



## WEEKLY DAIRY MARKET UPDATE WEEK 33-2019

Europe is at the tail end of its summer holiday season and markets are slowly coming back into action although there are very few events on the horizon that could drastically shift market sentiment in any meaningful way. H1 saw global milk output contract while Liquid Milk Equivalent (LME) exports reached record levels thus lowering stocks in especially New Zealand and the EU while stocks rose in the USA. Overall, on a global basis, net stocks went down in the main exporting regions.

How H2 will pan out depends a lot on the weather and, correspondingly, milk output. Earlier in the year, weather reporters were forecasting an El Niño event for New Zealand with a 70% chance but this has meanwhile been adjusted to 55% which is considered neutral.

As it stands, we would expect increased milk production in Oceania and the EU and unchanged production in the USA.

### China- USA

The trade feud between the two economic super-powers sees some light at the end of the tunnel with the USA postponing the implementation of a new package of levies on a further \$ 300 billion in imports from China. This pending talks between the two countries in two week's time. In general, the mood is not over-optimistic with a bank like Goldman Sachs predicting there won't be any trade agreement between the two before the 2020 USA elections.

### New Zealand/ Fonterra

Ahead of the official 2019 financial report expected in September, last Monday Fonterra reported its final decision not to pay a dividend for the 2019 financial year to its member/owners with the aim to reduce the Co-op's debt.

In the same statement, Fonterra announced one-off impairments worth approximately \$ 820-860 million that are believed to translate in the forthcoming official financial report as a loss of \$ 590-675 million, or 37 to 42 cents per share.

This follows the net after tax loss of \$ 196 million Fonterra booked in the previous financial year and the forecast made at that time of earnings per share for FY2019 of 25-35 cents.

Against that background, it's no wonder Fonterra shares have been moving down strongly since early 2018, from \$ 6.48 on the 8<sup>th</sup> January 2018 to \$4.85 a year later to \$ 3.59 on the 12<sup>th</sup> August 2019

Essentially, in the past year Fonterra's value declined from \$ 8.2 billion to 6.2 billion, a slide of 25%:



**The non-cash, one-off impairments are related to:**

- DPA Brazil, approximately \$ 200 million
- Corporacion Inlaca – Venezuela, which was sold to Mirona for \$ 16 million which, along with the devaluation of the Venezuelan currency resulted in a write off of \$ 135 million
- China farms will be impaired by \$ 200 million (on a total investment of about \$ 1 billion)
- NZ consumer business & the sale of Tip Top had a combined write-down impact of \$ 200 million.
- Australian Ingredients Business, closing of the Dennington facility and writing off the goodwill in Australia resulted in an impairment of \$ 70 million.

**Remarks**

- Although said to be one-off, the write-off on China Farms may not be the last if Fonterra still intends to sell the operation on a relatively short term.
- Not mentioned in the Fonterra announcement is the intention to sell a portion of its 18.8% stake in Beingmate. Although the value had been written off by more than \$ 430 million already in the previous financial year, selling the stake in the next months may not fully recoup the remaining value still in Fonterra’s balance sheet today.
- If the write-offs amounting to \$ 820 -860 million result in a loss of \$ 590 to \$ 675 million, the mitigation effect of the net profits from Fonterra’s regular operations in the FY19 can have been only \$ 185 to 230 million.
- There are likely sell-offs on stakes in assets that have generated a profit on book value ( for instance Fonterra’s JV with FrieslandCampina DFE Pharma) but even if we disregard those effects, the 2019 results are a far cry from the last net profits Fonterra realized in 2017 of \$ 745 million and in 2016 of \$ 837 million.

Meanwhile, following Fonterra’s results in the past two years and its falling share value, and after the acquisition of Westland by Chinese owned Yili earlier this year, there is concern among a number of economists that the Fonterra dream may be over and the company’s on a path to be acquired sooner or later with no NZ (dairy) companies big enough for an acquisition of that size.

Fonterra’s turnover amounts to about 7.5% of the New Zealand GDP. The correlation between the NZ\$ and the Fonterra milk price is moderate to strong at 0.6.

Against that background and the Green House Gas problem NZ has with the dairy industry on top of that, it would be reasonable to expect the NZ government to keep a firm eye on developments and likely take measures to manage these two aspects of it.

**Official Dutch Quotations**

OFFICIAL DUTCH QUOTATIONS							
14th August 2019	This week €	in \$	Last week €	in \$	Δ in €	Δ in \$	price development since 1/1/2019
Butter	3,370	3,768	3,400	3,805	-30	-37	
Whole Milk Powder	2,800	3,130	2,820	3,156	-20	-25	
Skimmed Milk Powder food	2,100	2,348	2,100	2,350	0	-2	
Skimmed Milk Powder Feed	1,940	2,169	1,930	2,160	10	9	
Sweet Whey Powder Feed	600	671	600	671	0	-1	
Recombined WMP (Smp/Butter)	2,606	2,914	2,616	2,927	-9	-13	
€ - US \$	1.1180		1.1191			-0.0011	

Greenmark Indices milk/100 kgs							
	This week €	in \$	Last week €	in \$	Δ in €	Δ in \$	
TMV Butter/SMP	32.31	36.12	32.31	36.15	-	-0.04	
TMV Cas/Wpc35/Butter	33.15	37.06	33.15	37.10	-	-0.04	
TMV Gouda/Whey	36.65	40.97	36.65	41.01	-	-0.04	
TMV WMP	37.68	42.12	37.96	42.48	-0.28	-0.35	
TMV Weighted all products	35.80	40.03	35.82	40.09	-0.02	-0.06	

ANOTHER WEEK THAT SAW A QUIET MARKET WITH THE BUTTER QUOTATION ERODING FURTHER. IT HAS NOW REACHED ITS LOWEST LEVEL SINCE AUGUST 2016.

CHEESE REMAINS STABLE, WHILE LACTOSE AND WHEY PERMEATE REMAIN UNDER PRESSURE. CASEIN & CASEINATE PRICE ARE STEADY.

