



ETS FREDDY BAINES

## Bi-weekly Market Update

March 9<sup>th</sup> 2017

## Summary:

This market is not for the faint-hearted.

EU FCMP prices were comfortably over €3000 a few weeks ago, now disconcertingly €200 lower.

NZ price for FCMP took a huge hit of 12% ( on average) at GDT.

SMP also is weakening steadily as volumes produced creep up; this on top of the slowly ageing EU stock.

All this on...sentiment? Yes, for sure. Though of course EU season building up and NZ drop not as bad as feared.

So Argentina's ( virtual) absence from the FCMP market is not affecting the world market.

The USA is looking down a double-barrelled shotgun: SMP and Butter. Who will pull the trigger, when?

Intervention in the EU is a **long** way away, but please do remember that the current legislation allows for 60,000 mt of butter and 109,000 mt of SMP to be bought at €1698 ( smp) and €2,217 ( butter).

SMP intervention is actually open for 2017: it opened on January 1<sup>st</sup> and closes on September 30<sup>th</sup>.

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**TABLES**

<b>GDT n°182</b>	<b>minus 3,2%</b>			<b>GDT n°183</b>	<b>minus 6.3%</b>
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	18/10/2016	01/11/2016	15/11/2016	06/12/2016	20/12/2016	03/01/2017	17/01/2017	08/02/2017	21/02/2017	
AMF	4,970 \$	5,085 \$	5,310 \$	5,455 \$	5,305 \$	5,280 \$	5,470 \$	5,640 \$	5,560 \$	210kg CP (2)
BUTTER Font	4,165 \$	4,165 \$	4,160 \$	4,275 \$	4,290 \$	4,335 \$	4,380 \$	4,620 \$	4,595 \$	82%, uns,cp2
SMP Font	2,190 \$	2,345 \$	2,590 \$	2,700 \$	2,695 \$	2,735 \$	2,685 \$	2,675 \$	2,700 \$	MH CP 3
SMP Arla	no offers	2,100 \$	2,185 \$	no info !	2,240 \$	2,280 \$	2,310 \$	2,170 \$	2,135 \$	MH cp 2
FCMP Font	2,785 \$	3,255 \$	3,410 \$	3,560 \$	3,480 \$	3,200 \$	3,225 \$	3,290 \$	3,160 \$	Reg cp 2

**EEX**

	11/01/2017	18/01/2017	25/01/2017	01/02/2017	08/02/2017	15/02/2017	22/02/2017	01/03/2017	08/03/2017
BUTTER	€ 4,353	€ 4,287	€ 4,223	€ 4,123	€ 4,033	€ 4,067	€ 4,100	€ 4,125	€ 4,175
SMP	€ 2,153	€ 2,160	€ 2,130	€ 2,063	€ 2,038	€ 1,988	€ 1,958	€ 1,903	€ 1,867
WP	€ 823	€ 840	€ 837	€ 837	€ 840	€ 847	€ 850	€ 867	€ 877

**Dutch official prices**

	11/01/2017	18/01/2017	25/01/2017	01/02/2017	08/02/2017	15/02/2017	22/02/2017	01/03/2017	08/03/2017
BUTTER	€ 4,310	€ 4,240	€ 4,170	€ 4,070	€ 3,970	€ 4,000	€ 4,050	€ 4,100	€ 4,200
FCMP	€ 3,170	€ 3,140	€ 3,080	€ 3,040	€ 3,000	€ 2,980	€ 2,920	€ 2,870	€ 2,840
SMP Food	€ 2,170	€ 2,170	€ 2,120	€ 2,020	€ 2,020	€ 1,950	€ 1,920	€ 1,880	€ 1,840
WP	€ 840	€ 840	€ 830	€ 840	€ 840	€ 850	€ 860	€ 880	€ 890

