 926 129

T +61 3 9583 3588 ■ F +61 3 9583 4344 ■ E sales@ausfine.com.au

Suite 10, Level 4, 205 – 211 Forster Road, Mount Waverley VIC 3149 Melbourne, Australia