TMV = Theoretical Milk Value of different product mixes, including production costs based on current forward spot prices in the EU.

**East European quotations**

European Prices : NON EU							
	Russia** average domestic prices in \$/t	Russia	Ukraine average Export prices in \$/t	Ukraine	Belarus average Export prices in \$/t	Belarus	
	week ending 07/08/2019	previous week	week ending 07/08/2019	previous week	week ending 07/08/2019	previous week	
SMP	\$2,932	\$2,956	\$2,250	\$2,250	\$2,200	\$2,200	
WMP	\$4,188	\$4,222	\$3,150	\$3,150	\$3,125	\$3,125	
Butter 82,5%	\$6,473	\$6,602	\$4,225	\$4,350	\$4,700	\$4,900	-4.08%
Butter 72,5%	\$6,092	\$6,219	\$4,300	\$4,300	\$4,500	\$4,675	-3.74%
Cheese 50%	\$1,036	\$1,059	\$605	\$610	\$4,400	\$4,400	
whey					\$670	\$680	-1.47%

\*\* Russian prices include 10% VAT

Following decreases on last week’s GDT and the weakness in EU Butter, in all three countries Butter pricing went down.

Local sources point to seasonally high production ( peak production is May through August) and weaker export demand from China and Russia.

## EU/ Milk production

Milk Production		
Member state	June '19 vs June '18	
	Δ	weighted
Belgium	1.23%	0.03%
Bulgaria	0.62%	0.00%
Czechia	-0.47%	-0.01%
Denmark	-1.66%	-0.06%
Germany	-2.32%	-0.47%
Estonia	-4.55%	-0.02%
Ireland	7.53%	0.53%
Greece		
Spain		
France	0.25%	0.04%
Croatia	-4.07%	-0.01%
Italy	0.85%	0.06%
Cyprus		
Latvia	-0.54%	0.00%
Lithuania	-1.48%	-0.01%
Luxembourg	2.26%	0.01%
Hungary	-0.28%	0.00%
Malta		
Netherlands	-2.74%	-0.24%
Austria		
Poland	-0.50%	-0.04%
Portugal	-1.08%	-0.01%
Romania	-0.84%	-0.01%
Slovenia	-1.15%	0.00%
Slovakia	-2.30%	-0.01%
Finland	-5.20%	-0.08%
Sweden		
United Kingdom	1.04%	0.10%
<b>Total EU 91 % counted &gt; in kgs milk</b>		<b>-0.21%</b> <b>-29,031,189</b>

\*\* The column "weighted" represents the change by country as a % of total EU production

WITH 93% OF MEMBER STATES' PRODUCTION COUNTED, JUNE PRODUCTION IN THE EU STANDS AT - 0.21% OR - 29 MILLION KGS. IRELAND'S OUTPUT ROSE AGAIN STRONGLY BUT AT A LOWER RATE THAN PREVIOUS MONTHS.

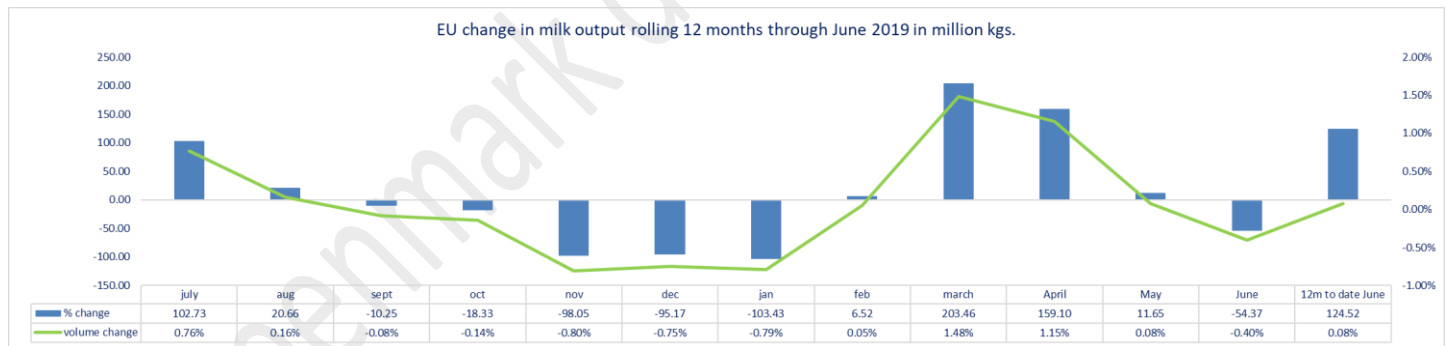
IN VIEW OF VERY DRY WEATHER DURING JUNE, WE WOULD HAVE EXPECTED TO SEE A YEAR-ON-YEAR DECLINE IN MILK PRODUCTION WHICH COULD PUSH THE ROLLING 12 MONTH PERIOD JULY '18- JUNE '19 INTO NEGATIVE. ALTHOUGH THE VAST MAJORITY OF THE MEMBER STATES REPORTED NEGATIVE YOY DATA, IN MOST COUNTRIES THE DECLINES REMAINED VERY MODEST.

BASED ON LOWER OUTPUT DURING MAY-JULY WE WOULD EXPECT YTD JULY TO ARRIVE AT 0.11%.

EU, 2019 Milk production YTD July*				
Jan	13,022,790,000	12,869,641,269	-153,148,731	-1.18%
Feb	12,096,430,000	12,112,155,359	15,725,359	0.13%
March	13,706,830,000	13,910,290,000	203,460,000	1.48%
April**	13,834,870,000	13,993,971,005	159,101,005	1.15%
May	14,561,570,000	14,573,219,256	11,649,256	0.08%
June	13,645,860,000	13,591,276,560	-54,583,440	-0.40%
July	13,534,740,000	13,453,531,560	-81,208,440	-0.60%
YTD July	94,403,090,000	94,504,085,009	100,995,009	0.11%

\* June & July estimated

FOR THE MOMENT WE WOULD FORECAST 2019 MILK PRODUCTION TO STAY BELOW 0.5%.

