WEEKLY DAIRY MARKET UPDATE WEEK 19-2018

With the arrival of much better weather in Europe and the messy past two weeks, with several holidays and current spring holiday season, we are seeing a market that has returned to a lower level of activity.

If we look at the development in prices we see some very strong improvements in commodity prices while Farm Gate Prices are staying behind:

Price development EU since beginning of the year				
	3rd Jan ´18	9th May ´18		
			Δ	Δ%
Butter	€ 4.100	€ 5.840	€ 1.740	42,44%
WMP	€ 2.420	€ 2.720	€ 300	12,40%
SMP food	€ 1.390	€ 1.470	€ 80	5,76%
SMP feed	€ 1.270	€ 1.340	€ 70	5,51%
SWP feed	€ 600	€ 650	€ 50	8,33%
Gouda foil	€ 2.200	€ 3.050	€ 850	38,64%
Cheddar	€ 2.750	€ 3.200	€ 450	16,36%
Avg farm gate price	€ 33,58	€33,20**	**-0,38**	**-1,11%**

The strongest impact has been the cold weather that saw milk output contract during March and part of April but now that weather has returned to more favourable, the question is in how far current pricing is sustainable.

With current commodity pricing it is unlikely we will see strong declines in farm gate prices sothat we will see continuing incentive to produce more milk. However we see the strongest prices in Cheese, Butter and WMP, all carried by the high demand and price of Butterfat. Even with high Butter fat prices there is continuing pressure on SMP and to a slightly lesser extend WMP. SWP has the wind in its back because of insufficient drying capacity, as where possible it is used to make SMP.

Some weeks ago we published the following balance:

SMP Balance	**2017**	**2018**
Production	1.650.000	1.730.000
Released from intervention		100.000
Availability	1.650.000	1.830.000
Exports	780.000	780.000
Domestic consumption	820.000	825.000
Delivered to intervention	30.615	0
Surplus/ stock in private hand	19.385	225.000
	1.650.000	1.830.000

The balance was made under the assumption that SMP production would increase by 5% and that exports would remain unchanged vs last year. On that basis we see a stock increase in private hands double of what EU would release from intervention this year.

With ongoing strong Butter fat demand and corresponding prices however, we may wonder if the increase in SMP production will not exceed the 5%. On top of that, we have seen record volumes of SMP exports and given the record volumes of USA and NZ during March, we may start to wonder whether an unchanged export volume is achievable. If we look at SMP exports sofar this year, we see a very strong growth:

SMP exports

EU	ytd Feb	118.000	132.000	11,86%
USA	ytd March	149.000	183.000	22,82%
NZ	ytd March	104.000	111.000	6,73%
Argentina	ytd Feb	5.200	1.400	-73,08%
Australia	ytd March	38.000	41.000	7,89%
Turkey	ytd Feb	6.200	2.200	-64,52%
Belarus	ytd Feb	15.000	15.000	0,00%
Ukraine	ytd Feb	3.500	2.900	-17,14%
Canada	ytd Feb	5.009	10.073	101,10%
Mexico	ytd Feb	1.459	4.782	227,76%
Iran	ytd Feb	6.990	2.111	-69,80%
		452.358	505.466	11,74%

A good part of the growth has been driven by low dairy prices at the begininning of the year and increased oil prices. To maintain these levels of export volumes, prices would need to remain low. On top of that, SMP production would need to reduce.

Both these factors however are not the case as we speak. In EU, Skimmed concentrate is traded at an approximate level of € 700/mt, (after drying and standardisation, this implies an SMP price of less than € 1.000,-/mt) which means two things, given that SMP can be easily be sold at € 1.400,-/mt:

- There is not enough drying capacity
- We will see a continuing increase in production

There is a case to be made that the EU continues to sell elevated volumes of intervention powder. At this moment, increased sales of intervention powder will have an impact on market pricing but with the head wind of strong Butter prices it is unlikely to affect farm gate prices. Lower SMP prices increase the likeliness of continuing high export demand, especially with the stronger US $ that makes EU exports cheaper.

