

From the Trading Floor

KEY MARKET DRIVERS

- gDT – we predicted down, we were wrong!
- Buying activity lull
- NZ gets rain last week
- China ceases publishing import data

- We run a poll with our trading team the day before each gDT on the result overall and then a specific product of interest (default being WMP as that is the biggest volume and driver on the platform). This time the focus was squarely on butter. The general consensus was typically Butter down 2.5% – 5%, based on apparent surplus of spot availability, increased volumes of fat on gDT, subdued demand and a falling butter market in Europe. As a side note on the European situation, we have heard from some Euro folk that butter has fallen the best part of €1000/MT over recent weeks. Turn forward 24 hours and we see butter actually up by 2.4% on gDT with strong buying across C1/C2 indicating some good in-close demand (although falling away in back contracts). Just goes to show that 1) we sometimes question what we think we know and 2) highlights the volatility in butter markets around the world at the moment. Just as a footnote to this, of course I was spot on in my predictions, it was the other guys here dragging down the average!!
- Fair to say October to date has been quiet on trading activity as markets transition from a somewhat bullish outlook on pricing due mainly to a crazy, hot summer in Europe to a more bearish outlook on pricing due to a strong New Zealand spring and very strong USD. Discussions with other trading partners reflect that we're not Robinson Crusoe here and the quiet times are widespread across the globe (with the potential exception being internal USA trade and export to Mexico, which has been strong). A relatively stable result on gDT may re-ignite some global demand and give buyers some confidence that markets will not plummet anytime soon.
- Reports from our friends across the ditch (NZ) was that it was starting to look pretty dry across big parts of the South Island and even some parts of the North with some early mentions of the "D" word creeping around. Having said that a quick google search across the last decade has shown a remarkably consistent discussion of "NZ Drought" at about this time of the year, every year. However, the whole country appeared to get a good dose of rain last week which should keep the conditions near perfect for dairying for a little while longer. Interesting note was the amount of snow dropped on the south island with that weather front, apparently conditions were pretty treacherous for anyone attempting to cross the alps (normally a safe bet at this time of year).
- Interesting side note and development with the recent trade war – China has ceased publishing import dairy statistics. Most of us rely quite heavily on trade volume data, especially to the world's largest dairy importer, to gauge likely product availability, market directions and pricing. China's import stats are an important part of framing that picture and while we can all aggregate export stats from the major suppliers to China there is nothing like a single source to corroborate those numbers. This speaks of the level of venom that is prevalent in this trade war.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index falls – The Australasian dairy export index took a hit as the A\$ rose this week. Butter and cheddar were unchanged from the week prior averaging US\$4,250/t and US\$3,700/t, respectively. WMP averaged US\$2,725/t, down US\$50/t and SMP rose US\$20/t to US\$2,020/t. The A\$ rose to **US\$0.7118** – sending the index down **1.4 points to 190.7**.

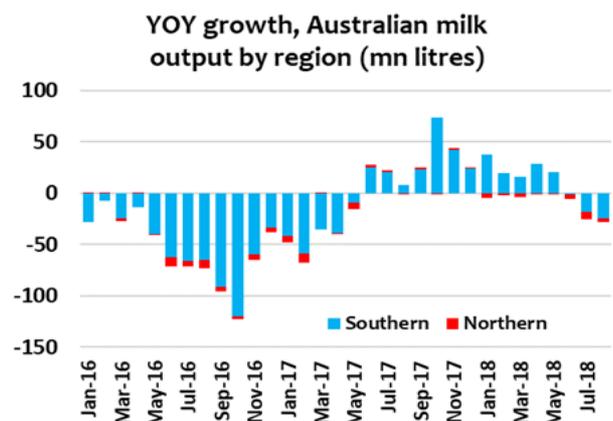


AUSTRALIAN INDUSTRY NEWS

Milk down 3.6% in August

Dairy Australia reports milk intake was down 3.6% in August YOY, after falling short by 4.2% in July. In the southern region milk production fell 4.2% compared to the same month last year. August output rose by 6.2% in South Australia and 3.2% in Tasmania. However that wasn't enough to offset falls in production across Victoria and NSW.

For the season to August, national milk output was 3.9% behind the corresponding period last year. While it's still early in the season, the latest outlook from the Bureau of Meteorology forecasts drier than average conditions across key dairy regions, further squeezing milk production as feed costs and shortages worsen.