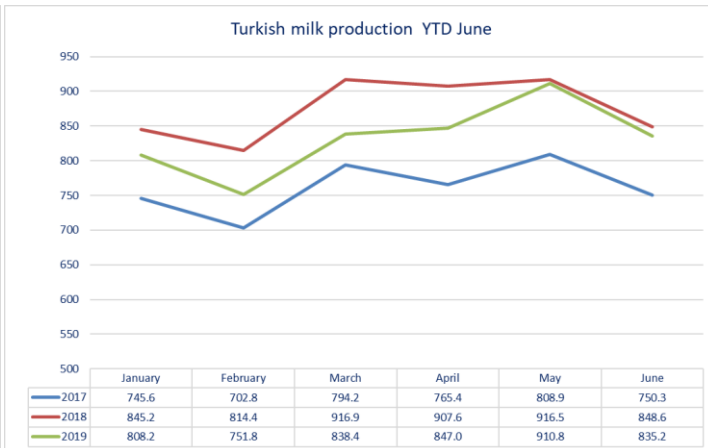
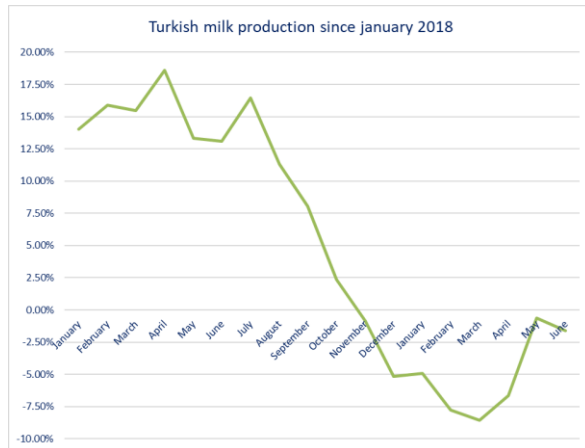


## European Production / Non -EU

European Production : NON-EU						
in kgs	2018	2019	Δ	Δ %		Ytd
Russia	15,058,000,000	15,268,000,000	210,000,000	1.39%	↑	June
Ukraine	4,953,000,000	4,783,000,000	-170,000,000	-3.43%	↓	June
Belarus	3,680,000,000	3,661,000,000	-19,000,000	-0.52%	↓	June
Turkey	5,254,000,000	4,991,000,000	-263,000,000	-5.01%	↓	June
Norway	682,200,000	705,100,000	22,900,000	3.36%	↑	May
Switzerland	1,521,810,000	1,486,890,000	-34,920,000	-2.29%	↓	May
<b>total</b>	<b>31,149,010,000</b>	<b>30,894,990,000</b>	<b>-254,020,000</b>	<b>-0.82%</b>	<b>↓</b>	<b>May/June</b>

Despite strong output in Russia, the group as a whole stand at -0.82% for the YTD May/June.

Turkish changes in milk output have been more modest in May and June but remain negative:



While lagging vs last year, 2019 production is still way ahead of 2017. Exports are the highest since 2016, with + 61.3% in LME or + 203 million kgs LME:

Turkey Dairy exports YTD June 2019				
	2018	2019	19 vs 18	% 19 vs 18
Cheese	25,377	25,453	76	0.30%
Whey	19,967	28,992	9,025	45.20%
Bulk & packed milk	19,000	21,000	2,000	10.53%
SMP	6,343	24,695	18,352	289.30%



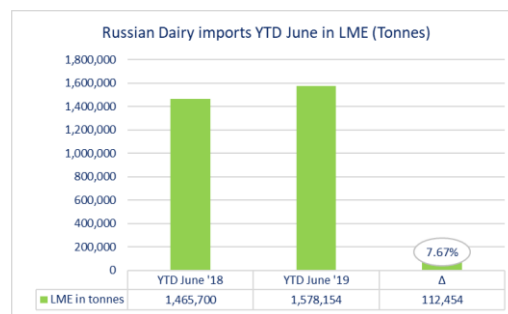
Especially SMP exports have been strong which is likely for the bigger part based on 2018 production:

Turkey SMP exports YTD June 2019					
in mt	2017	2018	2019	19 vs 18	% 19 vs 18
jan	3,323	1,231	3,383	2,152	174.82%
feb	2,887	1,015	4,163	3,148	310.15%
march	2,983	1,852	6,177	4,325	233.53%
april	1,673	508	5,468	4,960	976.38%
May	948	543	2,952	2,409	443.65%
June	2,046	1,194	2,554	1,360	113.90%
	13,860	6,343	24,697	18,354	289.36%

#### Russia/ Dairy imports

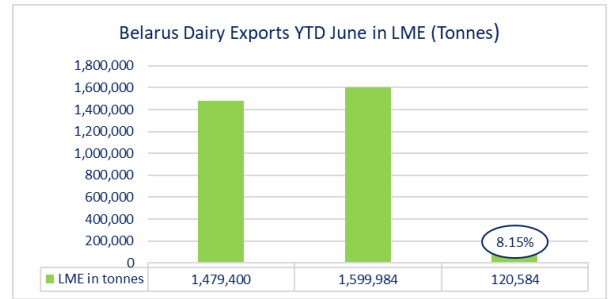
Except for Butter and WMP, we see declines in Russian imports which are likely a function of increased domestic milk production. Overall, YTD June imports were 7.67% higher than in 2018 or + 112 million kgs:

Russia imports YTD June				
	YTD June '18	YTD June '19	Δ	Δ%
SMP	41,232	40,655	-577	-1.40%
WMP	10,250	24,519	14,269	139.20%
Whey	29,719	21,249	-8,470	-28.50%
Infant Formula	21,506	20,431	-1,075	-5.00%
Butter	34,124	48,047	13,923	40.80%
Cheese	116,010	114,038	-1,972	-1.70%