Dairy Auctions Online (www.dao.eu)

It has been very quiet in terms of executed trades, also because of the several holidays, but there are being plenty offers & bids made:

DAO activity this week

	Sell	Buy
SMP food	€ 1.475	€ 1.400
SMP feed	€ 1.365	
Cream	€ 6.910	
SWP feed	€ 710	€ 710

SWP feed not leading to a trade, eventhough buy and sell are priced the same, is caused by non-compatable delivery periods.

Netherlands/Official Dutch Quotations

OFFICIAL DUTCH QUOTATIONS

9th May 2018	This week €	in $	Last week €	in $	Δ in €	Δ in $	price development since 1/7/2017
Butter	5.840	7.008	5.800	6.960	**40**	**48**	
Whole Milk Powder	2.720	3.264	2.680	3.216	**40**	**48**	
Skimmed Milk Powder food	1.470	1.764	1.430	1.716	**40**	**48**	
Skimmed Milk Powder Feed	1.340	1.608	1.320	1.584	**20**	**24**	
Sweet Whey Powder Feed	650	780	650	780	**0**	**0**	
€ - US $	1,1878		1,2000			-0,0122	

Greenmark Indices milk/100 kgs

	This week €	in $	Last week €	in $	Δ in €	Δ in $	
TMV Butter/SMP	38,17	45,80	37,98	45,58	0,19	0,23	
TMV Cas/Wpc35/Butter	41,64	49,97	41,45	49,74	0,19	0,23	
TMV Gouda/Whey	39,24	47,09	36,65	43,98	-	-	
TMV WMP	38,09	45,71	38,08	45,70	0,01	0,01	
TMV Weighted all products	38,98	46,78	37,10	44,52	1,88	2,26	

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. On the spot market however, we see different movements. SWP is being offered for May-September at €710,-/mt, while bids are at € 705/mt for H2. SMP food has traded this week below the quotations

EU/ Milk production

Milk Production — March-18

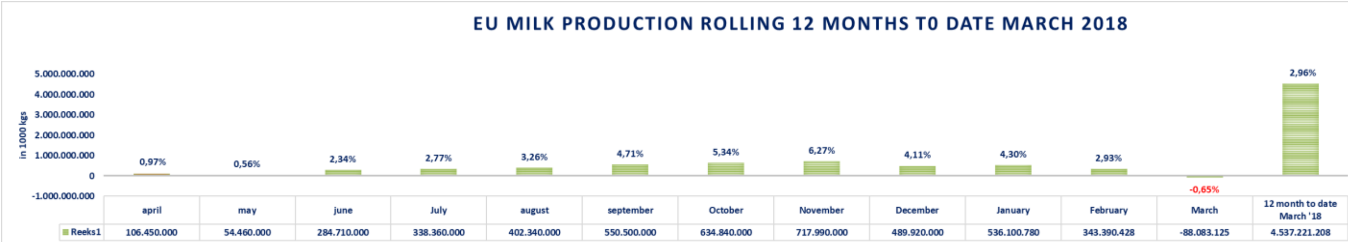
Member state	Δ	weighted
Belgium	2,12%	0,05%
Bulgaria	9,28%	0,03%
Czech Republic	1,88%	0,04%
Denmark	-0,20%	-0,01%
Germany		
Estonia	1,98%	0,01%
Ireland	-1,12%	-0,05%
Greece		
Spain		
France		
Croatia		
Italy		
Cyprus		
Latvia	-3,53%	-0,02%
Lithuania	-1,86%	-0,01%
Luxembourg	5,61%	0,01%
Hungary	-1,09%	-0,01%
Malta	0,00%	0,00%
Netherlands	-2,61%	-0,24%
Austria		
Poland	1,56%	0,12%
Portugal	0,23%	0,00%
Romania		
Slovenia	-0,06%	0,00%
Slovakia	-2,23%	-0,01%
Finland	-0,52%	-0,01%
Sweden		
United Kingdom	-1,32%	-0,13%
Total EU 46 % counted		-0,23%
in kgs milk		-30.720.000

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

With 46% of memberstate production counted, March production sofar has been -0,23% lower than in 2017, or – 30,72 million kgs.

