

GDT event 170 heads-up

After a sharp increase on the previous GDT event of 6,6%, all eyes are on tomorrow's event 170. Event 170 takes place against a background of sharply increased prices in the EU physical markets as well as on EEX and, more relevant to tomorrow's event, NZX WMP futures. The market sentiment has definitely turned more bullish on the back of contracting milk production around the globe.

On offer tomorrow:

GDT Event 170						
Sales Group Maximum Supply	Contract 1 (Sep 16)	Contract 2 (Oct)	Contract 3 (Nov)	Contract 4 (Dec)	Contract 5 (Jan)	Contract 6 (Feb)
Anhydrous Milk Fat (AMF)	315	1.460	975	735	405	200
Butter Milk Powder (BMP)	-	200	150	50	-	-
Butter (Butter)	190	1.120	785	615	375	160
Cheddar (Ched)	60	440	440	440	100	-
Rennet Casein (RenCas)	50	200	100	50	-	-
Skim Milk Powder (NZ & AU SMP)	250	2.500	2.400	1.450	1.000	500
Whole Milk Powder (WMP)	500	7.500	5.950	4.800	2.250	500

The total quantity on offer tomorrow is 39.215 t, 9,5% more than in the previous event and 2000t more than in the second event of August last year.

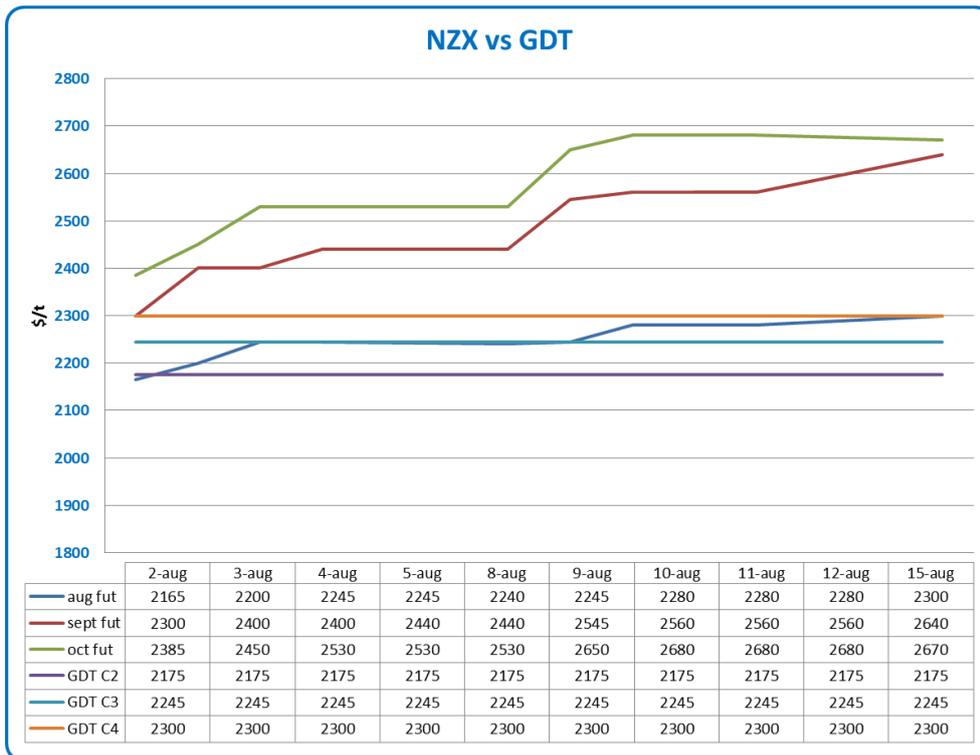
If we look at the Global landscape today, Fonterra's pricing across is by far the most competitive origin:

Price comparison NZ, EU & USA based on FOB prices				
	GDT	CME spot	EU	Δ
Cheddar	2950	4100	3450	-500
Butter	2925	5050	4230	-1305
WMP	2260 x		2625	-365
SMP	1930	1900	2100	

Note: CME spot prices are not representative for 'the market'. Actual prices paid for grade A quality USA origins are actually higher.

In terms of competition, there seems quite some scope for a significantly increased upshot tomorrow.

Even stronger are the signals coming from NZX activity:



Premiums over GDT paid currently: C2 \$ 125/t, C3 \$425/t and C3 \$370/t

If we simplify matters a bit and assume that expectation of sellers prices on GDT will end up lower and buyers' expectation price may end up higher can be levelled out against each other, NZX pricing is typically where participants estimate prices to establish tomorrow.

NZX is settled against the average of 2 consecutive events in a month to C2 on GDT, so August futures are settled against C2 (September) GDT pricing and so on.

To settle at prices currently on the board of NZX, tomorrow's prices for C2 would close at \$2450/t. The current expectations of NZX participants for Sept and October are that when the time comes, GDT will close at monthly averages of respectively \$3095/t and \$ 3040/t.

Of course, often NZX doesn't quite hit the mark but generally in its *direction* it's right.

Overall, the magical \$ 3000/t is on the table again and given the current market temperature, this may be reached well before the end of the year.

In our weekly Dairy Market Report of coming Wednesday, we will report back with an analysis of event 170 and as always, global price, export/import, production information and any other matters that have an impact on price developments.

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