

GDT event 174 heads-up

After the last GDT event that saw the average winning price decline by 3%, it will be interesting to see how the event will roll out tomorrow. Since the last event, we have seen values for NZX futures go down. Last week however, Fonterra put some alarming news out in the press where they announce to reduce volumes offered on GDT. Since that announcement we have seen WMP futures on NZX go up. See the Fonterra press message here:

http://www.nzxfutures.com/system/downloads/91/2016-10-13_Fonterra_GDT_Volume_Announcement.pdf?1476328284

Fear seems to be spreading that the wetness of the past weeks will have a material downward impact on milk production. It has been said that in some places in the North Island, September milk was down by 10% and that October looks similar. Along with Australia facing similar problems with the rains that have fallen as New Zealand, Oceania looks set to see milk production contract during their peak months.

It remains to be seen in how far buyers buy into the fears, after all, it would not be the first time that tension is created over weather circumstances. Last year in September, it was El Nino with a threat of drought but, as we know now, that never materialised in terms of a lower milk output in NZ because of El Nino.

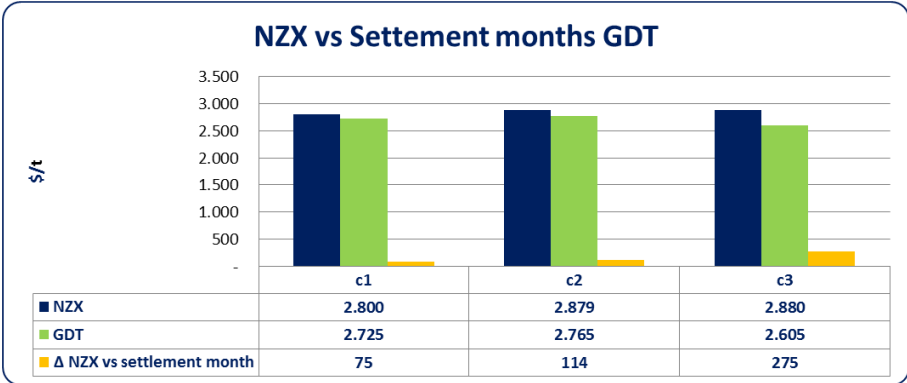
Bullish however are persistent rumours from NZ that September milk will be down by over prior forecasts of 3-5% and that October seems to develop the same as September. That being so, strategic buyers will not be able to afford ignoring these signals.

On offer Tuesday on GDT event 174:

GDT event 174							
Sales Group Maximum Supply (MT)	Contract 1 (Nov 16)	Contract 2 (Dec 16)	Contract 3 (Jan 17)	Contract 4 (Feb 17)	Contract 5 (Mar 17)	Contract 6 (Apr 17)	Total
Anhydrous Milk Fat	260	1.190	750	565	280	115	3.160
Butter Milk Powder	-	175	125	50	-	-	350
Butter	130	905	570	455	225	105	2.390
Cheddar	60	450	450	450	100	-	1.510
Rennet Casein	50	275	175	150	-	-	650
Skim Milk Powder	250	2.875	1.675	1.100	575	150	6.625
Whole Milk Powder	1.000	6.125	4.920	3.700	1.800	300	17.845
Total							32.530
same event last year							35.125

The total quantity on offer is 32.530 mt, 2.595 mt less than the same event in 2015 and 3.230 mt less than the previous event.

The signals coming from NZX futures on WMP are more bullish than at the previous event when NZX carried discounts vs prior GDT prices:



Should NZX pricing be on the ball, we will see a big hike in WMP prices. The big unknown this time is in how far buyers step in for bigger volumes than they were intending to, before the news broke that Fonterra is reducing offered volumes and that NZ milk is forecast to decline by more than thought previously. Any upward movements on WMP are likely to be partly mitigated by modest gains & small losses on Butter, Cheese and SMP where USA is a serious and more affordable alternative. That said, we have seen many times before that NZ has some loyal customers that continue to buy NZ material even if competition is significantly less expensive.

It seems reasonable to expect event 174 to go up. Based on cold facts this could be 3-5%. Should sentiment and cautiousness get the upper hand however, significantly higher gains are not excluded.

In our weekly Dairy Market Report of coming Wednesday, we will report with an analysis of event 174 and as always, global price, export/import, production information and any other matters that have an impact on price developments.

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<http://www.greenmarkdairy.com/dairy-market-report.html>

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