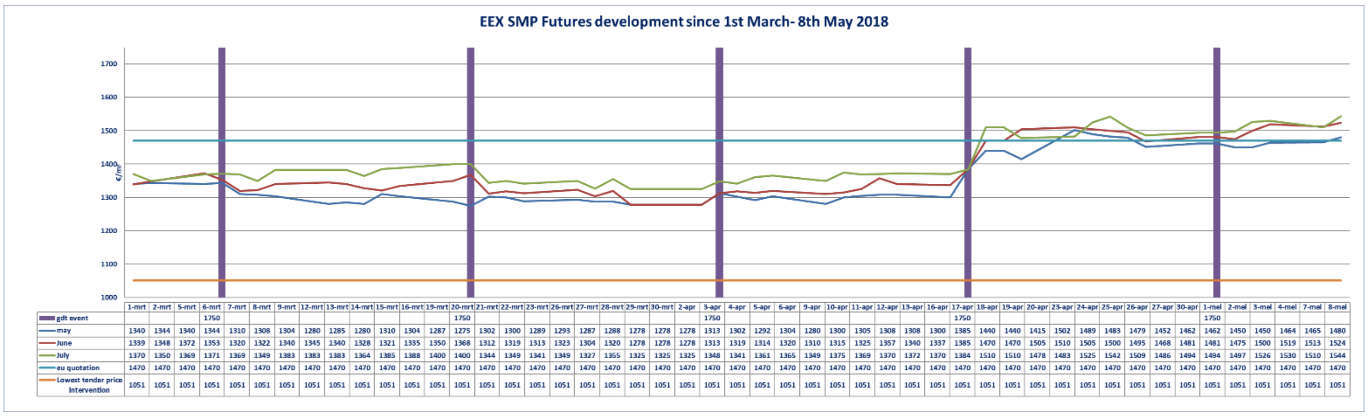
Most of the declines are weather related and it will be interesting to see how the other 54% of member states have fared during the cold March month.

At this point we would forecast a small decrease for March of around – 0,65%.



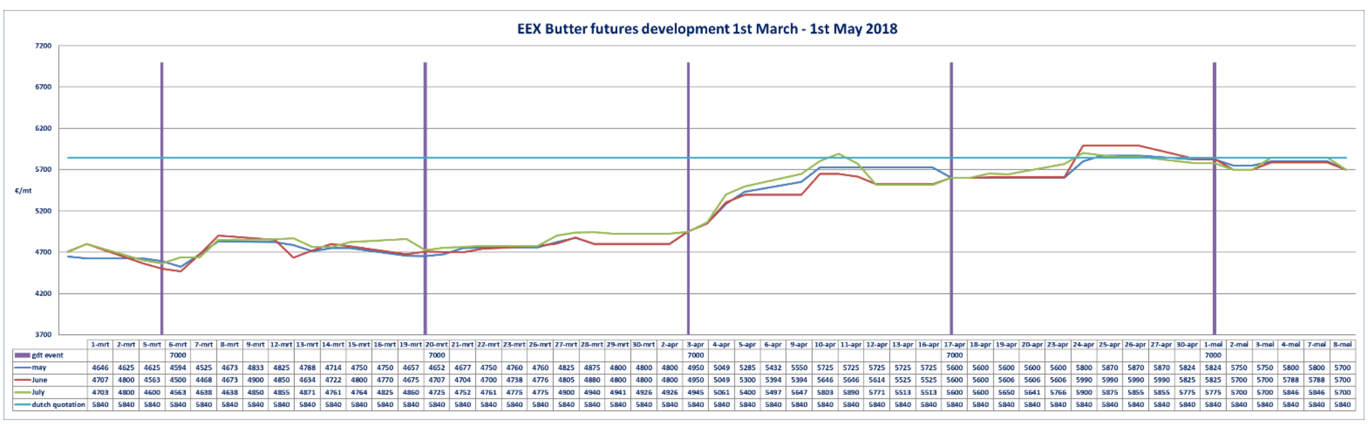
Anticipating an improvement for April and ensuing months we would forecast at this point an increase in milk production of close to + 2% for the year.

EU/EEX SMP Futures



SMP futures are tending slightly higher and are all three now trading above Dutch quotations. Today's activity sees C1 go up to € 1.500,-/mt.