Belarus / Dairy exports YTD May

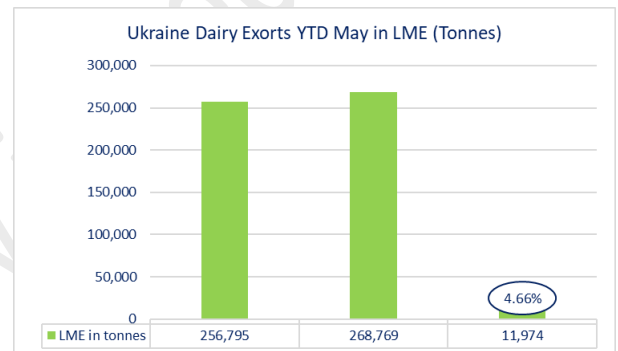
Belarus exports YTD June				
SMP	44,372	57,817	13,445	35.20%
WMP	20,104	11,419	-8,685	-39.50%
Whey	45,265	44,224	-1,041	10.80%
Cheese	94,677	115,316	20,639	18.50%
Butter	36,053	35,476	-577	-10.70%



Although WMP and Butter saw strong YoY declines, especially SMP and Cheese saw strong increases, overall leading to an 8.15% increase in LME exports or + 70 million kgs.

Ukraine/ Dairy exports YTD May

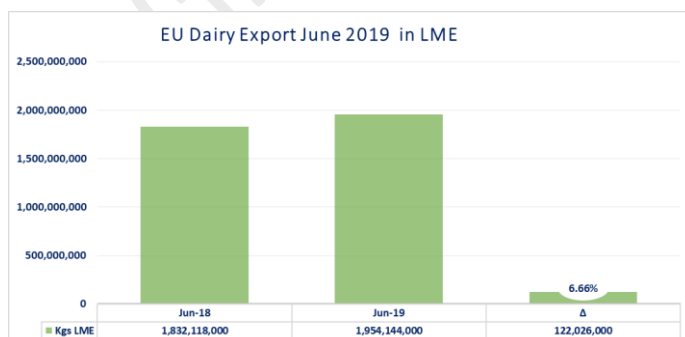
Ukraine exports YTD May				
SMP	7,977	7,642	-335	-4.20%
WMP	1,600	5,000	3,400	212.50%
Whey	12,856	12,560	-296	-2.30%
Cheese	3,247	2,919	-328	-10.10%
Butter	5,828	3,749	-2,079	-35.67%
Casein	2,400	2,000	-400	-16.67%
Milk & Cream	8,400	13,000	4,600	54.76%
Condensed	3,400	3,400	0	0.00%



As in Belarus, Ukraine saw for all but two commodities export decreases with strong double-digit increases for WMP and Liquid milk & cream, overall leading to a 4.66% increase in LME exports or + 12 million kgs.

EU/ Dairy exports& imports June

EU Dairy Exports June 2019													
	Powders							Fats			Liquids		
	WMP	SMP	Whey	Casein(ates)	Lactose	BMP	Dairy Blends	Butter	AMF	Cheese	Milk	Condensed	
	incl wpc's/demin												
Jun-19	24,200	80,000	48,000	7,800	16,800	4,500	9,600	12,600	2,200	68,500	91,000	21,100	
Jun-18	26,900	65,400	47,300	7,300	16,700	5,900	9,100	9,000	2,100	70,400	77,000	19,600	
Δ	-2,700	14,600	700	500	100	-1,400	500	3,600	100	-1,900	14,000	1,500	
Δ %	-10.04%	22.32%	1.48%	6.85%	0.60%	-23.73%	5.49%	40.00%	4.76%	-2.70%	18.18%	7.65%	



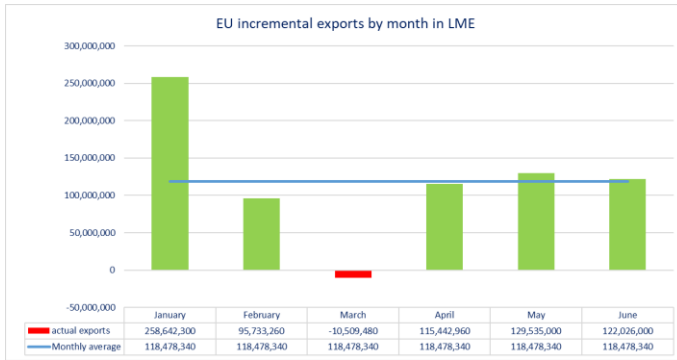
*In the context of total 2019 exports, June has been an averagely good month. Again, as in previous months, saved by incremental SMP exports which wouldn't have been possible without intervention material that makes pricing more competitive than fresh prices would allow for.*

*Without incremental SMP exports, the additional exports in June would have been only 0.82% or 15 million kgs LME.*

*Whilst still negative vs 2018, WMP are improving with 'only' -10% where the average for the year is -22%.*

*Competitive pricing sees Butter exports increase while Cheese saw it's second month of declined exports.*

June exports were just a little below the average for the year:

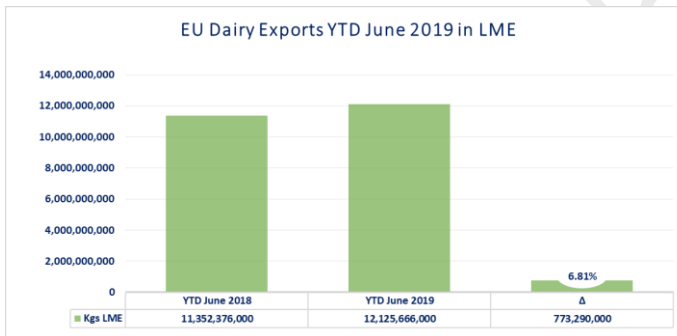


After the record incremental growth in January, it has been down hill in the two months following it.

