

## From the Trading Floor

### KEY MARKET DRIVERS

- Prices Rally Everywhere (except US cheese)
- Australia milk situation looking sick
- EU intervention gone (well almost)
- China economy is a concern

Well another gDT Tuesday and another increase. This time an overall up by 4.6% with the highlight being a 10% jump for SMP which has long been the poor cousin in the dairy complex, smashed by overproduction in Europe and as a result, intervention stores overhanging the market. But as we'll speak about later they (intervention stocks) are largely gone and the SMP market is rebounding as a result. WMP / Fats / Cheese and Lactose were also up. There is certainly a bullish sentiment out there at the moment, particularly from a European perspective, the next test will likely be the European spring flush. The one exception is US cheese pricing on the CME which is of particular note that it fell on the spot market (Tuesday 15th) while gDT rose. This speaks of the heavy inventories of US cheese but could also speak of a slowing US economy, anyone up for a trade war?

- We've spoken about it before but now we're seeing it come to fruition, Australian milk production is falling on YoY basis. We are in the midst of the predicted long hot summer and the dry conditions, combined with industry exits are conspiring together for a large fall in milk production. Industry forecasts are down by 6.5% - 9%. Anything in that range would see our milk down to its lowest level since the 1990s. Some serious industry reforms would need to happen for a quick recovery on farmer confidence and milk recovery, of course some rain would help as well!!
- As we mentioned previously the expectation was that the remaining SMP stocks in EU intervention (at that time approx. 100,000MT) would not last long into the new year, and that certainly has proven to be the case with a very active first auction of 2019 selling down stock by 80,000MT, leaving only approx. 20,000MT. This had been the catalyst for a rebound in global SMP pricing. How far that recovery will go is yet to be seen but that 10% jump on gDT last night would suggest a bit to go. Of course the intervention stock has not actually been consumed and when it is it will be replacing demand for something else (fresh production) so the intervention story may not be over just yet (just a lot less transparent).
- There are concerning reports, which are picking up steam, of a slowdown in the Chinese economy. Whether that is a direct result of the trade war with the USA or other factors it is hard to find a definitive answer but the Chinese government is concerned enough to start looking at some stimulus activity. As the world's biggest importer of dairy ingredients any fall in demand is a concern and the knock-on effect could be concerning.

**Matt Cooper, Director, Ausfine Foods**

### DAIRY EXPORT INDEX

**Index falls** – The Australasian dairy export index fell this week on a stronger \$A and falling commodity values. Butter prices averaged US\$4,123/t, down US\$77/t, while SMP rose US\$93/t, averaging US\$2,263/t. WMP averaged US\$2,725/t, down US\$15/t and cheddar prices slid US\$25t to US\$3,475/t. The A\$ rose to **US\$0.7215** – sending the index down by **2.5 points to 184.2**.

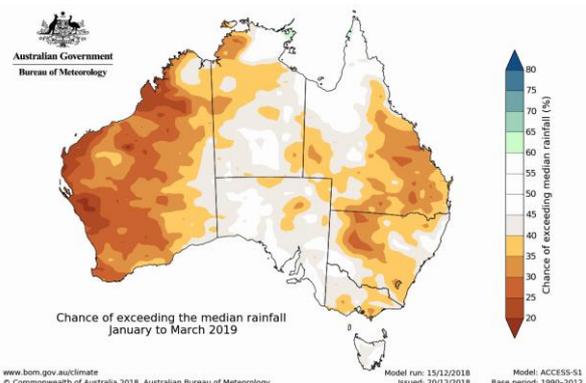
Australasian dairy export index (Jan 2012-now)



## AUSTRALIAN INDUSTRY NEWS

### BOM: El Nino recedes ...for now

In its early January ENSO update, the Bureau of Meteorology (BOM) said conditions in the Pacific Ocean have returned to a neutral position. Tropical ocean surface waters have returned to ENSO-neutral temperatures after exceeding El Niño levels in November and early December. Most climate models indicate sea surface temperatures in the tropical Pacific are likely to remain near El Niño levels at least until early autumn 2019. BOM is keeping its El Niño watch at "Alert" status however as it still sees a risk of the pattern developing. The Southern Oscillation Index dived in early January to +2.0 after peaking at 10.0 in the second half of December. In its latest Climate Outlook, BOM forecast drier than average temperatures across Australia from January to March.



## Weather highlights

- In Australia, troughs are bringing showers and storms in Tasmania. Showers in South Australia and Victoria.
- In New Zealand, rain across the South Island. A few showers in the North Island.
- In the US, storms to bring flooding rain across the west coast. A major snowstorm in the Northeast.
- In Brazil, mostly sunny with chance of rain. Thunderstorms and high temperatures in Argentina.
- Cold with chance of rain in France. Rainy days with some sun in Germany, night frosts.