EU/ EEX Butter futures



EEX Butter futures responded negatively or not at all to the 2,9% increase on GDT, all three contracts jumped two week ago but lost value in the following days. Today however we see increased activity for Q3. The July future currently stands at € 5950, a jump of 4,4% since yesterday, while Aug and Sept stand at respectively + 1,72% and 2,98%. It ain't over until the Butter fat lady sings the blues, apparently.

Europe/ Non-EU/ Prices

European Prices : NON EU												
average Export prices in $/t	Russia**			Russia	Ukraine			Ukraine	Belarus			Belarus
	week ending 03/05/2018			previous week	week ending 03/05/2018			previous week	week ending 03/05/2018			previous week
SMP	2.131	↓	0,76%	2.115	1.525	↓	-1,61%	1.550	1.600	→		1.600
WMP	2.842	↓	0,82%	2.819	2.900	→		2.900	2.700	→		2.700
Butter 82,5%	4.105	↓	-1,11%	4.151					4.200	→		4.200
Butter 72,5%	3.749	↓	0,78%	3.720	3.725	→		3.725	3.950	→		3.950
Cheese 50%					4.200	→		4.200	4.150	↓	-1,19%	4.200
whey	900	↓	0,78%	893	560	→		560	650	↓	-1,52%	660

** Russian prices include 10% VAT

A very flat market in Eastern Europe, the past week. All russian prices wentt down on the back of a 0,8% change of the Ruble rate. Except for Butter 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	6.408.000.000	6.559.000.000	2,36%	March
Ukraine	1.971.600.000	1.946.300.000	-1,28%	March
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	12.474.570.000	12.837.510.000	2,91%	Feb/March
in Kgs			362.940.000	

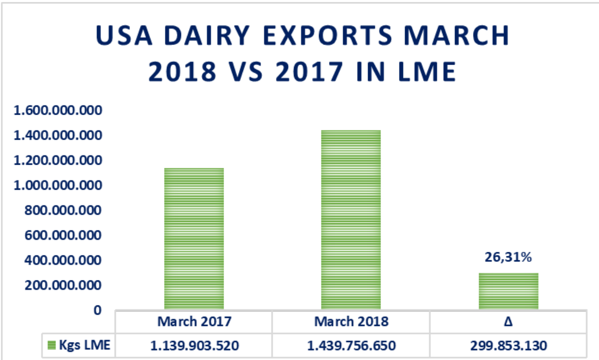
The biggest countries in this group book the biggest increases so that overall, the group looks set to book a strong increase this year. The Russian boycott situation with regards to dairy imports finally seems to result in their domestic industry finally investing to increase production to reduce its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

USA/ Dairy exports March 2018

March has been a tremendously good month for US Dairy exports with all key commodities seeing strong gains vs last year with 11 out of 16 commodities seeing double digit growth:

USA Dairy Exports March 2018 vs 2017	POWDERS										FATS				LIQUIDS	
	WMP	SMP	Whey	Casein	Caseinates	Mod. Whey	WPC > 80%	WPC ≤ 80%	Lactose	Infant Formula	Butter	AMF	Cream	Cheese	Liquid milk	Condensed
March 2018	6.213	67.154	21.825	0	300	11.071	3.379	16.803	37.967	3.100	2.500	1.900	2.000	33.844	8.000	1.500
March 2017	2.462	48.826	17.322	200	200	12.766	2.923	11.415	31.930	3.600	1.400	500	1.800	31.146	7.000	1.600
Δ	3.751	18.328	4.503	-200	100	-1.695	456	5.388	6.037	-500	1.100	1.400	200	2.698	1.000	-100
Δ %	152,36%	37,54%	26,00%	-100,00%	50,00%	-13,28%	15,60%	47,20%	18,91%	-13,89%	78,57%	280,00%	11,11%	8,66%	14,29%	-6,25%