Q2 on the other hand has been very consistent with incremental exports that were more or less in the same ballpark each month. With increasing competition we should raise the question what will Q3 look like? A slight concern could be that June saw the lowest SMP exports of the year and that Q2 SMP exports were 22.5% lower than they were in Q1;

EU SMP exports 2019 by month				
	2018	2019	diff	diff%
Jan	56,750	86,659	29,909	52.70%
Feb	68,200	84,390	16,190	23.74%
March	68,645	90,645	22,000	32.05%
April	65,997	86,253	20,256	30.69%
May	68,681	86,601	17,920	26.09%
June	65,400	80,000	14,600	22.32%

EU Dairy Exports YTD June 2019												
	Powders							Fats			Liquids	
	WMP	SMP	Whey	Casein(ates)	Lactose	BMP	Dairy Blends	Butter	AMF	Cheese	Milk	Condensed
	incl wpc's/demin											
YTD June 2019	144,000	514,600	281,500	38,400	115,500	31,300	52,800	75,100	13,000	423,600	591,400	152,700
YTD June 2018	184,800	393,900	292,800	36,800	103,700	33,300	47,900	68,600	19,100	419,700	497,000	133,000
Δ	-40,800	120,700	-11,300	1,600	11,800	-2,000	4,900	6,500	-6,100	3,900	94,400	19,700
Δ %	-22.08%	30.64%	-3.86%	4.35%	11.38%	-6.01%	10.23%	9.48%	-31.94%	0.93%	18.99%	14.81%



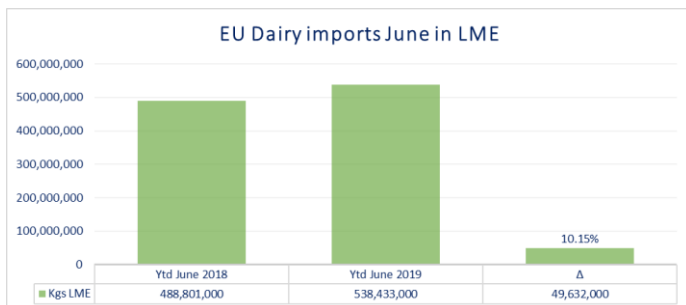
Also or the YTD June data, one could say the figures are saved by incremental SMP exports without which the YTD incremental exports would have been -0.98% or -111 million kgs LME.

Even though there's been increasing growth in the other commodities too, like Butter, Lactose and liquid products, those have not been enough to outweigh the WMP, Whey and AMF negatives yet.

There are still more than ample stocks of SMP available so that we believe exports of that will remain above those of last year.

With prices for Butter and WMP slowly getting more aligned with Global prices, current YoY declines may very well become much smaller through H2 2019.

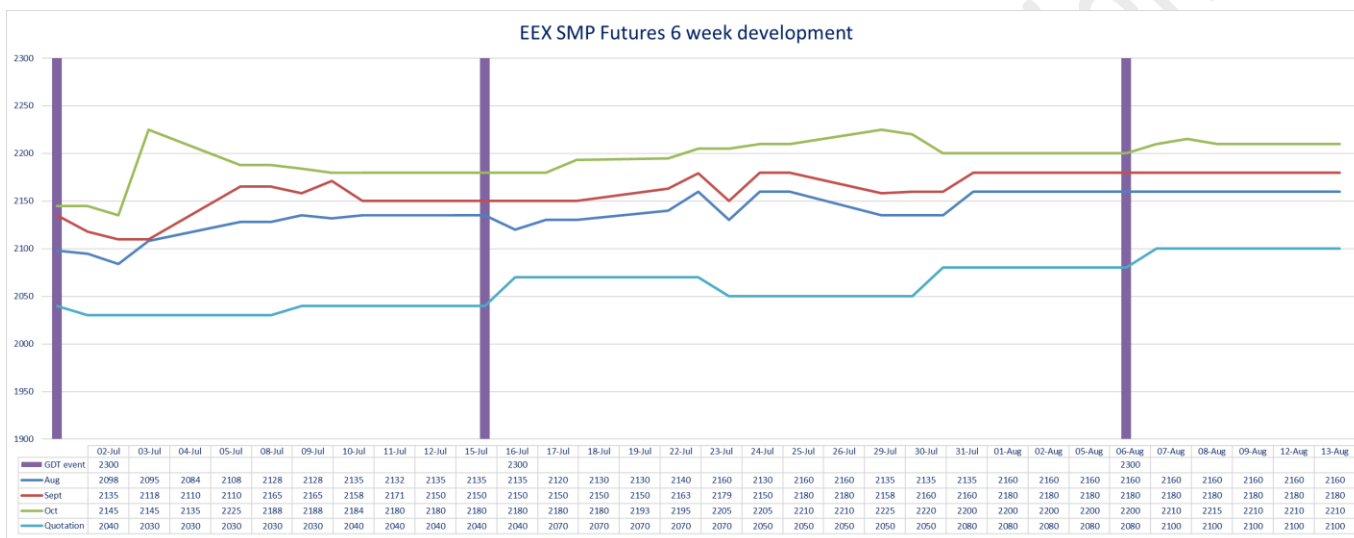
EU Dairy Imports YTD June 2019 vs 2018												
	Powders						FATS			LIQUIDS		
	Whey	SMP	WMP	Casein(ates)	I/F	Lactose	Butter	AMF	Cheese	Liquid milk	Condensed	
	(all imports under 0404)											
Ytd June 2019	20,000	3,500	4,400	10,400	2,500	4,800	4,200	5,500	29,800	6,600	700	
Ytd June 2018	24,000	2,100	600	9,200	3,300	4,600	4,000	1,300	29,000	7,700	400	
Δ	-4,000	1,400	3,800	1,200	-800	200	200	4,200	800	-1,100	300	
Δ %	-16.67%	66.67%	633.33%	13.04%	-24.24%	4.35%	5.00%	323.08%	2.76%	-14.29%	75.00%	



During June, overall imports decreased. YTD May were still up 60 million kgs vs 2018 where June brought that down to 50 million kgs LME, in the main caused by lower Whey imports.

