

## From the Trading Floor

### KEY MARKET DRIVERS

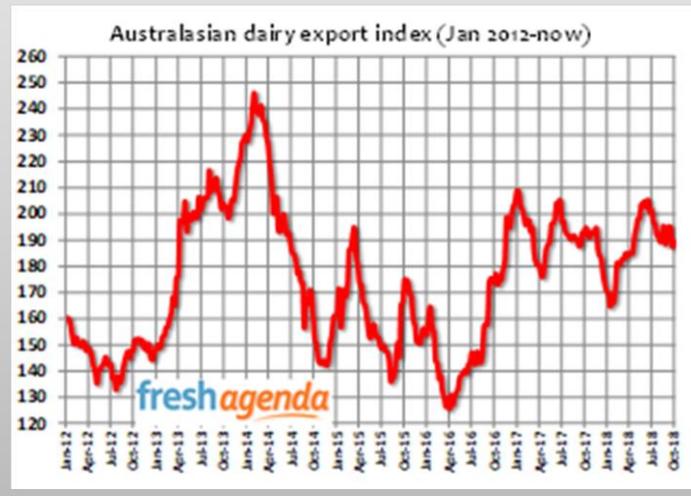
- USA in “wait and see mode”
- NAFTA 2.0 finalised, what does it mean for Canada
- European pricing under pressure
- Fat continues to slide on gDT

- I was at an US Dairy industry event last week and the prevailing attitude as to the direction of the market was “Bearllish” - a new term I just made up. My “Bearllish” definition: A view of the market that is both Bearish and Bullish in equal measure, for every argument for one direction there is an equal and opposite argument for the other. While there was legitimate concern about on-going trade wars with China (Bearish), there was also talk of a resolution around NAFTA 2.0 (Bullish) but then there was an ever firming USD currency (Bearish) to counter that there was feedback of genuine milk constraint in different areas e.g. California and some parts of mid-west (Bullish), but then good milk growth elsewhere (Texas / Colorado etc.) gave a Bearish signal. So my take away was that the US industry is taking a wait and see approach until such time that any of these points become more pronounced than the others. For my 2 cents, my view goes more toward Bearish – strong USD coupled with strong milk in NZ / South America / India and smaller than anticipated impact on milk from hot Euro summer.
- NAFTA is now going to be known under a whole new acronym (USMCA) so what does that mean for Dairy? Seems the biggest impact is on the very politically sensitive Canadian dairy industry. The Canadian’s have seemingly given quite a bit of ground in agreeing to abolish the Class 6 & 7 milk programs and provide greater access to the Canadian market for US dairy which ramps up quickly over the first 6 years of existence and then pairs back to 1% increase per annum for years 7 -19. BUT it seems there is a lot of sizzle and not much sausage, the total access for US Dairy comes out at less than ½ of 1% of their total milk production. There is also question marks around whether the milk concentrate trade will resume or whether Canadian SMP exports will still go out at very low pricing and there is a feeling that the Canadians will find other subtle ways to constrict trade.
- It appears at the moment that the severity of the Hot European summer on milk production has been overestimated. Whilst we still wait for the August / September production figures (where the heat was expected to really impact), we are seeing anecdotal evidence that there is adequate product around and cheaper spot parcels coming to market. The continued strong milk pricing will also be promoting production.
- Interesting take away from gDT last night was the absence of a big spike in WMP on the back of China buying for the duty free window and the continued slide of Dairy Fat (Butter and AMF). The Fat complex has been the darling (and saviour?) of our industry now for over two years. Is the party over? We think likely not, more a case of supply finally reacting and catching-up to that jump in worldwide demand leading to some moderating in pricing. The falls in \$\$ terms has been quite steep but Butter is still historically high in the US\$4000’s.

Matt Cooper, Director, Ausfine Foods

## DAIRY EXPORT INDEX

**Index lifts** – The Australasian dairy export index rose this week due to a slightly weaker A\$. Butter lost US\$100/t, averaging US\$4,400/t, while SMP lifted US\$50/t to average US\$2,050/t. WMP averaged US\$2,780/t and cheddar US\$3,700/t- both unchanged from the week prior. The A\$ fell to **US\$0.7229** – lifting the index by **2.0 points to 189.5**.

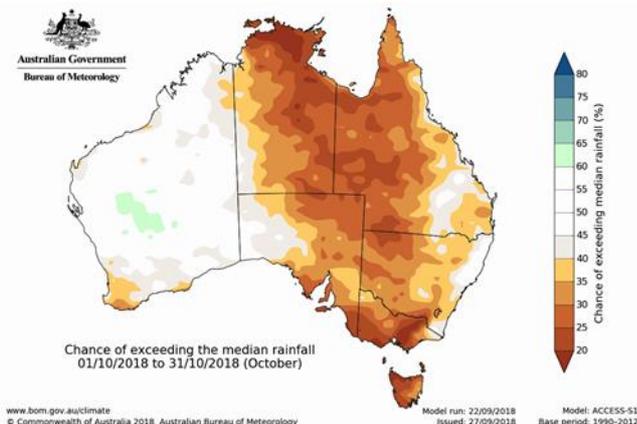


## AUSTRALIAN INDUSTRY NEWS

### Worsening weather outlook

The Australian Bureau of Meteorology’s (BoM) December Qtr climate and water outlook map has a deep brown scar across much of the south and eastern hinterland, deepening the drier, warmer trend that will further squeeze milk production margins and shrink Australia’s milk production. September’s low rainfall and higher daytime temperatures resulted in below average soil moisture for much of Australia, while water storage levels across the Murray Darling Basin, eastern Victoria and south east coast of NSW are much lower than year before. Cooler night temperatures added to the damage to grain crops with frosts in some parts.