NZX FUTURES

WMP

	16/01/2017	19/01/2017	07/02/2017	08/02/2017	20/02/2017	22/02/2017	06/03/2017	08/03/2017	in €
SEPT	\$3,495	\$3,460	\$3,400	\$0	\$3,200	\$3,250	\$2,950	\$2,770	€ 3,095
OCT	\$3,490	\$3,510	\$3,400	\$0	\$3,200	\$3,260	\$2,970	\$2,780	€ 3,105
NOV	\$3,500	\$3,520	\$3,400	\$0	\$3,200	\$3,260	\$2,970	\$2,790	€ 3,105
DEC		\$3,530	\$3,400	\$0	\$0	\$0	-	\$2,790	€ 0
JAN	\$3,310					\$0	-	-	-
FEB	\$3,400	\$3,350	\$3,300	\$3,320	\$3,330				€ 0
MAR	\$3,470	\$3,380	\$3,410	\$3,380	\$3,250	\$3,190	\$2,920	\$2,725	€ 3,038
APR	\$3,500	\$3,400	\$3,340	\$3,400	\$3,210	\$3,205	\$2,900	\$2,700	€ 3,052
MAY	\$3,430	\$3,400	\$3,320	\$3,420	\$3,210	\$3,190	\$2,910	\$2,725	€ 3,038
JUNE	\$3,470	\$3,400	\$3,380	\$3,440	\$3,210	\$3,190	\$2,910	\$2,740	€ 3,038
JULY	\$3,480	\$3,440	\$3,380	\$3,460	\$3,240	\$3,200	\$2,920	\$2,750	€ 3,048
AUG	\$3,480	\$3,450	\$3,400	\$3,480	\$3,240	\$3,240	\$2,950	\$2,760	€ 3,086

AMF

	16/01/2017	19/01/2017	07/02/2017	09/02/2017	20/02/2017	22/02/2017	06/03/2017	08/03/2017	in €
SEPT	\$0	-	\$5,290	\$5,500	\$5,480	\$5,200	\$5,270	\$5,200	€ 4,952
OCT	\$0	-	-	\$0	\$0	\$0	\$5,620	-	€ 0
NOV	\$0	-	-	\$0	\$0	\$0	\$5,620	-	€ 0
DEC		-	-	\$0	\$0	\$0	-	-	€ 0
JAN	\$5,280					\$0	-	-	€ 0
FEB	\$5,180	\$5,470	\$5,420	\$5,690	\$5,690				
MAR	\$5,180	\$5,430	\$5,380	\$5,660	\$5,550	\$5,600	\$5,480	\$5,560	€ 5,333
APR	\$5,180	\$5,400	\$5,350	\$5,650	\$5,550	\$5,530	\$5,520	\$5,530	€ 5,267
MAY	\$5,200	\$5,450	\$5,350	\$5,640	\$5,510	\$5,450	\$5,450	\$5,460	€ 5,190
JUNE	\$5,220	\$5,460	\$5,340	\$5,630	\$5,460	\$5,380	\$5,380	\$5,390	€ 5,124
JULY	\$5,190	\$5,465	\$5,320	\$5,500	\$5,430	\$5,310	\$5,250	\$5,320	€ 5,057
AUG	\$0	\$5,470	\$5,310	\$5,500	\$5,400	\$5,240	\$5,275	\$5,250	€ 4,990

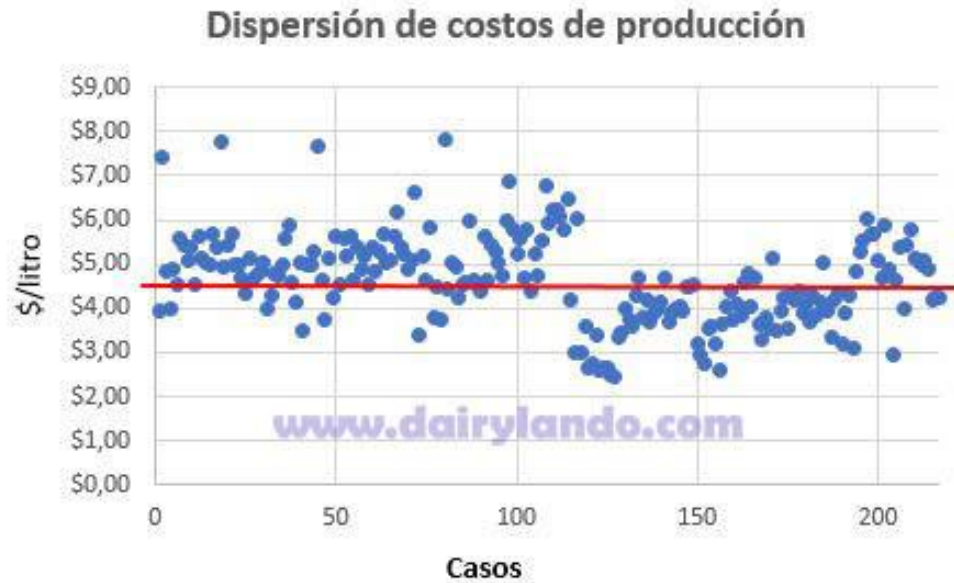
## Country overview

### Argentina

(a)

4.5 Arg.pesos = +/- €0.27

According to a study by DairyLando on 220 producers ( average 1.3 workers per farm ) ,the average production cost ( total income minus total direct costs – direct amortization divided by liters produced )



(b) I read on edairy News that an Argentinian farmer could buy 1.8 kilos of maize with 1 liter of milk.