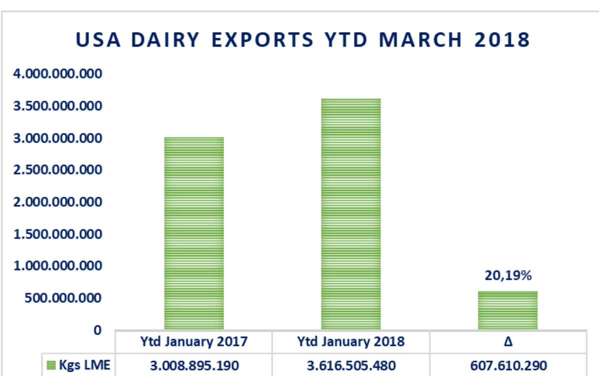
In terms of Liquid Milk Equivalents (LME), export increases amounted to + 300 million kgs or + 26,31%:



If we look at the year to Date figures, export growth is equally impressive with also 11 out of 16 commodities seeing double digit growth:

USA Dairy Exports YTD March 2018 vs 2017																
	POWDERS										FATS				LIQUIDS	
	WMP	SMP	Whey	Casein	Caseinates	Mod. Whey	WPC > 80%	WPC ≤ 80%	Lactose	Infant Formula	Butter	AMF	Cream	Cheese	Liquid milk	Condensed
January	1.337	49.614	20.001	100	100	8.589	2.988	15.418	30.739	3.100	1.800	800	1.900	26.946	6.100	700
February	1.412	66.247	19.235	100	300	13.575	3.146	11.873	33.584	2.900	2.100	500	1.700	28.150	5.900	1.200
March	6.213	67.154	21.825	0	300	11.071	3.379	16.803	37.967	3.100	2.500	1.900	2.000	33.844	8.000	1.500
Ytd March 2018	9.369	183.518	61.061	200	700	33.235	9.514	44.094	102.290	9.100	6.400	3.200	5.600	88.940	20.000	3.400
Ytd March 2017	5.542	149.145	47.674	400	500	36.133	8.634	36.513	87.061	11.000	4.400	1.600	7.400	80.163	18.000	3.900
Δ	3.827	34.373	13.387	-200	200	-2.898	7.581	880	15.229	-1.900	2.000	1.600	-1.800	8.777	2.000	-500
Δ %	69,05%	23,05%	28,08%	-50,00%	40,00%	-8,02%	20,76%	10,19%	17,49%	-17,27%	45,45%	100,00%	-24,32%	10,95%	11,11%	-12,82%

In terms of LME, USA exported an incremental 607,6 million kgs YTD March, or + 20,19% vs last year:



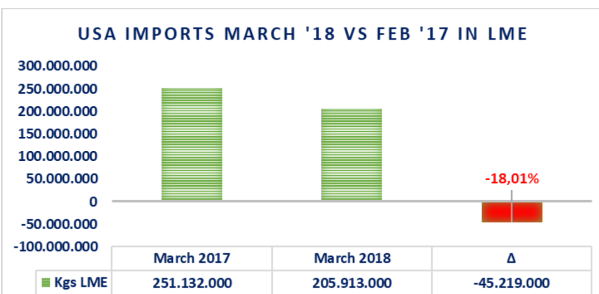
Half of the year to date growth was realised in just March.

USA/ Dairy imports

March saw a strong reduction in Dairy imports:

USA Dairy Imports March 2018 vs 2017												
	POWDERS						FATS				LIQUIDS	
	WMP	All Whey	Casein	Caseinates	Lactose	Infant Formula	Butter	AMF	Cream	Cheese	Liquid milk	Condensed
March 2018	700	8.000	4.300	2.100	200	400	1.800	1.000	2.200	13.000	400	2.300
March 2017	2.300	9.000	4.000	3.000	200	300	1.900	2.200	1.400	16.000	400	3.100
Δ	-1.600	-1.000	300	-900	0	100	-100	-1.200	800	-3.000	0	-800
Δ %	-69,57%	-11,11%	7,50%	-30,00%	0,00%	33,33%	-5,26%	-54,55%	57,14%	-18,75%	0,00%	-25,81%