Only three of eight climate models surveyed by BoM now forecast an El Nino event, but not until December. This would be a late El Nino, but not unprecedented.



## Weather highlights

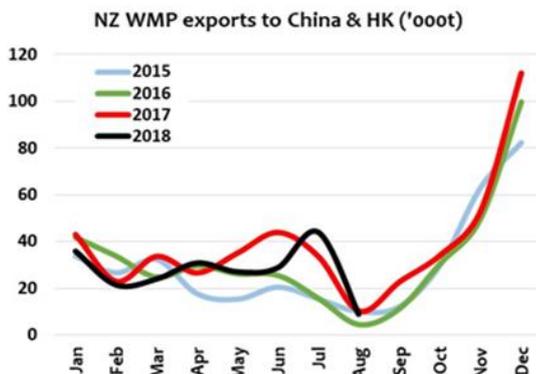
- In Australia, mostly sunny in eastern Vic, possible showers. Showers in NSW.
- In New Zealand, isolated showers across the North Island. Fine in the South Island, showers spreading.
- In the US, storm Rosa is expected to bring heavy rain and flash flooding across the south west.
- Sunny with chance of showers across Argentina. Thunderstorms and rain in Brazil.
- Mixed weather in Germany; sunny, rain and chance of thunderstorms. Sunny in France.

## Fonterra NZ's August intake up 3.3%

In its latest production update, Fonterra New Zealand's early season milk collection rose 3.3% YOY to 96.5m kgMS. In the North Island milk collection was in line with August last year at 70m kgMS. Good pasture growth in Northland and improved weather conditions lifted season-to-date milk intake 1.8% in the North Island compared to the same period last year. Milk intake in the South Island jumped 13.4% to 26.4m kgMS due to favourable weather conditions especially in the upper South Island. Total Fonterra intake is up 4.4% for the season, however, volumes are still small in the context of the full season.

## NZ August WMP exports flat

After rising 23% YOY in July, New Zealand's total WMP exports were virtually flat in August at 35,513t, despite an 11% fall in shipments to China & HK alone. For the year to date, total WMP exports were up just 0.5% to 829,383t while shipments to China & HK were 11% below the prior year comparable. In the first eight months of 2018, exports of butter and AMF rose 15% and 9% respectively. Exports of cheese were also weaker in August and remained 5% lower in the 8 months to August 2018. SMP exports fell 10% in the 8 months to August to 214,742t, after monthly trade was 16% lower than the prior year.



## US milk prices up in August

USDA's Agricultural Prices report indicates the all-milk price increased 50 cents/cwt (or 1.1c/litre) between July and August to US\$15.90/cwt. The August all-milk price was 12.2% lower in YOY terms and 7.6% below the 2016

comparable. According to the Margin Protection Program (MPP) formula, producer margins rose 10.5% from July. Farm profitability according to USDA analysis was highest in six months in August while the MPP program was paying out to farmers for the seventh month in a row. Farmgate margins are expected to improve through to the end of the year, with dairy prices projected to rise faster than feed costs.

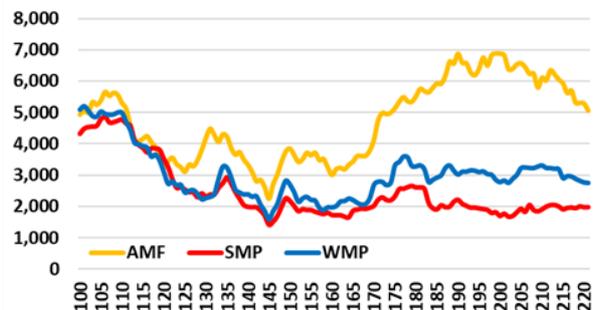
## Argentina ships more WMP

For the year to date (January-August), Argentina's WMP exports were 81% higher at 70,360t on stronger milk production, a run-down of high inventories and a shift in product mix away from cheese. For the year to date, Uruguay's WMP exports also expanded rapidly while Brazil's were negligible. Average yields per cow is expected to get a boost from a comfortable climate as South America transitions from winter into spring and the impact of El Niño is expected to be less severe for this spring and summer.

## GDT index down 1.9%

At GDT event 221, the GDT price index fell 1.9% on a larger offering of 41,981t. WMP shed 0.5%, averaging US\$2,753/t with mixed contracts. SMP averaged US\$1,982/t, a slight increase of 0.1%, however, most contracts were down. Butter plummeted 5.9%, averaging US\$4,016/t with the biggest fall recorded for December and January deliveries. AMF averaged US\$5,069/t, dropping 4.3% with falls across all contracts. Cheddar shed 1.0%, averaging US\$3,468/t.

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



## DAIRY FUTURES

**Futures mostly trending down** – NZX powders lost ground, fats were mixed. CME NDM was flat. All prices quoted in US\$/t.

	3-Oct	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange		NZX	CME	NZX	CME	NZX	CME
Nov-18		2,025	1,982	2,735	3,598	5,410	5,096
Dec-18		2,070	2,004	2,760	3,565	5,440	4,992
Jan-19		2,070	2,028	2,800	3,571	5,480	4,934
Feb-19		2,090	2,051	2,815	3,571	5,505	4,938
Mar-19		2,110	2,078	2,820	3,602	5,525	4,930
Apr-19		2,160	2,094	2,825	3,642	5,550	4,982
Change		-1%	0%	-1%	-1%	0%	-1%
Op interest		4,073	4,485	17,653	12,642	2,410	3,508

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