

From the Trading Floor

KEY MARKET DRIVERS

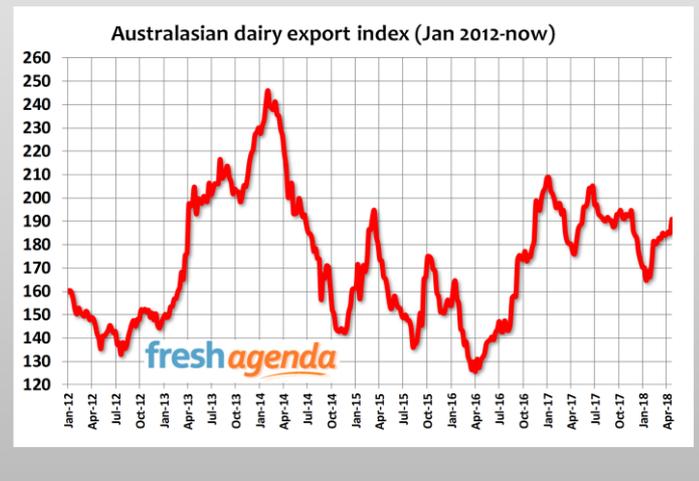
- Is Butter dragging the rest of the Dairy complex up?
- Sentiment is a wonderful thing, trumps fundamentals!!
- Saputo officially now owner of Murray Goulburn
- Mozz the hot ticket item

- As we have commented numerous times before, the demand spike for Butter we have seen over the last 18 months is real and, for the time being at least, looking like it is going to stay as diet advice continues to recommend a move away from carbohydrates and back to natural fats. This jump in butter seems to be dragging the rest of the Dairy complex up. WMP was the first to respond in a big way (remember WMP at US1800/MT not so long ago?) as the value of Fat content in WMP was realised, but to justify milk to Cheese vats (instead of to butter churns) Cheese pricing has had to respond. Now finally we've seen some life in SMP which is now also showing signs of genuine price firming.
- Further to the first point, I received a number of reports last week showing record inventories of Cheese and Butter in the USA, despite that it seems that the market doesn't really care and it is business as usual with prices firming across the board (to varying degrees). One thing is for sure, with current market bullishness we will be seeing better milk cheques to farmers and as a result – more milk, but in current market that doesn't seem to matter.
- The 1st May was a watershed day for the Australian dairy industry when Saputo officially took over the manufacturing assets (& brands) of Murray Goulburn. It was a sad day as the once leader of the Australian dairy industry quietly slipped into the history books, but it was also a day when the industry, MG farmers and employees in particular could finally turn a new page safe in the knowledge that they are being partnered by an excellent company with a enviable track record around the world.
- There are reports from Europe that Mozzarella is Hot. Demand has firmed quarter over quarter, particularly from international markets. Current pricing for Mozz is now outstripping other higher solids cheeses (e.g. Gouda) for the first time in a very long time (maybe ever?).

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

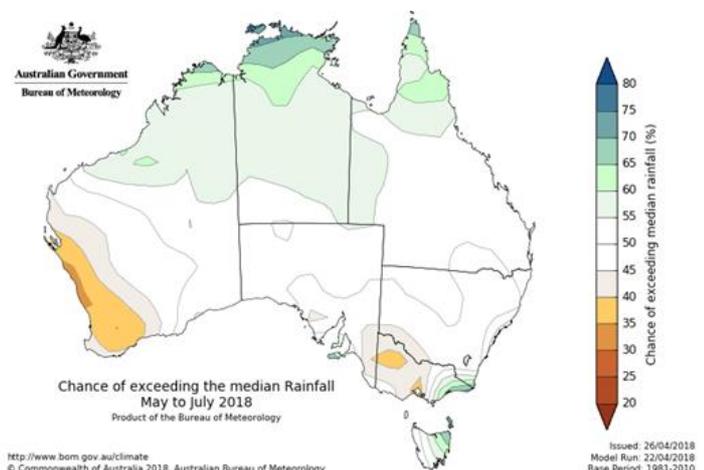
Index gains ground - The Australasian dairy export index rose this week on a weaker A\$ and mixed commodity prices. Spot quote for butter added US\$45/t to US\$5,645/t, while cheddar climbed US\$25/t to US\$3,850/t. Powder quotes were unchanged, SMP remained at US\$1,960/t and WMP at \$US3,300/t. The A\$ fell slightly to **US\$0.7580** – lifting the index **3.2 points to 194.2**.



AUSTRALIAN INDUSTRY NEWS

BoM: Warmer and drier until winter

After a drier than usual autumn in Victoria, the Bureau of Meteorology is forecasting drier conditions for western Victoria and parts of southwest Australia, but wetter for other parts of Australia. Winter water storage filling season is likely to start later in the south as rainfall will soak soils before filling water storages in the region. Warmer than average temperatures will continue in May, but come winter there's less chance of above average temperatures.