(c) SanCor is biting the bullet to ensure continuation. It is closing 4 plants with the loss of more than 400 employees. Two more might be closed down before the end of the year. I believe all four are principally cheese oriented: production, ripening and storing. At least one is principally producing for export.

Australia

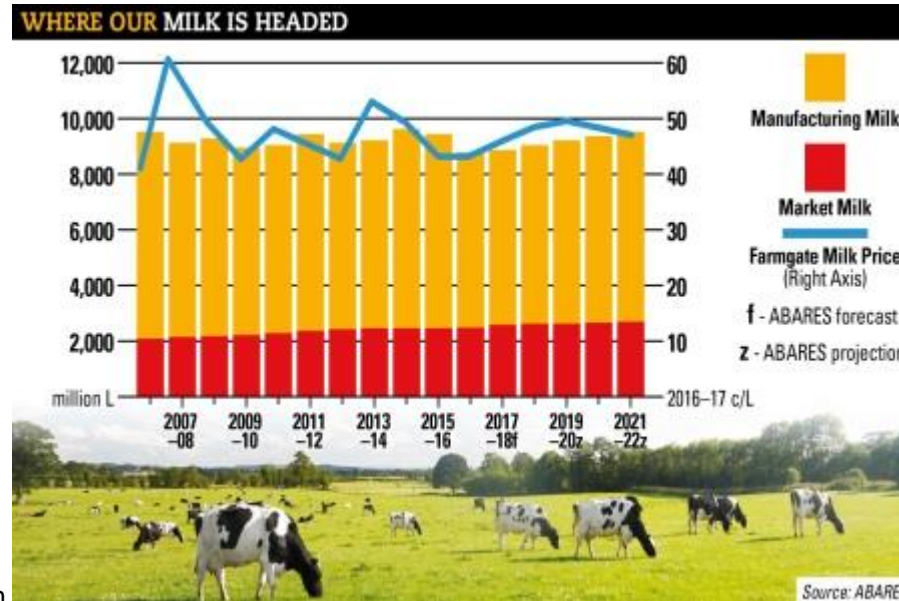
(a)

**Dairy export report**  
1/01/2017



Tonnes	2015/16	2016/17	% Change
	Jul - jan	Jul - jan	
<i>Butter</i>	11.289	9.582	-15,1%
<i>Butter Oil</i>	4.642	3.528	-24,0%
<i>Cheddar **</i>	29.853	30.641	2,6%
<i>Other Cheese **</i>	66.959	63.257	-5,5%
<i>Milk</i>	102.702	107.333	4,5%
<i>SMP</i>	113.301	93.979	-17,1%
<i>WMP</i>	41.712	55.596	33,3%
<i>Whey Products</i>	13.964	21.787	56,0%
<i>Mixtures</i>	47.291	51.648	9,2%
<i>Other Dairy Products</i>	25.207	31.280	24,1%
<b>Total</b>	<b>456.918</b>	<b>468.631</b>	<b>2,6%</b>

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(b) Thank you to Shan Goodwin of Australian Dairy Farmer for this graph

I add some points he makes:

“....The big declines in Australian milk production should turn the corner in the next financial year

.....Reduced turn-off in key dairy countries including New Zealand and the European Union and the re-opening of the Russian market will also contribute upward pressure on world dairy prices.

.....in this financial year, world prices for cheese are forecast to lift by 14 per cent, for skim milk powder by 16pc, butter by 31pc and whole milk powder 37pc.

.....That trend will continue out to 2019-20 before global production catches up to cause a leveling effect.

.....The big mover and shaker is the Russian Federation, expected to resume importing dairy products from major exporters from major exporters next year [published on March 8<sup>th</sup> ]...

## Canada

(a) Just in case you had thought that CETA was done and dusted, please note that although the European Parliament agreed to the Treaty and it is therefore nearly completely in force (see b below), the Walloon government is again threatening not to ratify it because the Belgian government has not yet asked the ECJ for clarification of certain points.

(b) Which parts of CETA will the EU provisionally apply?

