

KEY MARKET DRIVERS

- WMP slips on gDT / SMP & Cheese climb
- Euro Dollar climbs makes E.U. origin pricing expensive
- It all comes back to Fat demand
- Chinese milk falling?

- WMP Pricing fell at Tuesday night's gDT auction. The all important C2 contract fell 6%, most other contracts finished at similar pricing levels (to C2). SMP is showing surprising strength and Cheddar pricing jumped by 14.5%. The WMP result was interesting, this puts NZ origin WMP at approx. US600-US700/MT discount to European origin WMP and there is still 2 months to run (with virtually no production) before new Oceania dairy season kicks off, it probably speaks of subdued demand in the WMP space at this time.
- A big factor on current Dairy pricing is the Euro currency. Not so long ago the EUR was US1.04 now it is US1.125, a jump of 8%. This has certainly impacted on European origin pricing for all dairy products. With previous falls in Dairy pricing exacerbated by European supply and low EUR, this increase in Euro pricing has been a catalyst in prices firming across the board, particularly for SMP.
- We are hearing that the demand for all things Dairy Fat (Cream, Butter, AMF) continues, especially at the retail level. This is flowing on to eye watering pricing in the Butter segment but it is also having an effect on the other Dairy streams as they battle for milk supply, e.g. cheese prices need to rise to justify pulling milk away from the Butter / SMP (& other milk protein powders) stream, as does WMP. Obviously it is not as simple as that equation as most companies do not have the capability to switch between product categories due to their asset mix and in the case of NZ, who are heavily invested in WMP production a move toward Butter /SMP is not possible on a large scale, but there will still be an effect.
- We are hearing anecdotal stories that Chinese milk production was behind 2016 across the peak and continues to fall on a YoY basis. We are also hearing the milk prices are also falling which runs counter the typical supply / demand dynamic but appears to be the case at the moment. As is typical out of China it is difficult to verify accurate numbers, but if it is true it makes you think what will happen when the Chinese realise they are a little tight on milk supply.

Matt Cooper, Director, Ausfine Foods

DAIRY EXPORT INDEX

Index rises – The Australasian dairy export index rose slightly on a steady A\$ and mixed commodity values. WMP lost a further US\$20/t to US\$3,300/t this week, while SMP rose US\$100/t to US\$2,100/t. Butter stayed at a high of US\$5,470/t and cheddar remained at US\$3,750/t. The A\$ fell marginally to **US\$0.7435**, lifting the index by **1.9 points**, to **205.7**.

Australasian dairy export index (Jan 2012-now)



MG announce \$4.70 opening price

Murray Goulburn (MG) have announced an opening milk price of \$4.70kgMS for 2017/18. MG is forecasting a closing price of \$5.20 - \$5.40kgMS, based on an assumption of 2.5bn litre intake. CEO Ari Mervis says the cooperative has taken a prudent view of commodity prices, given milk powder prices remain below 10 year averages, offset somewhat by firmer butter and cheddar values. Mervis noted that while 2017/18 opening and closing prices were an improvement on 2016/17, MG performance remains below his expectations. MG has also announced minimal changes to milk pricing for 2017/18, keeping a single set of base pay rates, it will reward loyalty in cash - continuing suppliers will get an additional \$0.10kgMS and new suppliers with MG less than 5 years get an additional \$0.05kgMS.

Burra offers price premium

Burra Foods is offering suppliers a \$0.40kgMS payment at the start of the 2017/18 season if they sign a three-year supply contract. There is no time limit to sign on and those who do receive the 40c/kg as prepayment of a commitment bonus for signing-up. CEO and Managing Director Grant Crothers said Burra was investing heavily in capacity to respond to market opportunity which would enable the processor to afford a price premium for milk.

Burra is aiming to process about 350m litres of milk next season, up from 300m litres of milk in 2016/17 and wants to see growth of existing as well as new suppliers.

Weather highlights

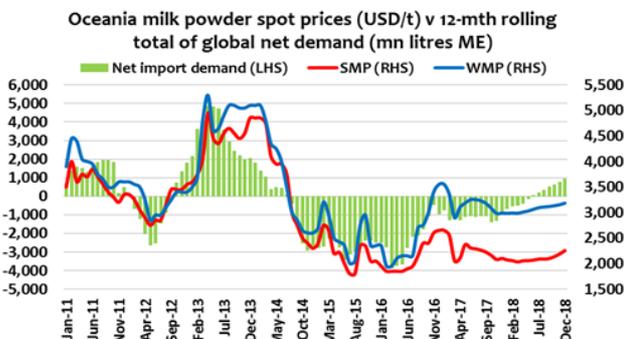
- A low pressure will send cool winds across eastern Australia, and could lead to the wettest 24 hours for the NSW coast for several months.
- In NZ, occasional showers across both Islands. Cooler temperatures, especially in the South Island.
- In the US, frequent showers and thunderstorms in the northeast, while Cali remains hot and dry.
- Sunny and dry across Argentina and Brazil.
- Showers and thunderstorms in the north west of Germany and the Netherlands; dry and sunny next week.