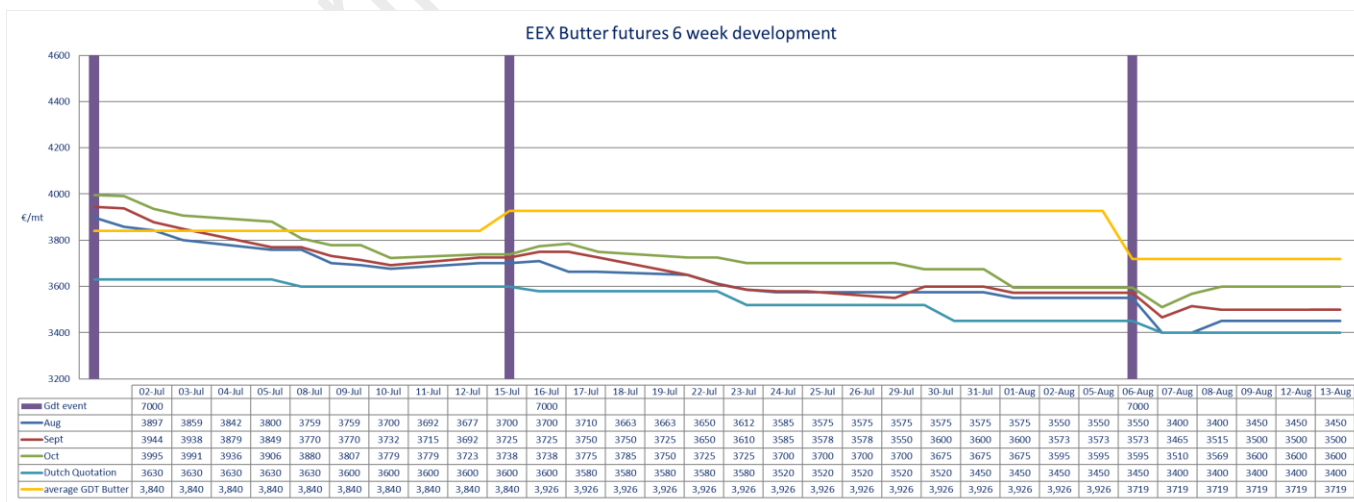
More info to follow next week on the balance when more detailed information will be available.

#### EU/EEX SMP Futures



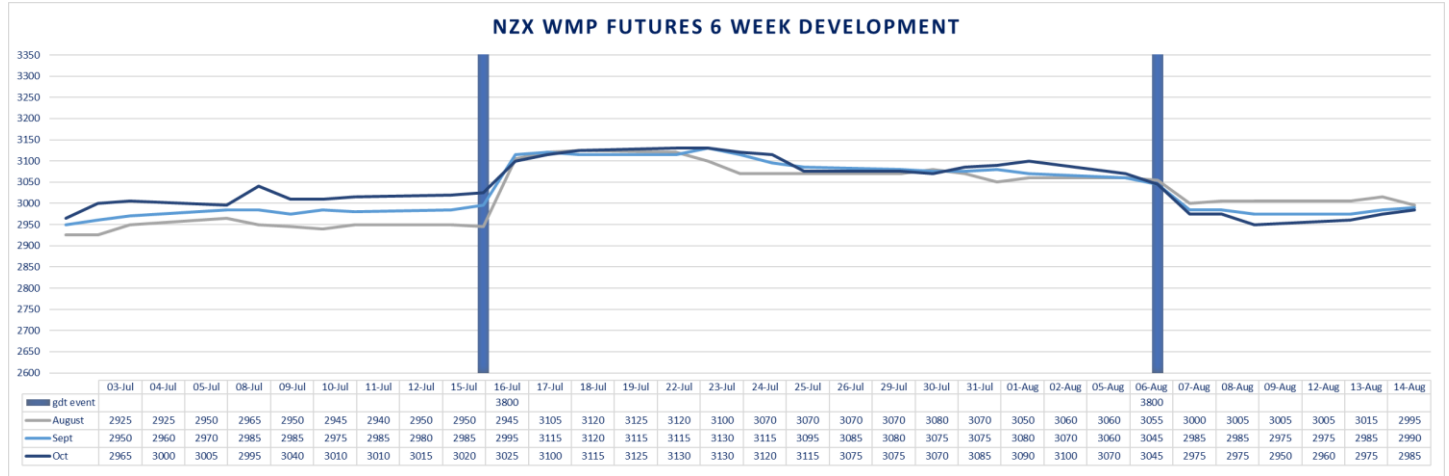
Since bottoming out in mid-March, SMP prices had been firming slowly and started to accelerate from the end of April. In the past week, we saw a slightly firmer market tone for SMP, which is also confirmed in the Dutch quotations. This may be a by-effect of expected lower milk production in June and July. Based on information on the EEX website, we have seen very few actual trades, however. In the cash market, we see increasing price levels of € 2,100/mt to € 2,150/mt currently, based on high prices for liquid skimmed concentrates and lower production output in June. In the past week, SMP futures remained flat with little to no trades.

#### EU/ EEX Butter futures



From the start of the year, we have seen sliding prices for Butter futures until 5<sup>th</sup> March from where we saw a spike that lasted until 19<sup>th</sup> March. Since then the trajectory has been down with no end in sight yet. EEX reacted strongly to the GDT results for Butter last week with declines of C1 -4.23%, C2 -3.03% and C3 -2.36%.

**NZ/ NZX**



Only minor movements in the past week while a healthy 4,529 contracts in WMP futures were traded.

