



GDT event 205 heads-up

Even though the markets remain slow, we see strong movements on NZX on the back of increasingly unfavourable weather circumstances. Whilst January is already on record as the hottest month ever, currently parts of New Zealand are suffering from flooding.

The season to date December has not been affected in terms of milk production and is still up by 0,41% in terms of milk solids but that is likely to change to negative in the second half of the NZ milk season. If we look at the year to date December figures we see that NZ produced 354 million more milk and exported about 600 million kgs less.

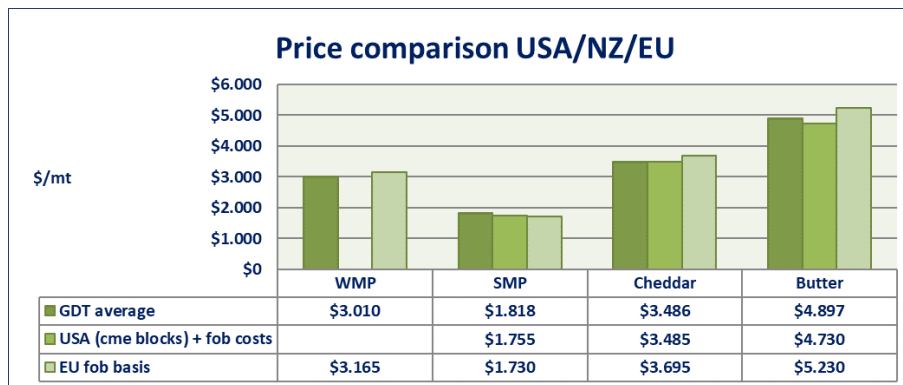
In the remainder of the season (Jan through May) the normal production is about 40% of the yearly total or about 8,5 million kgs.

To counter balance the incremental product accumulated in stocks and incremental production, NZ milk production would have to decline for the rest of the season by 11,8%.

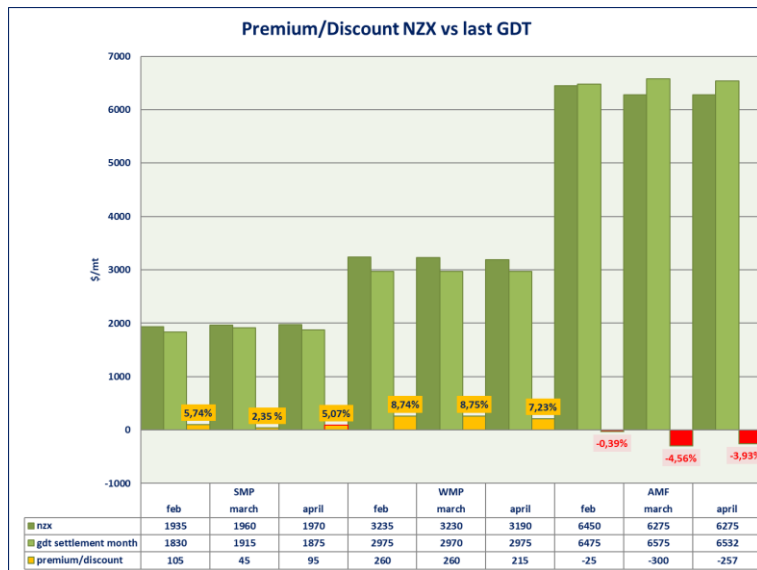
On offer on today's GDT event 205;

Maximum Supply Event 205	Contract 1	Contract 2	Contract 3	Contract 4	Contract 5	Totals
Anhydrous Milk Fat	310	1.380	815	410	290	3.205
Butter Milk Powder	50	250	150	50	50	550
Butter	140	890	525	375	245	2.175
Cheddar	80	325	325	325	80	1.135
Rennet Casein	25	125	100	75	50	375
Skim Milk Powder	100	1.650	875	525	300	3.450
Whole Milk Powder	1.500	4.650	2.800	1.690	1.000	<u>11.640</u>
Total						22.530

The total quantity on offer is 22.530 mt, 1.715 mt less than what was sold in the previous event but 5.245 mt higher than in the corresponding event last year.



NZ is the most favourable origin for WMP. Cheddar NZ is on par with USA and both of those are more competitive than EU. Butter comes at its most competitive from USA and SMP from EU.



Premiums paid on NZX for WMP are significant, likely fueled by ongoing adverse weather events.

NZX Futures prices would suggest a gain on today's GDT event of 5 to 7%.

Should this materialise, the implication is that NZ would become the most expensive origin across all categories. How that will reflect on NZ exports remains to be seen. On WMP, the gains could be achieved as it will leave Fonterra still as most competitive origin. The gains of Butter and SMP seem less likely in the current market. Overall, we believe a gain is certainly on the table which we would estimate to be between 3 to 5%.

In our weekly Dairy Market Report of coming Wednesday, we will report with an analysis of event 205. 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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