

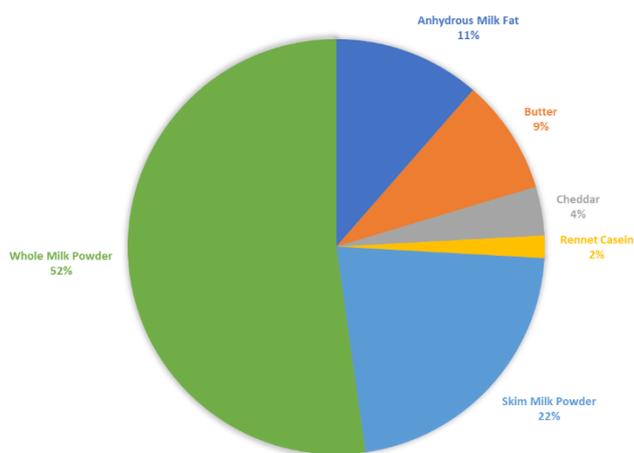
GDT event 242 heads-up

Event 242 is held against the background of a very quiet market while NZ is in the off-season. Strong exports in prior months while production contracted saw NZ stock positions diminish. The first month of the new 2019-2020 NZ season -June- saw a strong YoY increase in milk production of 14%. While June is the lowest production month only good for less than a percent of annual production, this may be an early signal of what's in store for H2 2019, especially against the background of a strong farm gate price forecast in New Zealand.

On offer at Event 242:

GDT event 242						
Sales Group Maximum Supply (MT)	Contract 1 (Sep 19)	Contract 2 (Oct 19)	Contract 3 (Nov 19)	Contract 4 (Dec 19)	Contract 5 (Jan 20)	Contract 6 (Feb 20)
Anhydrous Milk Fat	265	1,325	1,020	860	390	225
Butter	185	985	845	720	300	175
Cheddar	60	400	400	400	100	0
Rennet Casein	75	275	175	100	0	0
Skim Milk Powder	250	2,225	1,800	2,025	1,550	0
Whole Milk Powder	1,000	6,850	5,000	4,000	1,875	0

GDT OFFERED VOLUME ALLOCATION EVENT 242



The total offered volume is unchanged from the previous event at 35,855 mt., which reflects the upcoming peak months in New Zealand.

Vs event 241, volumes are as follows:

Product	event 241	event 242	change	change %
AMF	4,085	4,085	-	-
Butter	3,210	3,210	-	-
Cheddar	1,360	1,360	-	-
SMP	7,850	7,850	-	-
WMP	18,725	18,725	-	-

There have not been made any adjustments to offered volumes.

Since the last GDT event of two weeks ago, changes in futures were as follows:

NZX Futures changes since last GDT					
		settlements 6/8	settlements 19/8	Δ	Δ%
Amf	Aug	\$5,350	\$5,225	-\$125	-2.34%
	Sept	\$5,250	\$5,200	-\$50	-0.95%
	Oct	\$5,200	\$5,175	-\$25	-0.48%
	Nov	\$5,175	\$5,175	-	-
	Dec	\$5,150	\$5,150	-	-
	Jan	\$5,150	\$5,150	-	-
SMP	Aug	\$2,520	\$2,540	\$20	0.79%
	Sept	\$2,520	\$2,510	-\$10	-0.40%
	Oct	\$2,520	\$2,490	-\$30	-1.19%
	Nov	\$2,530	\$2,490	-\$40	-1.58%
	Dec	\$2,540	\$2,520	-\$20	-0.79%
	Jan	\$2,540	\$2,520	-\$20	-0.79%
Butter	Aug	\$4,400	\$4,180	-\$220	-5.00%
	Sept	\$4,350	\$4,250	-\$100	-2.30%
	Oct	\$4,250	\$4,225	-\$25	-0.59%
	Nov	\$4,320	\$4,200	-\$120	-2.78%
	Dec	\$4,320	\$4,175	-\$145	-3.36%
	Jan	\$4,300	\$4,150	-\$150	-3.49%
WMP	Aug	\$3,055	\$3,000	-\$55	-1.80%
	Sept	\$3,045	\$2,965	-\$80	-2.63%
	Oct	\$3,045	\$2,950	-\$95	-3.12%
	Nov	\$3,040	\$2,950	-\$90	-2.96%
	Dec	\$3,050	\$2,960	-\$90	-2.95%
	Jan	\$3,040	\$2,940	-\$100	-3.29%

