

From the Trading Floor

KEY MARKET DRIVERS

- NZ bumper spring to continue
- No end in sight to Tariff fight
- Australian dairy confidence is down
- Cheese pricing on US CME board plummets

- We are seeing some big numbers continue to come out of NZ with regard to milk production on a Year on Year basis (YoY). October was up 6.5% (KgMS basis) which indicates a very strong "Spring Flush". It's important to note that YoY numbers can throw up misleading information especially when you are comparing to an anomaly year, which the Flush of 2017/18 was with low milk across that period. However, this is still indicating a hell of a lot of milk going through the NZ system. There was evidence of some dry conditions starting to show, especially in the North Island, which would suggest the milk could begin to drop as we enter the hot months. However, those areas are in for a good lot of rain this week and next (according to forecasts) so we can expect to see this flush of milk continue for some time yet!
- There was some cautious optimism in diplomatic circles that the recent APEC summit could've resulted in a compromise around the USA/China trade war. Unfortunately, nothing could be further from the truth, seems we've seen warmer moments in Arctic winters than the relationship between the US and China at the current time. It was the first time in 50 years that APEC did not provide a communique that spoke to better trade relations between member states. For us dairy folk, it means more of the same for the foreseeable future with the disruption to trade flows that result. From an Australian perspective, it means a more perilous time ahead as the need to choose sides becomes more probable.
- The Australian dairy industry is predicting a bearish fall of 5% on milk flow for the 2018/19 season. This is on the back of continued dry conditions combined with exits from the industry. Farmer confidence took a beating during the Murray Goulburn collapse and for many has yet to return. It will take some relatively stable and profitable years for Australian farmers before the milk curve starts to trend upward in a material way again.
- Cheese prices in the US are down at a time when we would typically see some frantic last minute buying for the festive season of Halloween, Thanksgiving and Christmas but it just hasn't happened this year. Whether that's due to an abundance of product or because the US economy is not tracking as well as first thought is up for debate, but it's very unusual timing for the pricing to be soft. We have seen the CME spot cheddar price fall by US0.11/lb (US240/MT) over the last two sessions!

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index falls – The Australasian dairy export index fell again this week, marking 6 consecutive weeks of falls. Commodity values were mixed; butter rose US\$15/t to US\$4,315/t, followed by SMP up US\$90/t to US\$2,090/t. WMP was down US\$25/t to US\$2,650/t and cheddar dropped US\$100/t to US\$3,450/t. The A\$ rose almost 1c to **US\$0.7336** – sending the index down **4.0 points to 178.4**.

Australasian dairy export index (Jan 2012-now)

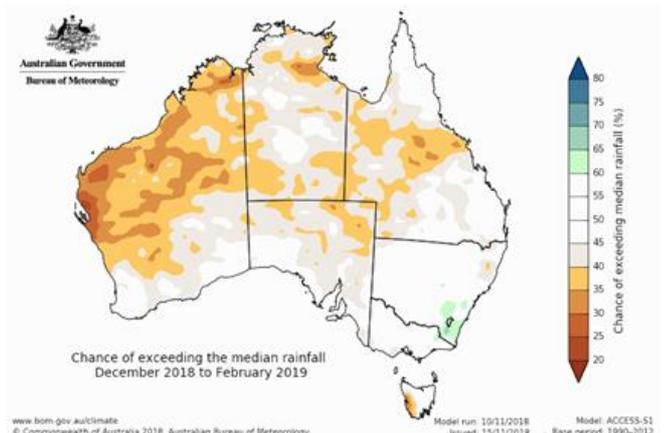


AUSTRALIAN INDUSTRY NEWS

BoM tips mixed bag for summer

In its climate outlook for December to February, the Australian Bureau of Meteorology (BoM) El Niño is seen as the key climate driver. In summer El Niño typically has less rainfall influence in the south-east – including those currently affected by drought - although warmer than average conditions are likely.

December is likely to be wetter than average in eastern and central NSW, extending into eastern Victoria. However, northern WA and western Tasmania are likely to be drier than average. Low streamflows are likely in 80% of locations due to a dry spring, with near-medium to high flows in northern NSW and southern Queensland due to recent heavy rainfalls.



Weather highlights

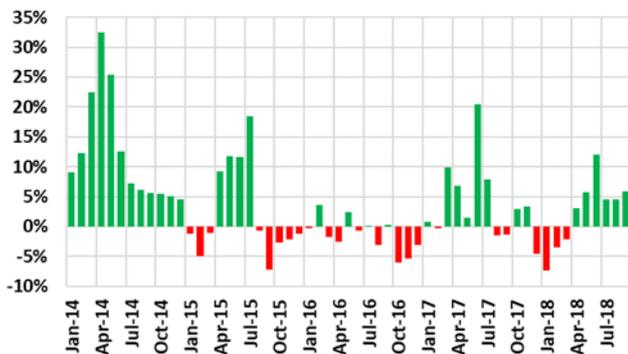
- In Australia, showers and thunderstorms in northern SA and NSW. Cold fronts to trigger rain in VIC.
- In New Zealand, rain and showers across both Islands. Some sun in the South Island.
- In the US, cold air is moving across the Northeast into the Holiday weekend. Rain and winds across California.
- Sunshine, thunderstorms and some rain in Brazil. Warm and rain in Argentina.
- A cold snap across Europe to lower temperatures. Showers and cloudy in Germany.