Weather highlights

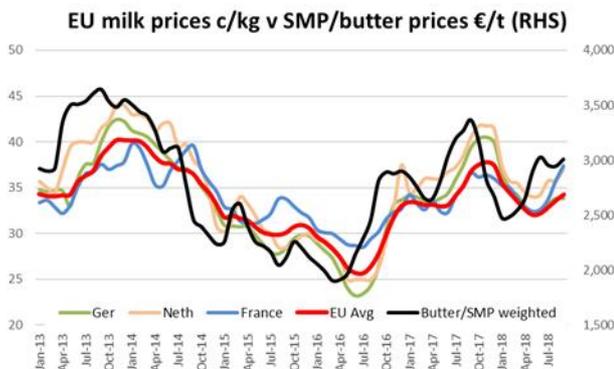
- In Australia, high chance of rain in Vic. Sunny and possible showers in NSW.
- In New Zealand, cloudy with the odd shower in the North Island. In the South Island, rain in the west and showers in the east.
- In the US, cool air to sweep across the Midwest, bringing showers and snow in some places.
- Strong thunderstorms moving across Brazil. Mix of sun, rain and thunderstorms in Argentina.
- Sunny and warm with rain ahead for Germany. Sunny and change of showers and rain in France.

Brazil's imports slowing

According to the Secretariat of Foreign Trade (SECEX), milk imports fell to 91.9ml milk equivalents (ME) in September, down 12.9% compared to August. This left a deficit of 77m litres on a milk equivalent basis, which continues to narrow. Despite the monthly decline, year-ago data shows September imports was up 18% YOY and 5.5% for the year-to-date (July to September). Milk powder imports fell 26% compared to August, but lifted 93% YOY, while SMP imports slid 4% on the month prior and were down 42% YOY. Powder imports from Argentina grew 57.6% YOY in July to September as a previous limit quota was revoked, meanwhile, Uruguay shipments retreated by 15.5% compared to the same period a year ago.

EU milk prices keep moving higher

After The EU Commission last week reported average milk prices paid to farmers in August across the EU-27 lifted to 33.6c/kg, while it projects September to be 0.7c/kg higher at 34.3c/kg. Prices paid in each of the major producers have also kept rising. Following this trend, farmgate prices for the next couple of months are expected to remain at or above where they have been in Q3-2018. FrieslandCampina has confirmed a 38c/kg price for October, while DMK in Germany is reporting 34.6 in October (according to the LTO), and Lactalis has announced a 36c/kg price for December.



USDA lifts forecasts

US milk supply forecasts for 2018 and 2019 were raised in the September WASDE. A rapid increase in yield per cow and higher cow numbers for next year were updated in the

2019 outlook. The USDA now expects a 1.2% increase in 2018 supply to 98.9bn kgs with a further expansion of 1.5% next year. This would follow a 1.5% growth in 2017.

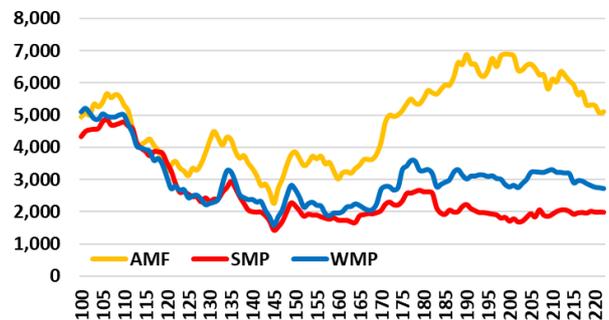
Uruguay's milk growth slowing

Milk production growth in Uruguay slowed in July and August, with wetter conditions across the country, to be just 1% above the prior year, after a stronger surge in the first half. Milk prices also dipped in these months, and in August were estimated to be 7% lower than the same month in 2017, and 10% down on those paid in March. Input costs may also be squeezing producers – the peso has lost 14% since May, dragged down by the Argentinean peso which halved in value over the same period. Year to date, Uruguay pumped out an additional 5.7% of milk, which has helped fuel a 26% lift in WMP exports.

GDT: Fats rise, WMP loses a little

At the latest GDT event 222, the GDT price index slid 0.3% on a slightly smaller offering of 41,945t. WMP fell 0.9% to average US\$1,977/t, down 0.3% on mixed contracts. After falling at every auction since 19 June, butter steadied and climbed 2.4% to average US\$4,114/t. AMF also rose 0.7%, averaging US\$5,106/t on gains across most contracts. Cheddar averaged US\$3,404/t, down 1.8% on falling contracts.

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



DAIRY FUTURES

Futures losing ground – Fats were flat, NZX WMP and cheddar lost ground. CME NDM was down. All prices quoted in US\$/t.

17-Oct	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Nov-18	2,025	1,935	2,605	3,477	5,025	5,071
Dec-18	2,000	1,957	2,630	3,461	5,050	4,988
Jan-19	2,010	1,968	2,680	3,483	5,080	4,876
Feb-19	2,030	1,996	2,695	3,525	5,210	4,900
Mar-19	2,055	2,025	2,710	3,576	5,200	4,961
Apr-19	2,130	1,827	2,720	3,629	5,350	5,004
Change	0%	-1%	-2%	-2%	0%	0%
Op interest	4,263	4,826	24,275	14,731	2,410	4,238

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