At face value, it doesn't look good for the outcome of event 242.

After the publication of an estimated \$ 590 - 675 million dollar loss in the 2018-2019 financial year a lower GDT price index, along with chilly global economic headwinds will inevitably mean a reduction of the farm gate price (FGP) forecast. On 23rd May, Fonterra set the forecast FGP at \$ 6.25/7.25/kgMS.

Since then, prices changed as follows (excluding possible decreases tomorrow);

	event 236	event 241	?	??	annual offer	decreased value	Est GDT %	Total value loss
					MT	on GDT	of total sales	On total
AMF	\$5,752	\$5,246	-\$506	-8.80%	80,000	-\$40,480,000	40%	-\$101,200,000
Butter	\$5,297	\$4,165	-\$1,132	-21.37%	65,000	-\$73,580,000	40%	-\$183,950,000
Cheddar	\$4,851	\$3,838	-\$1,013	-20.88%	30,000	-\$30,390,000	30%	-\$75,975,000
SMP	\$2,529	\$2,482	-\$47	-1.86%	155,000	-\$7,285,000	40%	-\$18,212,500
WMP	\$3,180	\$3,039	-\$141	-4.43%	365,000	-\$51,465,000	30%	-\$128,662,500
Total decrease in value next 12 months						-\$203,200,000		-\$508,000,000

Based on Fonterra covering 80% of NZ milk production, the decreased value of its product mix would at this point shave off \$ 0.34/kg MS from the FGP.

Some further inputs to the market are:

- Overall, YTD June, global milk production from the main exporting countries have contracted by -0.4% or -721 million kgs.
- China milk production is reported to be on the rise, encouraged by high farm gate prices.
- H1 2019 dairy imports in China have been strong with an incremental 500 million kgs LME imported, but the most recent reported month (June) showed a YoY decrease. There are rumours, confirmed by RABO bank, that Chinese inventories are rising that will potentially imply lower import requirements in H2.
- Economic forecasts are deteriorating:

IMF economic growth forecast	2018	forecast 2019	Δ
USA	2.90%	2.60%	-0.30%
Euro area	1.90%	1.30%	-0.60%
Germany	1.40%	0.70%	-0.70%
France	1.70%	1.30%	-0.40%
Italy	0.90%	0.10%	-0.80%
Spain	2.60%	2.30%	-0.30%
Japan	0.80%	0.90%	0.10%
UK	1.40%	1.30%	-0.10%
Russia	2.30%	1.20%	-1.10%
China	6.60%	6.20%	-0.40%
India	6.80%	7.00%	0.20%
Brazil	1.10%	0.80%	-0.30%
Mexico	2.00%	0.90%	-1.10%
Saudi Arabia	2.20%	1.90%	-0.30%
Nigeria	1.90%	2.30%	0.40%

- Disastrous USA exports in H1 have seen stocks rise by 543 million kgs YTD June. This will eventually bring down pricing and make the USA more competitive in the global markets.

For now, we would expect the GDT Price index to move down between **-2.25%** and **-3.25%**.

In our weekly Dairy Market Report of coming Wednesday, we will report with an analysis of the outcome of event 242. As usual, along with Global export, import, price, production, consumption & stock data. As always, we will comment on any other matters that may have an impact on dairy price developments.

For further information or a subscription on Greenmark's weekly Dairy Market Reports, email us at r.schorsij@greenmarkdairy.com