

From the Trading Floor

KEY MARKET DRIVERS

- Big jump in gDT (Kiwi's jumping for joy)
- US product missing the rises – exports here we come?
- European milk back to growth
- Goat's milk all the rage

Well, our internal predictions were off again on last night's gDT with predictions mostly for a moderate rise (1-2%), but I doubt we were Robinson Crusoe as I wouldn't expect many were predicting a rise above 6%!! The continued rally was led by WMP (up by 8.4%) and Fat (AMF +5.8% / Butter +4.2%). Also of note is that SMP continued its rally, not to the extent of WMP but still a nice uptick of 3.9%. This is fantastic news if you are a Kiwi farmer! Let's be honest, such is the importance of Dairy to the whole country; it is fantastic news for all of New Zealand that pricing is firming and that milk production is increasing at the same time. It is such a rare occurrence that prices would increase at the same time as production that we could consider it a Unicorn event that should be celebrated loudly – Kia Ora!!

While the Kiwi's are doing a celebratory Haka, the US dairy industry is not sharing in the joy just at the moment. US cheese pricing on the CME remains very subdued with heavy inventories overhanging the market. We are also seeing whey pricing falling as the trade to China is hit by the realities of Donald's trade war. Non-Fat pricing has recovered off their lows but the rally appears to be losing momentum. To exacerbate the negative news the latest reports are showing that US exports are also down, but not all is doom and gloom as that situation could change quickly. With many customers now able to switch their ingredient demand between origins we could see a move toward US product (on the back of surging Oceania and Euro pricing) and a quick rebound in those export numbers. Maybe those pesky "other countries" may not be so bad after all, Mr Trump.

Back in 2018 European summer we were predicting that there could be issues around feed availability during winter which could further effect milk (b/c all the feed was consumed in summer). It seems the reports of empty winter feed stores may have been a little premature. We're now in the middle of winter and milk has started to rebound in most countries with the exception of France & Germany who are both still tracking behind YoY numbers (admittedly, they are two pretty big exceptions). Milk growth is likely to continue as we head into the Spring flush period and milk pricing back to farmers is firming.

We are seeing more and more discussions around Goat milk supply for use in infant formula, in powder form and liquid drinking milk. There is quite a lot of literature advocating the health benefits of goat's milk over bovine milk, particularly for the lactose intolerant. This is certainly flowing through to more Goat milk discussions around our office. Whether this will be a long-term trend is subject to debate but there is certainly a lot of noise in the space (just not in my house; if anyone is looking for a slightly used carton of Goat milk PM me, seems the kids are not fans!!)

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index lifts – The Australasian dairy export index climbed this week on stronger commodity values. Butter prices averaged US\$4,500/t, up US\$242/t from the week before. Cheddar rose US\$50/t to average US\$3,600/t. SMP and WMP was unchanged from the week prior, averaging US\$2,526/t and US\$2,838/t, respectively. The A\$ rose to US\$0.7251 – lifting the index by 1.1 points to 194.0.

Australasian dairy export index (Jan 2012-now)



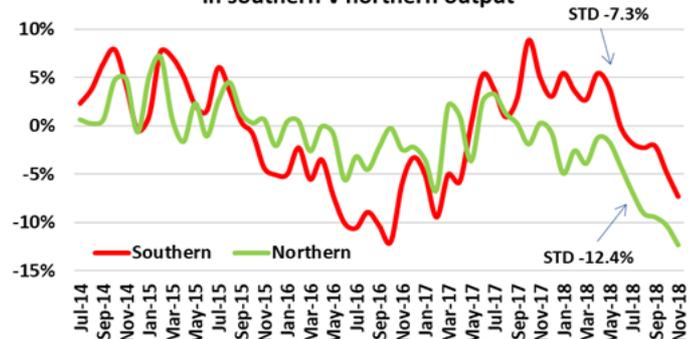
AUSTRALIAN INDUSTRY NEWS

November milk down 7.8%

Australian milk production continued its downward trajectory in November as Dairy Australia reported milk intake for the month dropped 7.8% YOY. It was the sixth consecutive monthly decline, putting season to date output 4.8% below the same period last year.

In Victoria, November output fell 9.6% YOY, reflecting a huge decline in the northern region where intake was down 20.3% YOY as drought and feed shortages continue to bite. In western Victoria output was down 5.5% YOY and Gippsland output fell 4.2%. November production fell 12% in NSW and 13.4% in Queensland while WA recorded 1.8% less milk intake for the month. Bucking the national trend, November output rose in both Tasmania and South Australia up 1.8% and 2.2% YOY, respectively.