NZX milk price futures growing

Since their launch a year ago, milk price futures and options have been adopted as a risk management tool by a growing number of New Zealand dairy farmers with more than 6,500 lots being traded by farmers - each equal to 6,000kgMS. According to NZX derivatives head Nick Morris, milk futures has been NZ's most successful futures launch with lots representing 2% of production traded in the first year and reaching a record of 50,000 contracts of open interest in its first year. AgriHQ analyst Susan Kilsby said futures users tended to have larger dairy farms and farmers who use the market didn't tend to hedge their entire milk supply, while many farmers were only just learning how the market operates.

Global market outlook mixed

Freshagenda's latest [Global Dairy Directions](#) update indicates a mixed outlook, despite a slowing in EU milk. There are limited demand improvements projected for 2017, while trade so far this year has been disappointing. A cold spring curbed EU milk output, as will ongoing cow culling programs in the Netherlands. On the other hand, positive New Zealand payout projections for 2017/18 are expected to boost milk production, as are forecast mild winter conditions. Milk powder values are projected to soften as export availability exceeds import demand later in 2017, before gradually improving in early 2018.

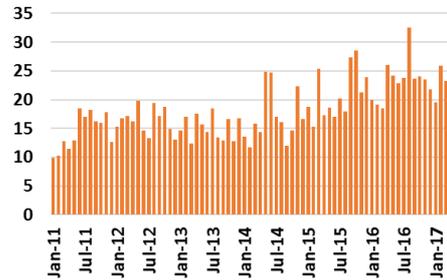


US exports continue to rise

US dairy export volumes rose in YOY terms for the 11th consecutive month in April. During the first 4 months of 2017, non-fat dry milk (NFD)/SMP, whey and lactose

shipments were the highest on record. For the year to date, shipments were up across most products, with the exception of butterfat and WMP – volumes remain relatively small.

US SMP exports to Mexico ('000t)



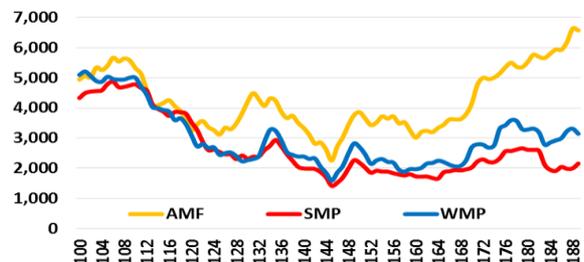
In the four months to April, NFD/SMP shipments rose 16% to 204,264t, adjusting for the misclassification of some shipments to Mexico for April 2016-January 2017 as WMP. Total cheese exports were up 15% YTD to 107,039t. The total value of exports increased 18% between January and April to US\$1.79bn.

GDT continues to rise

The GDT Price Index rose 0.6% on a larger offering of 22,004t this week.

WMP dipped 5.1% to average US\$3,143/t, with September delivery up, and all other contract periods down. SMP lifted 7.9% to average US\$2,156/t as European supply of fresh product tightens. Fats were mixed with AMF average prices falling 0.9% to US\$6,569/t while butter averaged US\$5,631/t, up 2.8%. Cheddar jumped 15%, averaging US\$4,285/t.

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



DAIRY FUTURES

Mixed futures – Fats were up this week, while powders were mixed. CME butter, AMF gained along with NZX SMP. All prices quoted in US\$/t.

7-June	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Jul-17	2,220	2,127	3,170	3,717	6,775	5,609
Aug-17	2,240	2,143	3,145	3,825	6,800	5,610
Sep-17	2,240	2,166	3,090	3,862	6,700	5,622
Oct-17	2,225	2,183	3,070	3,880	6,500	5,622
Nov-17	2,225	2,209	3,060	3,854	6,400	5,598
Dec-17	2,250	2,271	3,050	3,825	6,300	5,445
Change	2%	-1%	0%	0%	2%	4%
Op interest	5,312	4,433	14,885	15,970	739	4,505

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