**NZ/ NZX/ Futures**

NZX Futures						
Product		31-Jul	07-Aug	14-Aug	Δ	
AMF	aug	\$5,375	\$5,225	\$5,225	-	↔
	sept	\$5,325	\$5,200	\$5,200	-	↔
	oct	\$5,275	\$5,175	\$5,175	-	↔
SMP	aug	\$2,515	\$2,525	\$2,525		↔
	sept	\$2,560	\$2,520	\$2,530	0.40%	↑
	oct	\$2,575	\$2,520	\$2,515	-0.20%	↓
Butter	aug	\$4,400	\$4,180	\$4,180	-	↔
	sept	\$4,350	\$4,250	\$4,250	-	↔
	oct	\$4,250	\$4,225	\$4,225	-	↔
WMP	aug	\$3,070	\$3,000	\$2,995	-0.17%	↓
	sept	\$3,075	\$2,985	\$2,990	0.17%	↑
	oct	\$3,085	\$2,975	\$2,985	0.34%	↑
Recombined WMP*	aug	\$3,236	\$3,174	\$3,174	-	↔
	sept	\$3,253	\$3,192	\$3,200	0.23%	↓
	oct	\$3,233	\$3,184	\$3,181	-0.12%	↓
Premium on Recomb. vs WMP	aug	\$155	\$174	\$179	\$5	↑
	sept	\$138	\$207	\$210	\$2	↑
	oct	\$113	\$209	\$196	-\$14	↓

\*= WMP calculated on basis of its component values in Butter and SMP

Across the board, very small price changes occurred.

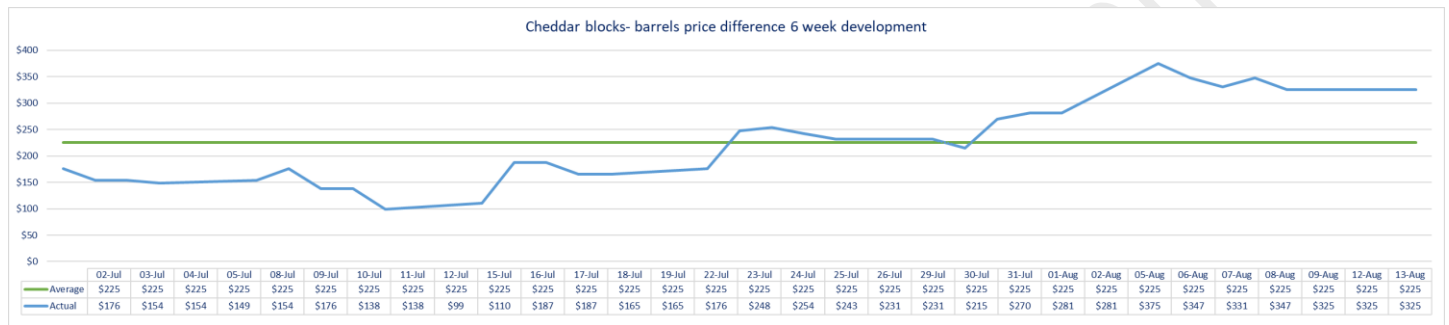
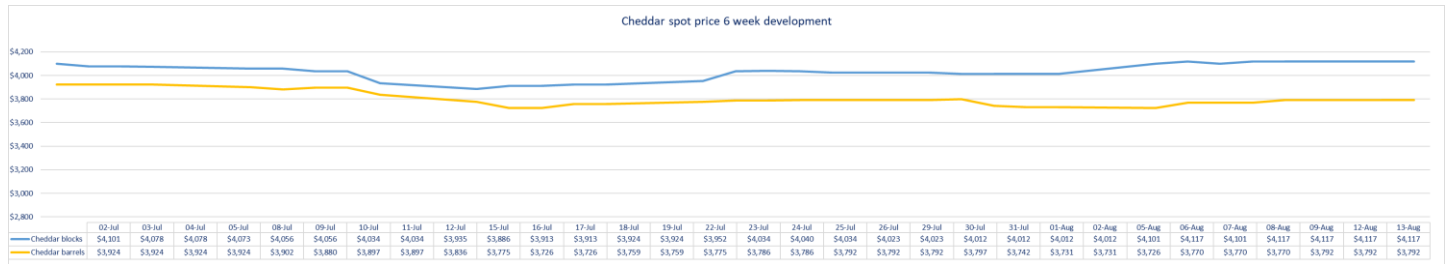
The premiums for recombined WMP C1 and C2 went up modestly, on the strength of SMP pricing and relative weakness of WMP

It will be interesting to see how the market develops further in Oceania with low stocks levels in NZ and improving milk production in the next months.

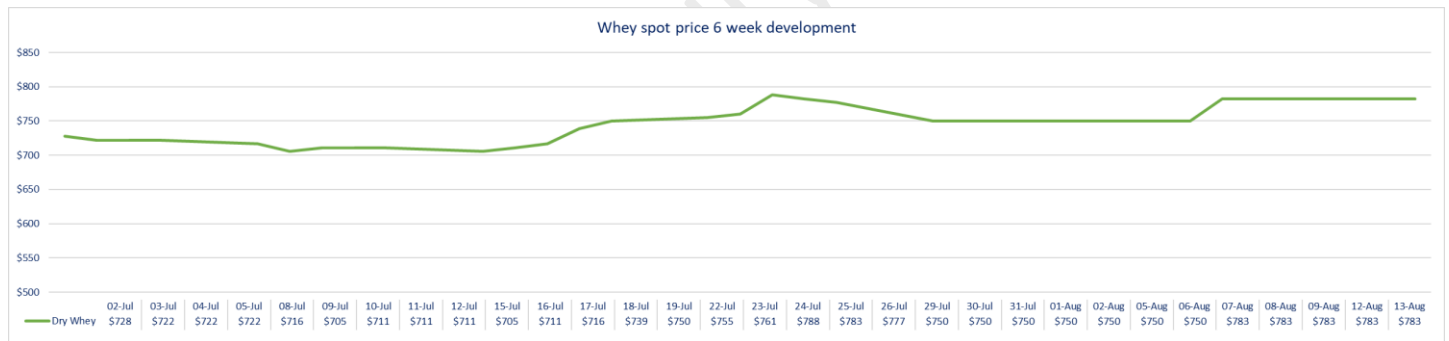
Next week's GDT event will hopefully give us some insight into buying appetite on export markets.