The EU will provisionally apply most parts of CETA.  
The main exclusions from provisional application are:

- investment protection
- investment market access for portfolio investment (but market access for foreign direct investment is an exclusive EU competence)
- the Investment Court System
- an article on camcording [sic]

## China

(a) From Bloomberg, March 7<sup>th</sup> :

“China is more and more interested in using the power of the purse of its consumers as a force-multiplier for its diplomatic pressure,” said James Reilly, associate professor in the University of Sydney’s department of government and international relations.” It took Japanese motorcar manufacturers one year to recover from an anti-Japan move in 2012. A South-Korean tourist island is feeling the cold draught of official Chinese disapproval.

Of course (?) milk is irreplaceable but there are competitors to any one supplier.

(b) Morgan Stanley recently issued a 118 page thick report, which explained that the world’s 2nd biggest economy would avoid a big financial shock. Some points: “ .... debt/GDP has indeed leapt from 147 per cent 10 years ago to 279 per cent last year, but funded by Chinese savings, not external finance. And most of it has backed investment, not consumption....and.... the current account surplus, the still-high FX reserves and lack of significant inflationary pressures...

.....Private consumption, the bank estimates, will reach \$9.7tn [ that is “trillion” ! ] in the next decade from \$4.4tn now. Think leisure, entertainment, travel and healthcare for an ageing, tech savvy population getting steadily richer.

..... Services in total will make up 60 per cent of GDP – heading towards US levels, in other words – and be worth \$12tn in total by 2030. The sector squeaked past 50 per cent for the first time last year.....

(c) From People’s Daily: “....Some Chinese dairy producers have seen gross profit margins of their infant formula milk powder products continue to decline due to the impact of foreign brands, high costs and inventory pressures. So, more producers are trying to target healthy products.... The two-child policy ... didn't trigger sales growth of the domestic dairy sectors, which had their growth dampened ... by cross-border e-commerce, price competition and other factors.

(d) Tetrapak was fined a little over us\$9.1 million in Nov. 16, by China’s State Administration of Industry and Commerce (SAIC) for abusing its dominant position.

## Denmark.

(a) Arla’s net profit increased by 20.7% in 2016 to €356 mln. This is about 3.6% of turnover. The Board is proposing to pay suppliers €124 mln ( say 1 eurocent per liter) and to keep €103 mln in the company.

(b) From the Dairy Site 16<sup>th</sup> February:



“...we only have limited documentation of how [ reverse osmosis ]it affects milk quality....carrying out milk concentration at the farm, the milk is left unpasteurized and all the enzymes and micro-organisms are still there and therefore the milk is more delicate....researchers at Aarhus University have analyzed experiments with both the so-called ultrafiltration, which is supposed be more gentle to the milk, and with the reverse osmosis technique, which requires a higher pressure on the milk but also retains the lactose which may be an advantage in for example milk powder. Neither the total bacterial count, or the FFA-levels nor the protein breakdown were negatively affected by reverse osmosis; the concentrated milk could very well be used for both cheese and milk powder.....quality and durability of milk powder made from concentrated milk is the same as for powder made from ordinary milk; in cheese, however, there is a minor difference as to how the enzymes react; and in the experiments, concentrated milk coagulated approximately ten minutes later than regular milk....”

## Ireland

- (a) Ornuá’s PPP is unchanged for February.  
According to specialists, this equates to €0.314 per liter, including VAT.  
This assumes costs of €0.065 pl.  
The PPI is a monthly indicator of market returns on dairy products purchased : typically butter, cheese, whole milk powder and protein products, relative to comparable returns generated in the base year.

## (b)

Intake of cows' milk						2017
JULY	AUG	SEPT	OCT	NOV	DEC	JAN
788.30	699.30	582.20	513.10	349.70	177.60	140.9
2016						
768.90	693.90	604.20	536.30	347.90	181.6	147.6

## Netherlands

### (a) Principal export countries for selected products :

Butter & AMF:	Singapore	4,311 mt	SMP:	Thailand	7,152 mt	Cond. milk:	UAE	41,640 mt
	Japan	3,244 mt		Algeria	4,690 mt		S.Arabia	18,813 mt
				Philippines	4,000 mt		Qatar	16,378 mt
							Hg Kg	15,916 mt

- (b) Friesland-Campina's guaranteed price for March is €0.36 per kg milk. This is an increase of €0.01 compared to February 2017. Please note that organic milk stands at... €0.4725 per kg.
- (c) FC reported following results for 2016: profit up 5.5% to 362€mIn, after taking €30mIn FOREX losses.  
Suppliers shipped 7.1% more milk, so taking total up to 10.8 billion kilos.  
What are they forecasting for 2017?  
“...worldwide milk production slightly up. ...In EU slightly higher production ( though Netherlands down)....  
Demand? In EU, Africa, Middle East and South America, slight drop..... In Far East, specifically China, slight increase in demand..... “