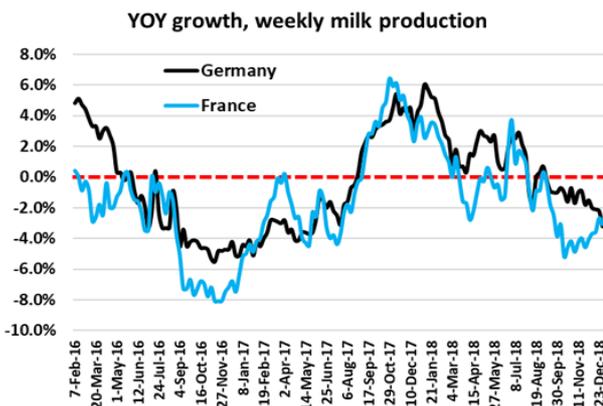
## NZ: Warmer temperatures forecast

In its latest seasonal outlook, NIWA forecasts slightly warmer than normal conditions over the north of the country – expected to lift temperatures from January through March across the north of the North Island. Temperatures are likely to be normal in the remaining regions of New Zealand. Rainfall is forecast to be near normal for most regions, but started slowly in January.

## EU milk production still falling...

In most recent data, milk output in key European countries continued to decline through to the end of 2018. In week 52 (ending 30 December), German production fell 3.2% YOY – this was the seventeenth consecutive weekly fall and the worst weekly decline since the summer of 2017.

In the same week, French supply dropped 3.1% YOY after trending stronger for a number of weeks. However, the situation is patchy. UK supply was up 3.1% YOY in the first five days of January, based on daily milk delivery data published by AHDB, after increasing just 2.1% YOY in December. Ireland is expected to post another strong gain in early winter as well.



## NFDM prices reach new high

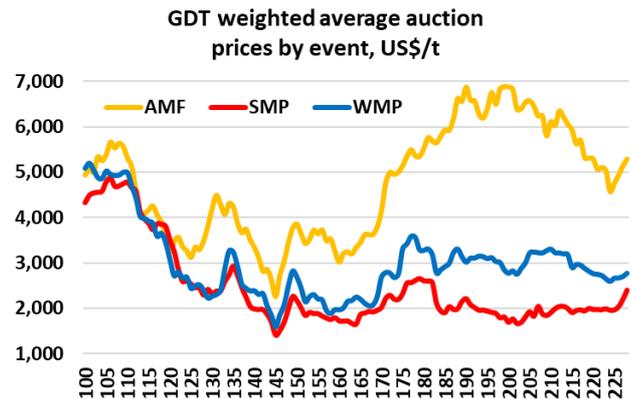
CME non-fat dry milk (NFDM) prices reached a near two-year high at just below US\$2,230/t as market sentiment has drastically improved with tighter stocks and strong export demand relative to the same period in 2018. This reflects the unexpectedly large reduction in SMP intervention stocks in the hands of the European Commission in addition to slowing milk production in the US and the EU. In addition,

dry whey prices have been above US\$1,000/t since mid-December and continue to rise into the new year, reflecting falling US production in late 2018.

Stronger protein values aren't helping cheese. Cheddar prices remain weak, with historically high stocks and continued expectations of a net over-supply situation for 2019 with additional processing capacity becoming available. CME #40 blocks currently stands at US\$3,125/t while cheese barrels trade continue to provide the value buy for the trade at US\$2,668/t.

## GDT posts 4th consecutive gain

This week's GDT auction provided the fourth positive outcome in a row for the overall index, which lifted 4.2%. Increases was recorded across all major commodities. SMP performed strongest – up an average of 10.2% to US\$2,402/t – lifting consistently across all contract periods, WMP lifted 3% on average to US\$2,777/t, with stronger rises in earlier delivery periods. Butterfats continued to improve, with butter posting a 4.6% average gain to US\$4,262/t, with slightly stronger prices earlier, but in a tight spread. AMF rose less emphatically by 3.2% to average US\$5,294/t, but prices trended stronger later. Cheddar reflected the gains in fat and protein prices, lifting 4.2% for the third gain in a row, to average US\$3,504/t.



## DAIRY FUTURES

**Futures lift** – Powders lifted with SMP recording the strongest gain. Fats rose modestly, while cheese were flat. All prices quoted in US\$/t.

	16-Jan	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange		NZX	CME	NZX	CME	NZX	CME
Feb-19		2,350	2,200	2,830	3,137	5,210	4,955
Mar-19		2,350	2,265	2,860	3,289	5,225	4,971
Apr-19		2,375	2,306	2,935	3,406	5,250	5,022
May-19		2,395	2,342	2,950	3,521	5,160	5,043
Jun-19		2,375	2,350	2,980	3,598	5,165	5,060
Jul-19		2,385	2,371	2,980	3,680	5,175	5,087
Change		4%	2%	2%	0%	1%	1%
Op interest		6,125	5,448	29,231	14,019	1,251	5,001

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