**USA/ CME**

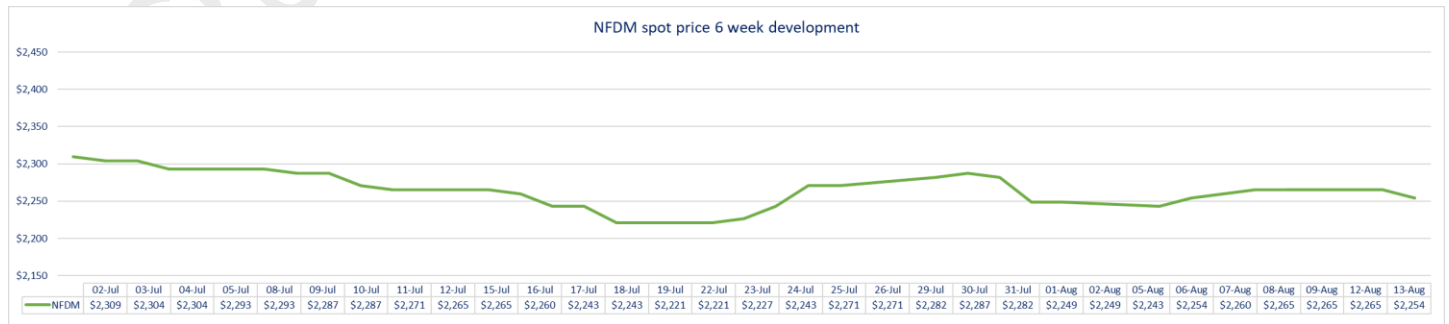
Cheddar. Since mid-May, Cheddar prices have been moving up. Given current US stocks of all Cheese of over 600,000 mt and the US being among EU and NZ the most expensive origin, this is some achievement. The premium on Barrels is \$ 100/mt higher than the average over the period and has remained flat in the past week.



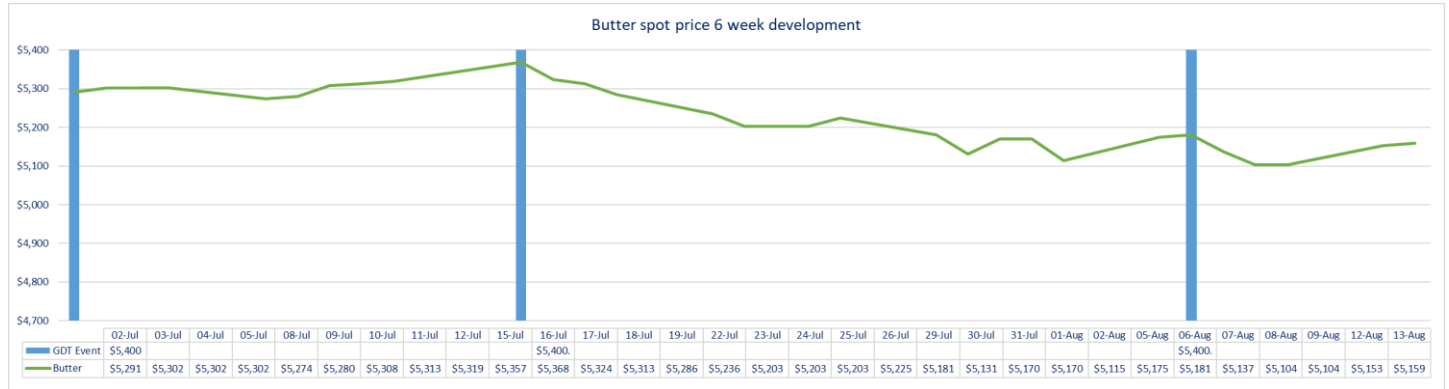
**Whey.** Since bottoming out in mid-March, we have seen whey prices moving up consistently until 21<sup>st</sup> May after which date, they have continued to erode. In the past week they traded completely flat with only three lots traded.



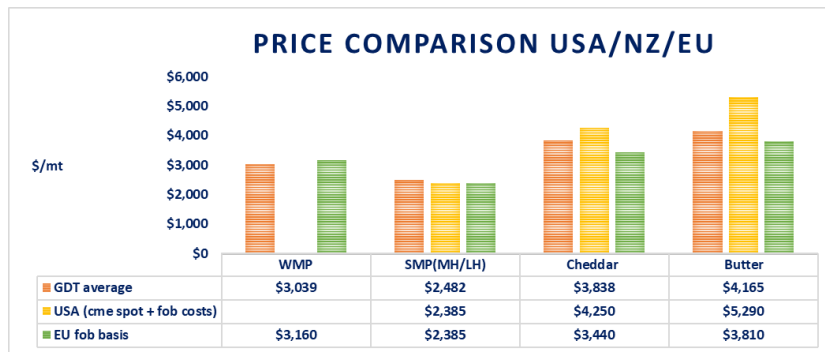
**SMP.** Prices have been moving down since the start of July, and the trajectory has been down since mid-January. Two weeks ago, SMP prices started to creep up with a 2.7% increase. This seemed peculiar with strong decreases in export volume and increasing stock levels. Some of those gains were lost in the past trading week but saw a small uptick yesterday following the GDT event.



**Butter.** Prices have been moving down since the previous GDT event but saw some upside in the two days before yesterday's GDT event. Given the Butter results on GDT and strong competition from the EU, we would believe there is a continuing downside.



**USA/NZ/EU/ Price comparison**



- WMP** NZ remains the most affordable option and the difference with the EU rose again to \$ 120/mt.
- SMP** EU and the USA are on par leaving the NZ as the most expensive origin at an approx. 4% distance. As far as exports are concerned between the US and the EU, the latter will probably pip it with the help of cheap intervention SMP stocks in private hands.
- Cheddar** EU is the most affordable origin at an \$810/mt distance to the USA and \$400/mt to NZ.
- Butter** After five GDT events that saw decreases for Butter, in the event before last it went up only to see the full gains and more destroyed in last week's event which brings the NZ premium for butter to \$ 325/mt vs the EU and the discount vs the USA at \$1,125/mt. The EU discount vs the USA is \$ 1,480/mt which brings EU butter exports to the USA closer.

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