

WEEKLY DAIRY MARKET UPDATE WEEK 18-2018

Following the last weeks' improved sentiment with increased market activity, we see stalling prices and a general uncertainty about market direction in the months ahead. Strong New Zealand exports in March in a bid to reduce stock levels at the end of the season may have repercussions for US and EU exports in the same month. Milk production has been disappointing in EU, US and NZ but for the bigger part that has been driven by poor weather circumstances and now that that is out of the way, fundamentals would indicate stronger milk output in the coming months. This is further supported by continuing good farm gate prices, especially in EU and NZ.

Farm gate prices EU for May

Earlier this week, Arla announced to leave the May FGP unchanged based on their view that commodity prices are stable and milk volumes will remain low over adverse weather circumstances. Last Monday, FrieslandCampina announced to lower its May FGP by € 0,50/100 kgs to € 34/100kgs. Of the decrease, € 0,31/100 kgs was a correction on a too high FGP in March, so that the net reduction is € 0,19/100 kgs.

If we look at prices (based on Dutch quotations) prevailing when the April price was announced and compare them with those that were valid when the May FGP was announced we see there was little to no reason for a reduction, quite to the contrary:

Dutch milk allocation & price changes since previous farm gate price announcement						
			Δ	Δ%	Utilisation of total milk	contribution to stream returns
Butter	€ 4.850	€ 5.700	€ 850	17,53%	6,75%	1,18%
WMP	€ 2.620	€ 2.680	€ 60	2,29%	7,35%	0,17%
SMP food	€ 1.320	€ 1.410	€ 90	6,82%	4,30%	0,29%
Gouda	€ 2.700	€ 2.850	€ 150	5,56%	28,50%	1,58%
Total group					46,90%	3,23%

Based on the current prices (and some of the Dutch quotations are on the lower end vs the spot market), the increases would have allowed for an FGP increase of € 1,11/100 kgs.

ONIL/Algeria

We hear of prices having been contracted for SMP at levels between \$ 1.850- \$ 1.950/mt and WMP at prices between \$ 3.400,-/mt and \$ 3.500,-. Different guesses about total volumes are floating around, where the most heard is 40.000mt for WMP and 30.000mt for SMP. In the next weeks we expect to be able to report more exact volumes.

Dairy Auctions Online (www.dao.eu)

TRADES ON DAO				
date	product	volume/mt	price/mt	delivery
20-apr	Lactic Butter	22	€ 5.570	June
22-jul	Lactic Butter	22	€ 5.450	May
23-apr	Sweet whey, Feed	25	€ 660	May
23-apr	Sweet whey, Feed	25	€ 660	May

It has been a quiet week on DAO.

Netherlands/Official Dutch Quotations

OFFICIAL DUTCH QUOTATIONS							
2nd May 2018	This week €	in \$	Last week €	in \$	Δ in €	Δ in \$	price development since 1/7/2017
Butter	5.800	7.067	5.700	6.945	100	122	
Whole Milk Powder	2.680	3.265	2.680	3.265	0	0	
Skimmed Milk Powder food	1.430	1.742	1.410	1.718	20	24	
Skimmed Milk Powder Feed	1.320	1.608	1.320	1.608	0	0	
Sweet Whey Powder Feed	650	792	650	792	0	0	
€ - US \$	1,2000		1,2184			-0,0184	
Greenmark Indices milk/100 kgs							
	This week €	in \$	Last week €	in \$	Δ in €	Δ in \$	
TMV Butter/SMP	37,98	46,27	37,72	45,96	0,26	0,32	
TMV Cas/Wpc35/Butter	41,45	50,50	40,96	49,91	0,49	0,60	
TMV Gouda/Whey	36,65	44,65	36,65	44,65	-	-	
TMV WMP	38,08	46,40	38,03	46,34	0,05	0,06	
TMV Weighted all products	37,10	45,20	37,03	45,12	0,07	0,09	

TMV = Theoretical Milk Value of different product mixes, including production costs based on current spot prices.

All commodities either stalled or saw a slight uptick. Meanwhile all stream returns remain well above the average EU farm gate price.