Australian milk production - YOY changes in southern v northern output



Weather highlights

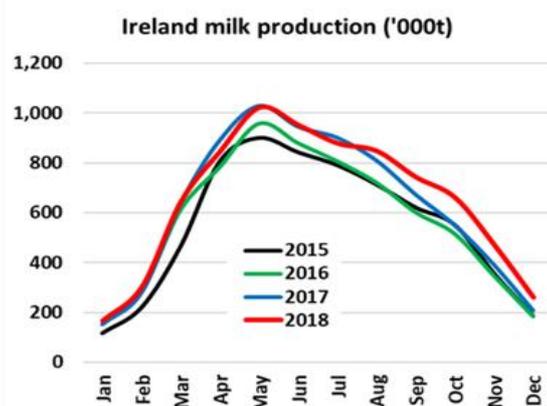
- In Australia, troughs over parts of NSW, VIC, TAS and WA are triggering showers and thunderstorms.
- In New Zealand, rain spreading north on the North Island. Rain in the south and west of the South Island.
- In the US, another round of snow and ice move across the Midwest. Cold air brings snow to western US.
- In Brazil, thunderstorms with chance of rain. Sunny, hot and chance of thunderstorms in Argentina.
- Mixed weather in Europe, some sunny days followed by showers. Temperatures are warming, chance of frost next week.

Fonterra NZ collections up 4% to Dec

Fonterra's December milk intake lifted 5.1% YOY due to strong growth in the North Island of 7.3%. South Island growth was weaker at 2.1%, but season-to-date milk intake lifted 4.8% for the region. Fonterra's national milk intake is 4.1% ahead season-to-date at 913.6m kgMS. Favourable weather conditions supported peak collection with production returning to more usual levels after two weather-impacted seasons. New Zealand season to date output was 5.2% ahead in milksolids terms in December.

Irish production still surging

According to official Eurostat data, Irish milk production rose 24.8% YOY in December – this was the fourth consecutive month of double-digit growth. December output growth was also stronger in second-tier producers Poland and Denmark – up 2.8% and 2% respectively. After rising 1.2% YOY in December, UK production was up 3.5% during the first 26 days of January. In most recent weekly data, French supply fell 2.6% in week 4 (ending 27 January), while German production was down 1.5% YOY in week 3 – this was the smallest reported decline in the last seven weeks for which data is available.



US milk prices fall

USDA's Agricultural Prices report indicates the all-milk price fell 40USc/cwt between October and November to US\$17/cwt. The November all-milk price was 6.6% lower in YOY terms, and 4.5% below the 2016 comparable. According to the same report, feed prices were mixed in November,

with corn up 8.3% YOY and hay 17% higher YOY, but weaker soybeans down 9.2%.

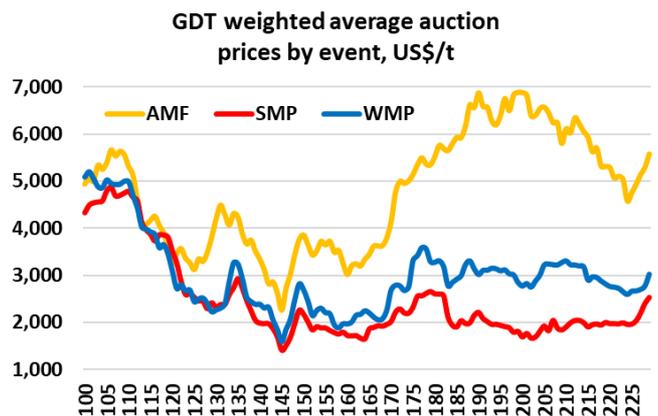
NFDM stocks rose in November

The USDA reports October NFDM stocks rose 15,910t from the previous month to 130,235t. While this was a 9.4% YOY fall in NFDM inventories, it was still 34.7% above the 5-year average for the month of November. The stock buildup was despite slowing NFDM manufacture, suggesting demand was worse-than-expected. Stocks of dry whey – including both human and animal product - fell 34.6% YOY to 29,759t at the end of November - 6.5% below the 5-year average.

GDT lifts for the fifth time

This week's GDT auction marked the fifth consecutive increase for the overall index, which rose 6.7% on sales of 23,326t.

All major commodities lifted, the most significant increase was for WMP, up 9% to US\$3,027/t with all delivery periods increasing. SMP rose 5.4% to US\$2,534/t with stonnger rises for April and May deliveries. Butterfats also improved, butter posting a 4.3% average gain to US\$4,445/t, with stronger prices in earlier contracts. AMF gained 4.3% to average US\$5,579/t, with increases across all contracts in a tight spread. Cheddar rose 1.7% to average US\$3565/t.



DAIRY FUTURES

Futures trend down – Futures were mixed. Powders traded lower; NZX SMP down the most. Fats were flat. All prices quoted in US\$/t.

6-Feb	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Mar-19	2,350	2,151	2,845	3,177	5,275	5,031
Apr-19	2,350	2,172	2,910	3,256	5,285	5,054
May-19	2,370	2,200	2,940	3,391	5,295	5,076
Jun-19	2,450	2,232	2,960	3,499	5,300	5,093
Jul-19	2,480	2,272	2,980	3,596	5,305	5,115
Aug-19	2,485	2,298	2,980	3,684	5,310	5,142
Change	-4%	-3%	-1%	-1%	0%	0%
Op interest	6,614	5,594	20,643	14,000	705	5,063

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