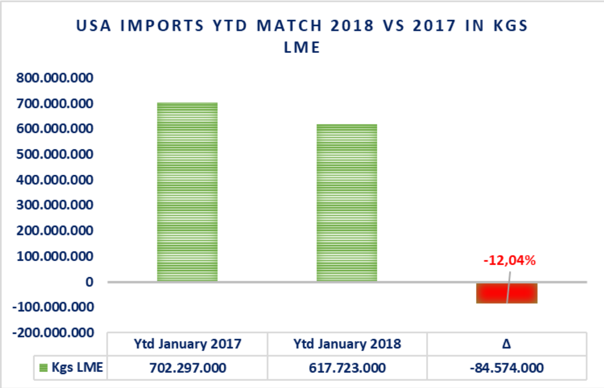
In terms of LME, imports reduced by 45 million kgs vs last year, or – 18,01%:



If we look at the year to date figures we see there are only two commodities left that saw n increase vs last year:

USA Dairy Imports YTD March 2018 vs 2017												
	POWDERS						FATS				LIQUIDS	
x 1000 kgs	WMP	All Whey	Casein	Caseinates	Lactose	Infant Formula	Butter	AMF	Cream	Cheese	Liquid milk	Condensed
January	700	8.600	4.500	1.700	100	400	2.331	996	2.200	13.191	500	3.600
February	300	8.400	3.200	1.600	200	300	2.669	704	3.500	11.809	400	2.200
March	700	8.000	4.300	2.100	200	400	1.800	1.000	2.200	13.000	400	2.300
Ytd March 2018	1.700	25.000	12.000	5.400	500	1.100	6.800	2.700	7.900	38.000	1.300	8.100
Ytd March 2017	6.400	26.000	14.000	6.500	900	1.700	7.300	3.700	3.400	42.000	1.100	9.900
Δ	-4.700	-1.000	-2.000	-1.100	-400	-600	-500	-1.000	4.500	-4.000	200	-1.800
Δ %	-73,44%	-3,85%	-14,29%	-16,92%	-44,44%	-35,29%	-6,85%	-27,03%	132,35%	-9,52%	18,18%	-18,18%

In terms of LME, USA imported 84,5 million kgs less than last year or – 12,04%:

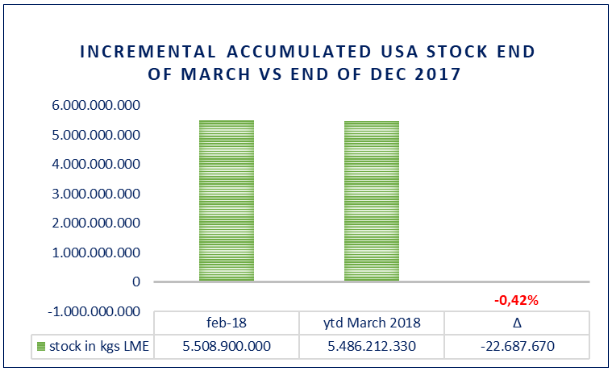


USA/ Stocks:

The stock position since end of February improved slightly:

USA STOCK INCREASES 2018			
stock in 1000 kgs	**feb-18**	**ytd March 2018**	**Δ**
butter	120.546	124.083	3.537
smp	135.359	135.166	-193
cheese	597.723	602.213	4.490
wpc	36.640	35.402	-1.238
swp	40.070	33.890	-6.180
lactose	53.413	52.052	-1.361

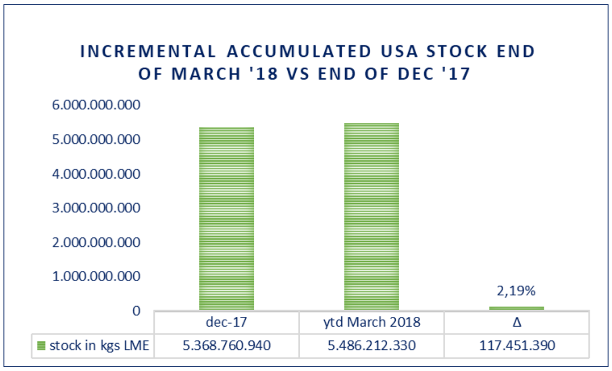
In terms of LME, USA stocks went down by 22,7 million kgs during March, or -0,42%:



If we look at the year to date figures however, although March helped to lower stock levels, it hardly made a dent in the overall stock position:

USA STOCK INCREASES 2018			
stock in 1000 kgs	**dec-17**	**ytd March 2018**	**Δ**
butter	76.689	124.083	47.394
smp	149.884	135.166	-14.718
cheese	580.862	602.213	21.351
wpc	38.280	35.402	-2.878
swp	44.630	33.890	-10.740
lactose	62.118	52.052	-10.066

In terms of LME, US stocks rose by 117,5 million kgs YTD March vs end December 2017, or by + 2,19%



Thanks to the complete reporting of USDA and USDEC it is now possible to make an overall balance.

