



GDT event 198 heads-up

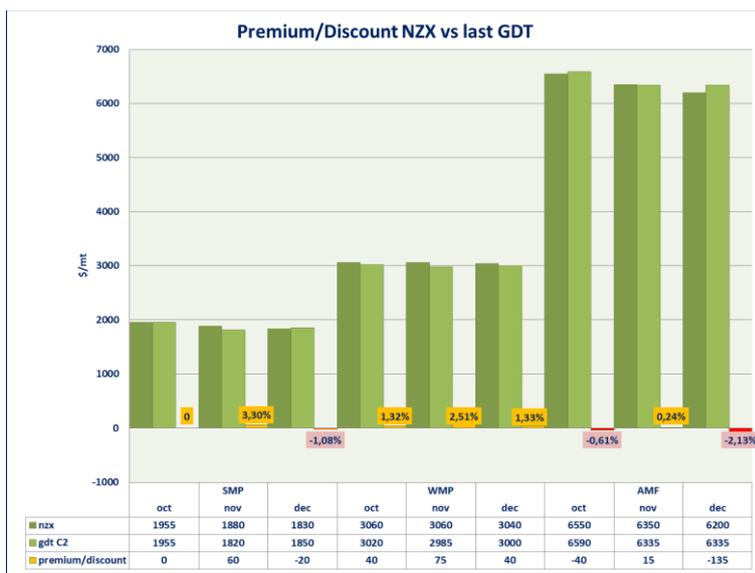
Against the background of a continuing bearish market for the entire dairy complex, it will be interesting to see in how far tomorrow's GDT event 198 will be affected. Since event 197, we have seen EU Butter come tumbling down with EEX levels for Jan-March futures indicating values *below* those realised on GDT two weeks ago while SMP futures indicate a 4% lower price than the last realised on GDT (from Fonterra). EU WMP, based on its component values in Butter and SMP on the current cash market, would give a value of \$ 2925/mt, or 4,6% below Fonterra's last prices for November & December shipments.

With USA CME Cheddar blocks, SMP and Butter currently at a discount of respectively -3,5%, -8% and -13% vs last prices from Fonterra for Nov-Dec shipments, tomorrow's event 198 seems set to a strongly decreased GDT price index.

On offer on tomorrow's GDT event 198;

Event 198 Offer in mt	C1 Volume	average start price	C2 Volume	average start price	C3 Volume	average start price	C4 Volume	average start price	C5 Volume	average start price	Average price C1-C5	average price last GDT	Δ
AMF	115	\$5.960	900	\$5.675	710	\$5.445	550	\$5.445	275	\$5.485	\$5.602	\$6.504	-13,87%
Butter	165	\$5.270	945	\$5.285	730	\$4.770	565	\$4.690	190	\$4.705	\$4.944	\$5.837	-15,30%
Cheddar	80	\$3.620	450	\$3.545	450	\$3.525	400	\$3.530	100	\$3.625	\$3.569	\$4.109	-13,14%
Rennet	50	\$5.350	250	\$5.350	150	\$5.245	100	\$5.340	50	\$5.325	\$5.322	\$6.123	-13,08%
SMP	250	\$1.770	3.500	\$1.700	2.600	\$1.580	1.375	\$1.605	760	\$1.600	\$1.651	\$1.895	-12,88%
WMP	2.500	\$2.695	9.730	\$2.625	4.700	\$2.590	3.250	\$2.605	1.300	\$2.630	\$2.629	\$3.037	-13,43%

The total quantity on offer is 37.190 mt, 800mt less than what was actually sold in the previous event.



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If we look at NZX we see surprisingly little response to EU and USA market movements. The expectation speaking from NZX prices currently on the board for C1, 2 and 3, is optimistic and would indicate an increase of approximately 1,5%.

In the past we have seen it more often that GDT prices remain at premium vs USA and EU. In general this will be a function of destinations favouring NZ origins on basis of quality or NZ being a favoured origin with translating to lower import duties.

Even though we see China imports strongly up, we see NZ exports strongly down which would lead us to believe that both EU and USA are strongly biting into Fonterra's export volumes.

There is also still the reporting about too wet weather circumstances that may have an impact on milk production in NZ's peak months.

Today, *aptly* timed, Fonterra announced to lower their milk production forecast from+ 3,2 % to 0,9% (was 1.575 billion kg MS, is now 1.540 billion kgs MS). Year to date August however, NZ produced 195 million kgs more milk while they exported 400 million kgs Milk Equivalent less so that even 0,9% more than last year may prove too much.

We have a hard time believing tomorrow's GDT event 198 will see a positive result. Given current forces in terms of prices from EU and USA and the abundance of milk available now and in the next months we believe a loss between 2,5% to 5% would be a reflection of the current market.

In our weekly Dairy Market Report of coming Wednesday, we will report with an analysis of event 198. As usual this will be on top of the Global export, import, price, production & stock situation. As always we will comment on any other matters that may have an impact on dairy price developments.

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