

From the Trading Floor

KEY MARKET DRIVERS

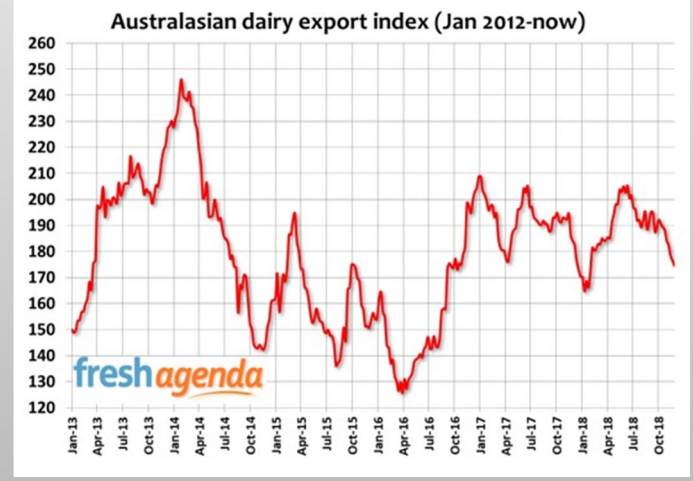
- Ø Proteins making a comeback, fats under pressure
- Ø EU SMP intervention stocks – seeing light at the end of the warehouse
- Ø If it wasn't for a very strong NZ spring we may be seeing real strength returning to dairy pricing
- Ø USA cheese inventories grow across August – September for the first time in 26 years

- Like Lazarus rising we are finally starting to see some real and convincing strength returning to proteins recently. We have seen a steady firming in SMP / NFDM pricing from Oceania, Europe and USA, off lows of early US\$1700s not so long ago with most prices now having a US\$2 in front of them on a CIF basis. The reasons for this is an apparent redirection of milk, where possible, away from the spray dryer and into the cheese vats, a steadily declining EU intervention stockpile and less availability out of Australia. On the flip side is Fat (Butter / AMF), which has seen some significant drops recently, is that a demand thing (perhaps in response to very high prices being passed on to retail customers) or supply finally catching up?
- Are we finally seeing the light at the end of the very large warehouses holding the EU SMP inventory as the stock pile is starting to be materially depleted? With original stocks originally topping out well above the 300K MT mark there has been a recent build in momentum of sales resulting in over 200K MT of that stock pile being sold. Our estimate is that there remains approx 130K MT still to be sold but on current forecasts that remaining stocks could be sold over 4-5 auctions (2-3 months of fortnightly events). So come mid 2019 we could conceivably have seen the end of the mountain. The big questions thereafter will be 1) Has that stockpile merely been transferred from public to private warehouses (with the sunlight quickly being extinguished again) or has it begun to be consumed in material volumes and 2) if the SMP pricing rebounds significantly will the supply respond in earnest and put us right back where we started? Let's see!!
- Although cautious there is a decidedly bullish tone out in the market at the moment (with perhaps butter & US Cheese being the exception) which makes for interesting musings that turn to, imagine if we weren't having a very large spring flush out of New Zealand? If we had indeed had a repeat of the last 3 years with a very challenging NZ spring I am sure our dairy prices would be materially higher across the board. However musings are about as useful as the proverbial udders on a bull and the Kiwis are continuing to work their way through a huge spring flush that we think will now see their factories working at high levels of utilisation well into January. The musings then turn to Europe and a forecasted hard time across Winter due to low feed stores (consumed earlier in the year) which if true makes abundant NZ product availability a good thing to have!
- The increase in US cheese inventories (Natural American cheese) of 2.2% from August to September has surprised many. Aside from very minor upticks in 2016 & 2010 this is the first really material increase over the last 26 years at this time. August to September is when inventories typically begin to be drawn down (due to lead into festive season and winter). This would certainly help to explain a lot of the recent bearishness in US Cheese pricing.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index falls again – The Australasian dairy export index fell again this week, for the 8th consecutive week. Commodity values were mixed; butter quotes fell US\$40/t to US\$3,760/t. SMP prices added US\$15/t to US\$2,025/t. WMP and cheddar were unchanged at US\$2,600/t and US\$3,450/t respectively. The AS added almost 1c to US\$0.7307 – sending the index down 1.9 points to 174.6.



AUSTRALIAN INDUSTRY NEWS

ACCC wins contract changes

The Australian Competition and Consumer Commission (ACCC) announced five processors have agreed to contract amendments that improve fairness for farmers. Brownes Food Operations, Lion Dairy & Drinks, Norco Co-operative Ltd, Parmalat Australia and Fonterra Australia have agreed to give farmers the right to terminate their contract if supply terms change and place the farmer in a worse position - such as price or quality requirements.

Fodder shortages easing?

Despite below average rainfall in western Victoria and western and eastern Gippsland, a mild spring has made a huge impact on pasture production and hay prices in southern Victoria. Silage has been cut and stacked in many areas and hay baling is well underway, with an impressive volume harvested.