October milk up 6.5%

Dairy Companies Association of New Zealand (DCANZ) gave bidders on this week's GDT event a little more to think about when it reported milk production was up 6.5% YOY on a milk solids basis in October and 5.8% YOY on a volume (tonnes) basis.

October's milk production marks the highest monthly intake recorded ever and brings the number of consecutive months with YOY milk production increases to seven. Production for the June to October period was 6% ahead on the comparable period in 2017/18 at 647.1kgMS.

YOY growth, NZ milk collections (kgMS)



Stronger yields lift US production

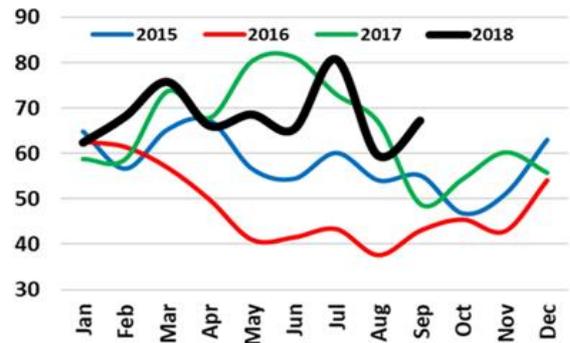
US milk production rose 0.8% YOY in October according to USDA, following a 1.3% expansion in September. Increased average yields per cow were responsible, as the dairy herd was smaller than the prior year comparable for the fourth consecutive month. For the January to October period, national supply rose 1.1% relative to the same period in 2017. The number of cows on farms in October was 9,365m head, down 2,000 head from September and 30,000 less than in the same month in 2017.

EU SMP export growth resumes

After increasing 35% last year to 780,000t, EU-28 SMP exports grew just 0.8% in the first nine months of 2018 after a revival in September when jumped 38% on a low prior year comparable. Shipments to Algeria were up 19% for the year to date, accounting for 18% of total EU SMP shipments. However, SMP exports to other key markets were mixed for

the period to September, including double-digit falls in shipments to Indonesia, Philippines and Vietnam.

EU-28 monthly SMP exports ('000t)

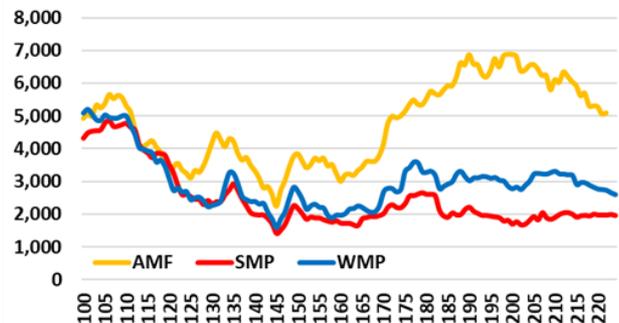


GDT dragged down by fats

The latest GDT event 224 recorded the seventh consecutive drop, the price index was down 3.5% on a larger offering of 42,966t.

WMP prices slid a further 2.1% to average US\$2,599/t with falls recorded for most contracts. SMP averaged US\$1,965/t, down 1.6% and butter dropped 10.1%, averaging US\$3,637/t with major falls recorded for contracts with near-term delivery. AMF also slid significantly, averaging US\$4,577/t, a drop of 9.3% with falls across all contracts. Cheddar rose 0.1% to average US\$3,252/t with mixed contracts.

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



DAIRY FUTURES

Futures mixed – Fats were mixed, while CME cheese lost ground. Powders all gained. All prices quoted in US\$/t.

	SMP	NDM	WMP	Cheese	AMF	Butter
21-Nov						
Exchange	NZX	CME	NZX	CME	NZX	CME
Dec-18	2,030	1,971	2,680	3,219	5,150	4,894
Jan-19	2,100	1,984	2,770	3,283	5,200	4,828
Feb-19	2,140	2,011	2,785	3,371	5,285	4,839
Mar-19	2,160	2,076	2,840	3,441	5,330	4,867
Apr-19	2,190	2,111	2,840	3,519	5,350	4,916
May-19	2,170	2,133	2,825	3,569	5,400	4,949
Change	3%	3%	3%	-1%	0%	-1%
Op interest	7,178	4,971	23,671	15,459	3,165	4,676

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