GLOBAL DAIRY MARKETS

Weather highlights

- In Australia, a high in the southeast is bringing cool and cloudy conditions.
- In NZ, showers and rain across both Islands.
- In the US, mixed weather in the Midwest. Warm and sunny in California.
- Thunderstorms, rain and showers across Argentina, mostly sunny in Brazil.
- Mostly sunny and warm in France. Mixed weather in Germany.

Fonterra milk intake slides

Fonterra's milk collection was curbed in March, down 3% compared to March last year. North Island intake was down 5.8%, while South Island intake lifted 0.8% in March. Season-to-date milk intake is 3% behind for the South Island, while North Island intake is 0.6% down on the season to date comparable. Overall, season-to-date milk intake is 2.1% behind the prior season.

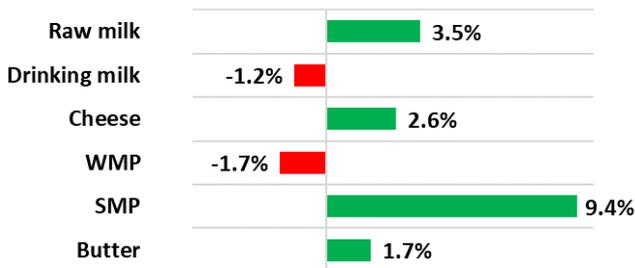
Weather conditions have improved across most of New Zealand, however, overall production is behind March last year. Fonterra has revised its season forecast to 1,500m kgs of milksolids, down 2% on 2016/17. This compares to Fonterra's previous forecast of 1,480m kgs of milksolids.

EU processors favour SMP

According to the EU Milk Market Observatory (MMO), EU-28 cow's milk deliveries rose 3.5% during the first two months of 2018. Production of drinking milk fell 1.2% over the same period, accounting for 20% of total deliveries.

With the availability of "manufacturing" milk rising 4.7% for the year to date, manufacturers increased SMP production by 9.4% with favorable stream returns due to a high fat valuations as well as low availability of "free" stocks. Cheese production also rose, up 2.6% for the year to date to 1.49mt. Butter production was up 1.7% for the period while WMP fell 1.7%.

EU-28 YTD (Feb) output growth



US milk prices up in March

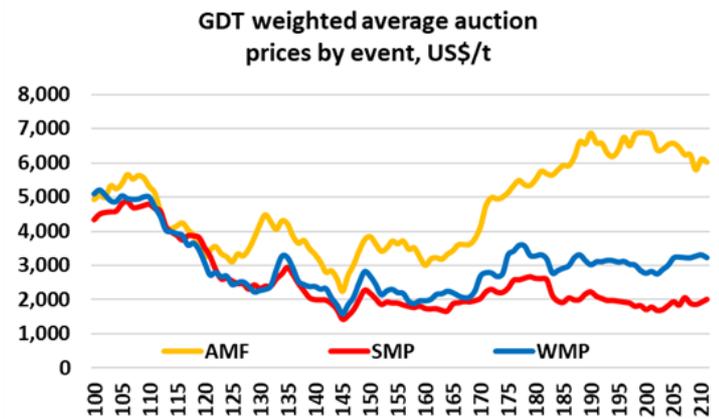
USDA's Agricultural Prices report indicates the all-milk price was US\$0.35/litre in March. This was 2% higher than in February and 9.9% below the same month last year.

However rising feed costs reduced income-over-feed costs (IOFC) in March, the fourth consecutive monthly fall and now stands at its lowest mark since June 2016. The outlook is for an improved farm profitability however – IOFC is projected to bottom in April before recovering in the period to October.

GDT down 1.1%

The GDT price index fell 1.1% on a slightly smaller offering of 19,508t.

Average WMP prices fell 2.4% to US\$3,231/t, with mixed results across contract periods. SMP prices rose 4.5% to average US\$1,999/t with strong prices in contract periods for delivery in June through to August, there was no product offered or sold in contract period 6 for November delivery. Butter prices were down marginally by 0.1% to average US\$5,647/t with increases in contract periods 1 and 2 of around 1% before prices weakened in the remaining delivery periods.



DAIRY FUTURES

All futures gain – NZX powders jumped. CME cheese saw the smallest gain. All prices quoted in US\$/t.

2 May	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Jun-18	2,075	1,831	3,395	3,655	6,350	5,379
Jul-18	2,075	1,887	3,395	3,724	6,270	5,401
Aug-18	2,120	1,929	3,385	3,772	6,450	5,434
Sep-18	2,160	1,958	3,390	3,803	6,420	5,474
Oct-18	2,070	1,990	3,385	3,790	6,120	5,490
Nov-18	2,000	2,010	3,345	3,759	6,100	5,478
Change	8%	4%	4%	1%	2%	3%
Op interest	1,670	4,520	13,016	14,985	1,579	4,169

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