### New Zealand

- (a) From The Country and NZ Herald.  
Westland Milk Products has about 430 farmers, who together produce about 765 million litres of milk. Average herd size is 400 cows.  
They are sticking to their forecast pay-out of NZ\$5.4 to 5.80NZ\$ per kg of MS.  
Last year the Company lost NZ\$14.5 mIn.  
The reports mention that maybe 16 farmers might quit and start supplying competitors.  
WMP has apparently fantastic, up-to-date, hi tech, processing units : but you need milk !
- (b) From the same sources, I heard a Fonterra official commenting that the drought seems to have broken and so a (very) good autumn can be expected.  
Production might therefore indeed be only 3% down compared to last year.  
And yes, farmers will probably be milking as much as possible.  
And yes, the drop on GDT was a surprise.
- (c) Is NZ a *commodity* economy? Like Saudi with oil ? For sure the drop in the NZ\$ against the US\$ helps the NZ farmer because some part of that devaluation works its way back into his milk price. On the other hand, has Fonterra hedged its sales' well or not?

### Singapore

- (a) Olam has issued us\$300 **million** unsecured Notes, due 2023, issue price 99.37%
- (b) From their website:  
“... Commencing in 2004 with the supply of our first consignment of milk powders into Algeria, we have since grown into a dairy business with extensive operations across more than 20 countries worldwide. Today we are among the top 5 traders of dairy ingredients in the world....  
...dairy farming business under New Zealand Farming Systems Uruguay (NZFSU), a company we wholly own. NZFSU currently operates 49 Dairy farms, and manages close to 29,000 hectares of land and 85,000 head of cattle, 38,000 of which are milking cows....

.... Olam's 75% ownership in RUSMOLCO.... In the first phase of expansion over 4 – 5 years, RUSMOLCO will construct new dairy farms, increasing the milking cow population from the current 4,500 heads to 15,000 heads.

..... We trade volumes in excess of 200,000 tonnes annually.....

..... Olam is the second largest shareholder in Open Country Dairy, New Zealand, processing 900 million litres of milk annually, producing about 135,000 tonnes of full cream milk powder and cheese.

.....We have our manufacturing facility in Malaysia producing fat filled milk powder. It will have the capacity to produce 23,000 tonnes of functional ingredients per annum.....

## UK

(a) UK milk production in 2016 was 6,690 thousand tons, or 2.38% less than in 2015.

(b) According to DEFRA, butter production was down just over 14%, at 148,000 mt.  
Cheese at 431,000 mt, which is a very slight increase of not quite 1%.

(c) UK imports during 2016 were:

Cheese cheddar 5,067 tons ( down 5,067)

Butter up just over 3,500 tons, to 50,600 tons.

## URUGUAY

The bad weather is continuing: not floods, but drought.

## USA

(a) From Matt Gould, RICE Dairies (thanks Matt and Jerry ):

Total cheese production surged 3.7% higher YoY in Jan17. Given sluggish domestic demand, this is certainly price-negative news.

Butter production increased 1.3% during Jan17. At 178 million lbs during the month, output reached the highest level in three years

Total dry milk (nonfat dry milk, milk protein concentrate, and skim milk powder) production increased by 9.2%

The bottom line: With a new record supply, this report is bearish for cheese prices and provides a fundamental basis for the recent price declines in Chicago. This report is also price-negative for butter and powder....

(b) Dairy Talk on Ag Web on February 11<sup>th</sup>, about California:

.... It's been well-documented that California dairy farmers have received lower mailbox prices than much of the country for at least the last decade.....

.... California's dairy industry was built on the premise of cheap milk to attract processors to the state. Cheap corn from the Midwest, low-priced irrigated alfalfa and abundant commodities coupled with low cattle housing costs and economies of massive scale made California extremely competitive. But ethanol subsidies, drought, hay exports to the Far East and a movement to bring dairy cows into freestall housing changed all that.....

.... The state produces 20% of the nation's milk, but its 39 million residents make up just 12% of U.S. consumers. Some 16 billion lb of surplus milk, the equivalent of the combined annual milk output of Pennsylvania and Ohio, has to go somewhere. And somebody has to pay to get it there.

*Michael*

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