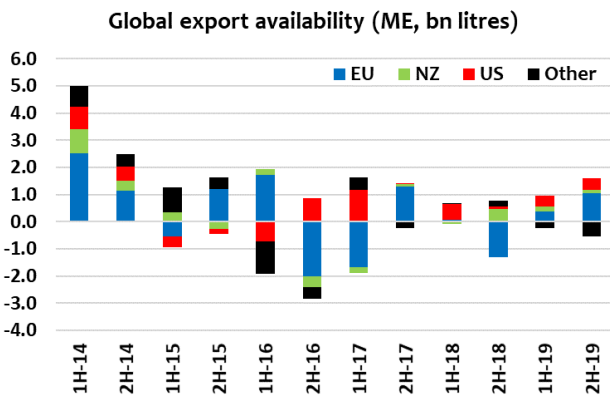
The southern hay market, along with the rest of Victoria and Riverina, had been influenced by northern demand, with truckloads of Victorian hay feeding stock in drought-stricken central NSW. According to Fodder guru Colin Peace those trucks are now transporting fodder within that region, and even northern NSW and southern Queensland feedlots are sourcing adequate supplies within a 200km radius. Very little pasture hay is trading in southern Victoria but sellers believe they may need to discount their hay by \$100/t and offer as low as \$200/t ex-farm to attract buyer interest

Weather highlights

- In Australia, troughs maintaining very warm winds and triggering showers, but NSW, VIC and TAS skies clear.
- In New Zealand, settled weather but a weakening front could bring showers to the Sth Island.
- In the US, widespread showers across Southern Plains to Great Lakes, risk of thunderstorms and some flooding.
- In Argentina, showers and rising temperature. In Brazil, drizzle and showers in key dairy regions.
- Storms across southern and eastern Europe, wet and windy in north and west.

Global market steady

Fresh Agenda's November Global Dairy Directions (GDD) update shows the fundamentals underpinning the global market outlook are largely unchanged since our October outlook. While overall milk supply and demand are moving towards a more balanced position, the separate drivers of fat and protein values in Europe and Oceania have different implications. Milk growth in major exporters will slow in H2-2018 after expanding 1.8% in H1-2018, yet global trade is also picking up.



EU September production flat

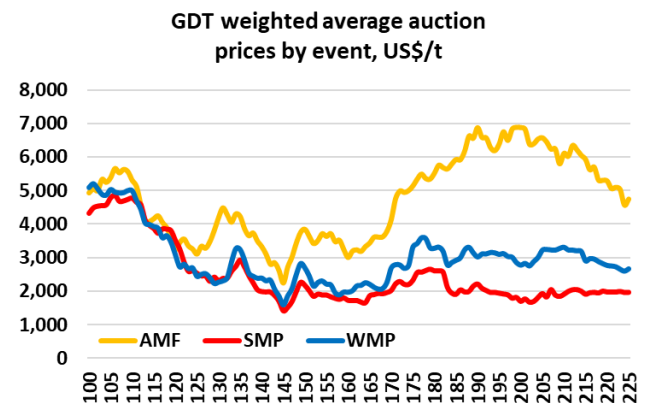
According to official Eurostat data, EU-28 milk production was flat in September after increasing 0.2% YOY in August. However, the flat September outcome masked diverging trends among major producing countries. German production was flat, but with YOY declines in France (-1.7%) and the Netherlands (-4.5%). Meanwhile, September production increased in Ireland (10.2%), Poland (2.4%), the UK (0.8%), Denmark (2%)..

Finally, a GDT price rise

For the first time since May, the GDT price index rose 2.2% on a smaller offering of 36,450t.

WMP prices rose 2.5% to average US\$2,667/t, with the strongest rises in recorded in early contract periods. SMP rose 0.3% to average US\$1,970/t.

Fat prices recovered after copping a beating at the last event. Last week Fonterra removed 2,000t each of butter and AMF from GDT for the next few months. Butter prices rose 2.7% to average US\$3,745/t. AMF prices rose 3.9% to US\$4,755/t. Cheddar prices retreated to US\$3,184/t down 2.2 while rennet casein prices averaged US\$5,167/t, up 2%.



US manufacturers favour cheese

Cheese production rose 3% YOY in October according to the latest USDA Dairy Products report. American cheese was up 0.7%, while other cheese – such as mozzarella - was up 4.4%. Cheese production was up 2.5% overall for the 10 months to October. There was an estimated 2.1% increase in manufacturing milk availability (taking account of the fall in fluid milk output) for the period.

NFDM manufacture fell 13.6% in September, the seventh consecutive month of YOY declines. For the 10 months to October, NFDM output is 4% down on the prior year comparative. SMP output has improved in recent months on small volumes - it rose 44.5% YOY in October and was up 5.8% for the 10-month period. Combined NFDM/SMP output for the year to date lagged the prior year comparative by 1.8%. Butter output fell slightly in October, but was still 2.7% ahead for the 10-month period.

DAIRY FUTURES

Futures mixed – Fats higher or stable, while CME cheese and powder weakened. NZX powder stable. All prices quoted in US\$/t.

5-Dec	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Dec-18	2,020	1,968	2,635	3,073	4,800	4,872
Jan-19	2,065	1,995	2,735	3,181	4,850	4,872
Feb-19	2,095	2,028	2,795	3,307	4,900	4,877
Mar-19	2,140	2,054	2,830	3,402	4,920	4,911
Apr-19	2,200	2,089	2,830	3,503	4,965	4,965
May-19	2,215	2,131	2,850	3,560	5,020	4,997
Change	0%	-1%	0%	-1%	0%	2%
Op interest	7,208	5,137	28,815	15,976	1,872	4,828

www.ausfine.com.au

Ausfine Foods International Pty Ltd ■ ABN 12 006 926 129

2

T +61 3 9583 3588 ■ F +61 3 9583 4344 ■ E sales@ausfine.com.au

Suite 10, Level 4, 205 – 211 Forster Road, Mount Waverley VIC 3149 Melbourne, Australia