March:

USA Milk balance March 2018		
Incremental production	112.039.200	
Incremental exports		299.853.130
Decrease in imports		84.574.000
change in stocks		-22.687.670
Domestic consumption		**-249.700.260**
	112.039.200	112.039.200

YTD March:

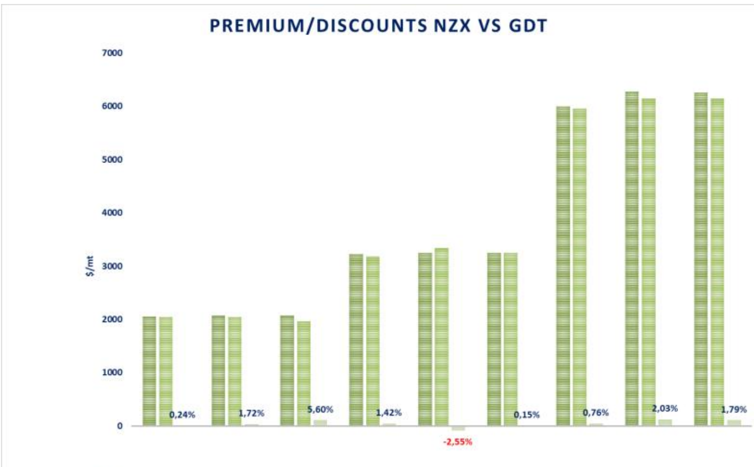
USA Milk balance YTD March 2018		
Incremental production	373.000.000	
Incremental exports		607.610.290
Decrease in imports		84.574.000
change in stocks/domestic consumption		117.451.390
Domestic consumption		**-436.635.680**
	373.000.000	373.000.000

Key comments:

- The balance relies on the accuracy of reported stocks by USDA/NASS
- Not only was March responsible for half of the incremental exports in LME YTD March but also for nearly 50% of the decline in domestic consumption the USA YTD March

- Rather than focusing on promoting exports overseas, it would appear US would be better off to restore domestic demand.
- The decline in domestic consumption equals two thirds of incremental exports.
- Under the circumstances, even if US milk production growth goes to sero, it will still be able to increase exports
- The fall in domestic consumption comes down to approximately 2 % YTD March.

Premiums/Discounts NZX vs GDT



	SMP			WMP			AMF		
	May	June	July	May	June	July	May	June	July
nzx	2050	2075	2075	3225	3250	3250	6000	6275	6260
gdt settlement month	2045	2040	1965	3180	3335	3245	5955	6150	6150
premium/discount	5	35	110	45	-85	5	45	125	110

NZX futures trade at smallish premiums vs GDT, except WMP June that trades at a 2,55% discount.

USA/NZ/EU Price comparison

	WMP	SMP(MH/LH)	Cheddar blocks	Butter
GDT average	$3.231	$1.999	$4.024	$5.647
USA (cme spot + fob costs)		$2.040	$3.905	$5.225
EU fob basis	$3.275	$1.785	$3.865	$6.980

Key comments:

- WMP. The gap between NZ and EU origins has become smaller again under the impact of the weaker Euro.
- SMP. EU is the least expensive with the gap growing bigger with - $255/mt vs USA and - $214/mt vs NZ.

- Cheddar. EU is $ 40/mt less expensive than USA and the distance with NZ is now $ 159,-/mt in favour of EU.

- Butter. EU remains the most expensive origin with a $ 1755,-/mt gap with USA and $ 1.333,-/mt with NZ. We are getting closer to the point where it is economically feasible to import USA origins into EU (incl duties)

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