

GDT event 172 heads-up

After three consecutive events in which the GDT price index rose by respectively 6,6%, 12,7% and 7,7%, it will be interesting to see if the rally continues. The signals have been positive for a continued further strengthening of prices. NZ remained more competitive than USA and EU sources and participants on NZX seem to expect some fireworks too, tomorrow.

A further bullish signal was provided by FrieslandCampina (RFC) this weekend.

RFC announced last Saturday it will pay € 0,10/kg of not produced milk. This comes on top of the € 0,14/kg support provided by the EU.

RFC has put aside € 15 million for the program, which would run from 1st October thru 31st March 2017. RFC has said the program has been initiated primarily in a bid to bring down phosphate production and not milk reduction.

Throughout the running time of the program, RFC aims to collect 150 million kgs less milk, or about 3% of RFC member's supplies during the running period. It could happen that the program will see a lot of response from farmers. They will at the end of the day receive EURO 24/100 kgs for not produced milk vs EURO 26,25/100 kgs for produced milk after all. If all the reductions fall into Q4 this year, RFC milk collections will see a 6% drop in Q4.

The other big EU member state that has seen continued growth in milk production, Ireland, has published information that about one third of their dairy farmers have applied for the EU €0,14/kg program.

The continued EU contraction in milk implies a lesser availability of exportable surpluses, which has the potential to see world market prices to increase further.

On offer tomorrow on GDT event 172:

GDT event 172						
in 1000 kgs	Contract 1 (Oct 16)	Contract 2 (Nov 16)	Contract 3 (Dec 16)	Contract 4 (Jan 17)	Contract 5 (Feb 17)	Contract 6 (Mar 17)
Anhydrous Milk Fat	260	1.250	800	665	335	165
Butter Milk Powder	-	200	150	50	-	-
Butter	130	1.005	580	485	265	115
Cheddar	60	440	440	440	100	-
Rennet Casein	50	250	150	125	-	-
Skim Milk Powder	250	4.000	1.900	1.125	1.000	350
Whole Milk Powder	1.000	6.000	4.700	4.800	2.250	500

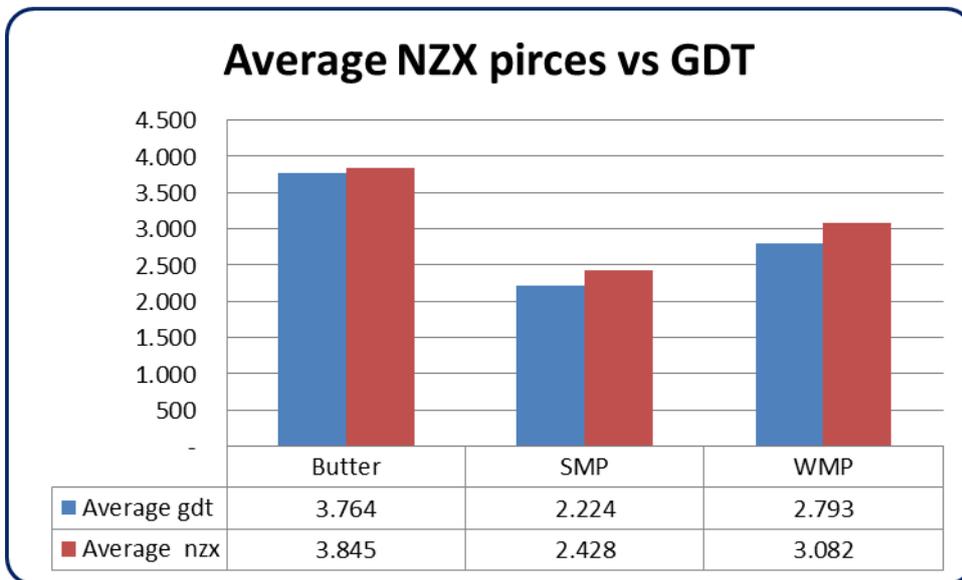
The total quantity on offer is 35.385, 1.570 t less than the previous event and 1.870t more than the same event in 2015.

If we look at how Fonterra (and NZ as a whole) is placed against its main competitors, there is no doubt that tomorrow's event should see a significant increase in prices across the board:

Price comparison			
US\$ FOB-mt	NZ GDT	USA CME	EU
Butter	3.764	4.510	4.850
Cheddar	3.436	3.550	3.795
SMP	2.224	2.106	2.400
WMP	2.793		3.000

The differences in price to the nearest competitor:

The signals coming from NZX activity are equally bullish:



Overall, it is looking like GDT could take yet another significant step tomorrow, which we would not be surprised to be in the region of + 6 - 9% vs the previous GDT event 171.

In our weekly Dairy Market Report of coming Wednesday, we will report with an analysis of event 172 and as always, global price, export/import, production information and any other matters that have an impact on price developments.

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