EU/ Milk production

Milk Production March-18		
Member state	Δ	weighted
Belgium	2,12%	0,05%
Bulgaria		
Czech Republic	1,88%	0,04%
Denmark		
Germany		
Estonia	1,98%	0,01%
Ireland	-1,12%	-0,05%
Greece		
Spain		
France		
Croatia		
Italy		
Cyprus		
Latvia	-3,53%	-0,02%
Lithuania	-1,86%	-0,01%
Luxembourg	5,61%	0,01%
Hungary	-1,09%	-0,01%
Malta	0,00%	0,00%
Netherlands	-2,61%	-0,24%
Austria		
Poland	1,56%	0,12%
Portugal		
Romania		
Slovenia		
Slovakia	-2,23%	-0,01%
Finland	-0,52%	-0,01%
Sweden		
United Kingdom	-2,07%	-0,20%
Total EU 41 % counted in kgs milk		-0,33% -44.590.000

** The column "weighted" represents the change by country as a % of total EU production

With 41% of memberstate production counted, March production sofar has been -0,33% lower than in 2017, or - 44,6 million kgs.

Most of the declines are weather related and it will be interesting to see how the other 59% of member states have fared during the cold March month.

At this point we would forecast a small decrease or a small increase for March where we would lean rather to a decrease than an increase.

Europe/ Non-EU/ Prices

European Prices : NON EU									
average Export prices in \$/t	Russia**		Russia	Ukraine		Ukraine	Belarus	Belarus	
	week ending 26/04/2018		previous week	week ending 26/04/2018		previous week	week ending 26/04/2018	previous week	
SMP	2.115	↓ -2,40%	2.167	1.550	↓ -6,04%	1.650	1.600	↓ -3,03%	1.650
WMP	2.819	↓ -3,76%	2.929	2.900	↓ -1,69%	2.950	2.700	→	2.700
Butter 82,5%	4.151	↓ -2,40%	4.253				4.200	→	4.200
Butter 72,5%	3.720	↓ -2,41%	3.812	3.725	↑ 0,68%	3.700	3.950	→	3.950
Cheese 50%				4.200	↑ 1,20%	4.150	4.200	→	4.200
whey	893	↓ -2,40%	915	560	↓ -1,75%	570	660	↓ -2,22%	675

** Russian prices include 10% VAT

A very flat market in Russia, the past week. All Russian prices went down on the back of a 2,40% change of the Ruble rate. Except for WMP that went down in Ruble too. In Belarus prices for SMP are under pressure which may be caused by competition of Intervention milkpowder from EU in traditional markets usually served by Ukraine and Belarus.

Europe/ Non-EU/ Production

European Production : NON-EU				
	2017	2018	Δ	Ytd
Russia	3.984.000.000	4.098.000.000	2,86%	February
Ukraine	1.176.000.000	1.162.000.000	-1,19%	February
Belarus	1.686.000.000	1.732.000.000	2,73%	March
Turkey	1.448.400.000	1.654.500.000	14,23%	February
Norway	414.700.000	404.100.000	-2,56%	March
Switzerland	545.870.000	541.610.000	-0,78%	February
total	9.254.970.000	9.592.210.000	3,64%	Feb/March
in Kgs			337.240.000	

The biggest countries in this group book the biggest increases so that overall, the group looks set to book a strong increase this year. The Russian boycott situation with regards to dairy imports finally seems to result in their domestic industry finally investing to increase production to reduce its dependence on imports.

New Zealand/ Dairy exports March 2018

March has been a strong month for NZ dairy exports which as likely fuelled by large carry-over stocks that need to be cleared before the end of the season:

New Zealand Dairy Exports March 2018 vs 2017															
	POWDERS							FATS				LIQUIDS			
	WMP	SMP	Whey	BMP	Casein	Caseinates	WPC > 80%	Lactose	Infant Formula	Butter	AMF	Cream	Cheese	Liquid milk	Yoghurt & Buttermilk
March 2017	107.981	26.569	13.429	3.412	4.854	2.767	2.581	2.637	4.868	19.998	14.601	8.000	29.155	18.000	2.700
March 2018	118.347	37.037	11.595	3.777	6.801	2.518	1.763	1.226	6.192	29.497	15.623	4.600	27.901	21.000	3.600
Δ	10.366	10.468	-1.834	365	1.947	-249	-818	-1.411	1.324	9.499	1.022	-3.400	-1.254	3.000	900
Δ %	9,60%	39,40%	-13,66%	10,70%	40,10%	-9,00%	-31,70%	-53,50%	27,20%	47,50%	7,00%	-42,50%	-4,30%	16,67%	33,33%

Out of the 4 key export products, WMP, SMP, Butter and Cheese, only the latter saw a small decrease of 1.254 mt versus last year.

In terms of Liquid Milk Equivalents (LME), NZ exported an incremental 196 million kgs or + 11,88%:



If we look at the YTD figures we see a different picture with Cheese exports performing poorly but nearly two thirds of the product range strongly ahead of last year:

New Zealand Dairy Exports YTD March 2018 vs 2017															
	POWDERS								FATS			LIQUIDS			
	WMP	SMP	Whey derivatives	BMP	Casein	Caseinates	WPC > 80%	Lactose	Infant Formula	Butter	AMF	Cream	Cheese	Liquid milk	Yoghurt & Buttermilk
January	151.530	45.123	9.200	10.100	5.100	3.100	1.755	1.861	5.400	22.200	12.111	6.800	28.645	17.000	4.900
February	118.920	29.360	5.205	2.597	4.238	2.253	1.922	1.319	4.149	23.398	11.055	7.600	25.177	16.000	2.500
March	118.347	37.037	11.595	3.777	6.801	2.518	1.763	1.226	6.192	29.497	15.623	4.600	27.901	21.000	3.600
Ytd March 2018	388.797	111.520	26.000	16.474	16.139	7.871	5.440	4.406	15.741	47.000	24.000	19.000	81.723	54.000	11.000
Ytd March 2017	344.287	105.058	27.000	15.759	14.016	7.598	6.984	6.606	12.187	41.216	31.204	20.000	88.776	48.000	10.000
Δ	44.510	6.462	-1.000	715	2.123	273	-1.544	-2.200	3.554	5.784	-7.204	-1.000	-7.053	6.000	1.000
Δ %	12,93%	6,15%	-3,70%	4,54%	15,15%	3,59%	-22,11%	-33,30%	29,16%	14,03%	-23,09%	-5,00%	-7,94%	12,50%	10,00%

In terms of LME's, NZ has exported an incremental 329 million kgs, or + 6,62%:



Stock position

If we look at the stock position we see that the sum of lower production and incremental exports made a substantial dent in the theoretical stock position amounting to -224 million kgs, or – 23,18% resulting in a stock position per end of March of 743 million kgs LME:

New Zealand stock balance per 31/3/2018	
Theoretical stock 28/2/2018	966.898.070
Incremental;	
Production March 2018	-28.000.000
Exports March 2018	-196.112.310
Theoretical stock 31/3/2018 in kgs LME	742.781.760
Change in stocks since end of Feb	
As a percentage of 2017 milk production	3,46%
As a percentage of season to date milk production (June- March)	3,91%

New Zealand/ GDT event 211

It was a bit of a surprise to see the GDT index fall after a run of nearly two weeks that showed a clearly more positive market sentiment. This may have been caused by Fonterra communication the day before the auction that it expected a drop of 2% in milk collection in the going season. This is substantially better than the previously estimated – 3%. The season to date figures for the whole of New Zealand however, show an even better outlook: In Milk solids YTD March stands at -1,29% and in Milk at -0,37%. Given a better April and May production outlook that is anticipated over better weather circumstances, this is likely to be improved upon.

GDT event 211 ended after 14 bidding rounds at a price of \$ 3.465,-/mt which was -1,1% lower than the previous GDT index:



Key comments:

AMF

AMF fell by 1,9%, whilst being considerably cheaper than the main competitors.

Butter

Butter remained unchanged. The real competition seems to be coming from US as with prices of \$ 7.000,-/mt EU has priced itself out of the market for export destinations. The overall results saw the two front months go up by 1 and 1,1% while the deferred months saw losses of -0,2, -1,5 and -0,4%

Cheddar

Despite being the more expensive origin prior to the event, Cheddar moved up by 3,1%. The front month saw an increase of 1,5% whilst the other offered contracts 2 and 5 saw an increase of 3,8%. The average Cheddar price is now 6% higher than that of its nearest competitor, the US.

SMP

Another surprise was yet another increase in SMP prices. Even more surprising is that the gain took place during an auction where out of 23 contracts SMP offered by Fonterra, only 11 saw an actual off take. In other words, 52% of the offered contracts remained unsold.

EU product from Arla saw a small increase in us\$ of about 2%. However due to an increasing \$ vs the €, the actual increase in € terms was 5,3%. In the previous event the average price was € 1.427,-/mt whereas in yesterday's it was €1.502,50/mt.

Polish origin product remained unsold while India origin fetched a price of \$ 2.800,-/mt. India is a country that ranks at a number 122 spot of an IMF country list of average GDP/capita. A base commodity like SMP fetches a 56% higher price in India than in for instance Ireland (number 5 on the same list) where the GDP is 10,12 times higher!

WMP

Contrary to indications of NZX WMP futures prices that indicated an increase of 3%, WMP prices on GDT went down by 1,5%. Less urgency may have been felt over the news from Fonterra that Milk collections will be better than previously estimated plus the perception that NZ would have allocated more milk to WMP production because of higher stream returns.

Lactose

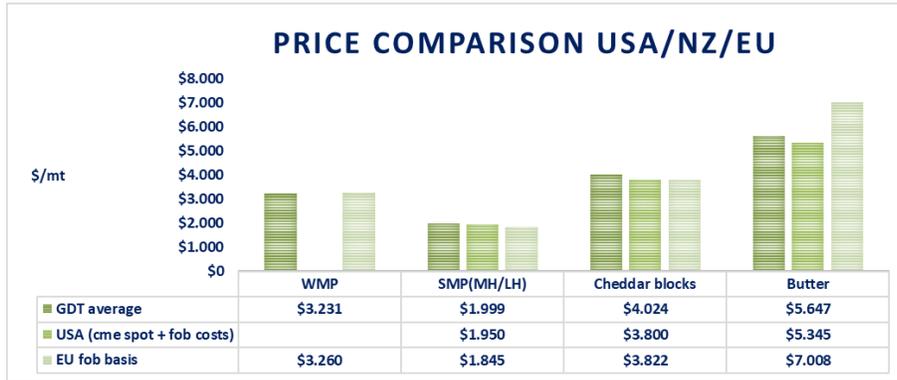
We may wonder whether the inclusion of Lactose on GDT offers any real insights or even price discovery. There was a price difference for Lactose of \$ 294/mt between EU and US average prices in favour of EU product. For that difference US origin can be shipped to EU, duties paid and still be less expensive than EU product.

NZ/ Premiums/Discounts NZX vs GDT



NZX futures trade at premiums vs GDT, except WMP July that trades at a 1,65% discount.

USA/NZ/EU Price comparison



Key comments:

- WMP. The gap between NZ and EU origins has broadened again since yesterday's GDT. Current differences in EU stream returns between WMP and SMP/Butter are practically negligible so that lower WMP prices will only occur if Butter weakens or SMP. The latter seems entirely possible in view of our forecast of a 225.000mt surplus at the end of the year.
- SMP. EU is the least expensive with the gap growing bigger with US and NZ.
- Cheddar. EU is \$ 22/mt more expensive than USA and the distance with NZ is now \$ 200,-/mt in favour of NZ.
- Butter. EU remains the most expensive origin with a \$ 1663,-/mt gap with USA and \$ 1.361,-/mt with NZ. We are getting closer to the point where it is economically feasible to import USA origins into EU (incl duties)

South America/ Milk production

Milk Production	Ytd month	2017	2018	Δ kgs	Δ %
Brazil					
Argentina	March 2018	2.326.000.000	2.649.000.000	323.000.000	13,89%
Uruguay	March 2018	399.400.000	415.300.000	15.900.000	3,98%
Chile	February 2018	357.000.000	377.000.000	20.000.000	5,60%
Total		3.082.400.000	3.441.300.000	358.900.000	11,64%

SAM is on track to make up the losses suffered in previous years. Especially Argentina however is a concern over the impact of the recent dry period followed by rainfall. Production figures for Brazil are not available yet but local sources suggest continuing increases in output.
