

AUGUST 2016

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#8

## Food for thought:

“Everything should be made as simple as possible, but not simpler – Albert Einstein”

### MARKET REPORT:

#### Supply:

**EU** milk production for May 2016 remained at +1% compared to May 2015. This is the third month in a row with a low increase which shows signs of milk production slowing in the region. The varying weather conditions, low milk prices and the increase in cow culling have led to the YOY production for the UK to be down 5% and for France to be down 1%. For the 12 months to June **US** milk production was up by 1% with June 2016 production up by 2% compared to June 2015. This low production growth has been credited to hot and humid conditions being experienced, but the yield per cow has increased. High domestic demand still continues.

**NZ** milk production for the 12 months to June 2016 remained at -2% with product volumes low due to the seasonality of supply. Milk production volumes are predicted to be down for the upcoming peak season due to the higher than usual amount of cow culling as farmers try to manage farm costs as well as cold and snowy weather at the end of August, limiting short-term production.

**Australian** milk supply in June 2016 was down by 6% compared to the same month last year with the total milk production for the 12 months to June resulting in a 2% decrease. The higher than average rain levels have dampened the short term drought conditions however long-term water shortages are still a concern for some areas of Australia.

**Locally** milk production persists with the negative trend as July 2016 volumes decreased

3.2% compared to the same month last year, with the YOY production down 4.2%. This decreasing trend is continuing as there have been no changes in the existing drought conditions which has led to the scarcity of roughage and high input costs.

#### Demand:

**China's** dairy demand continues to display an upward trend, rising 26% for the 12 months to June 2016. The increase in imports are due to a buy-in period in anticipation for an increase in milk prices as well as that domestic supply is starting to decrease as farmers react to lower domestic milk prices.

The rest of **Asia** had a 3% increase for the same period as many countries are well stocked due to previous imports.

**Russia's** demand has increased by 7% in April 2016 compared to April 2015, though for the 12 months to March 2016, imports are still 33% down. Turkey have requested that Russia lift the embargoes imposed on them in 2015.

Slow demand in **MEA** is continuing with a decrease of 5% for the 12 months to April 2016. The suppressed oil-prices are having a longer-term economic slow-down than anticipated.

#### Overall:

International milk production has decreased in most dairying regions, resulting that global supply and demand has levelled out.

There was a strong increase in international dairy prices which was transparent on GDT during August, with the first event resulting in average increase of 6.6% followed by a 12.7% increase in the second event.

The upward price trend is expected to continue into the first quarter of 2017, however the magnitude of growth is variable between organizations.

Between mid-July and mid-August, the Rand strengthened expressively against the USD by dropping over 7% to its lowest level since October 2015 at R13.22. However, this changed within a few days, with the Rand weakening by 10% to close at R14.70 at the end of August 2016.



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## Let's get Technical: Anhydrous Milk Fat (AMF)

AMF is 99.9% pure milk fat made from high quality cream. It gives a natural dairy flavour and creaminess to finished products and is the perfect high quality fat ingredient.

There is a wide variety of AMF, milk fat fractions and specialised milk fat blends all designed for use in a wide Variety of applications.

AMF is suitable for use as an ingredient in chocolate, confectionery products, ice cream mixes and cheese processing. There is a wide range of specialised milk fat blends supplied at a variety of melting points that can be used in the manufacture of vegetable or oil based spreads and sauces.

### Key benefits of AMF

#### **PURITY:**

It is 99.9% pure milk fat made from high quality cream. It is virtually free of moisture and contains no additives, preservatives, foreign fats or other impurities.

#### **STABILITY:**

It delivers superior dairy flavour and functionality, while being stable at ambient temperatures. It can be transported and stored without refrigeration.

#### **FLAVOUR:**

Predominantly grass fed in NZ, the cows produce milk with higher levels of Omega 3, CLA fats, more vitamin E and more beta carotene, giving a full creamy dairy flavour.

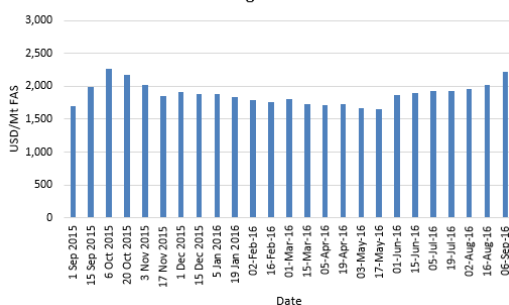
#### **QUALITY:**

Fonterra's processing capabilities and controls allow for longer shelf-life and consistent quality products. AMF performs at the highest level in all applications.

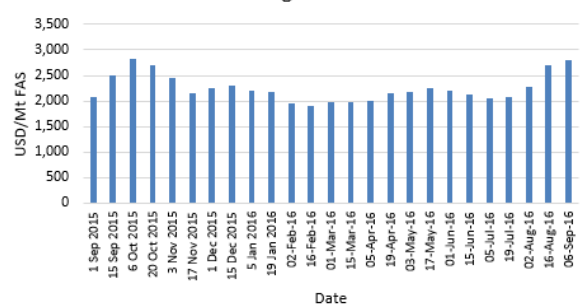


### COMMODITY PRICE MOVEMENTS

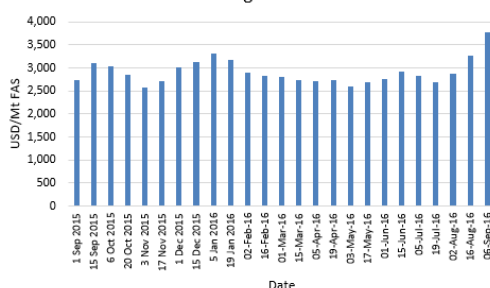
SMP Average Price Trend



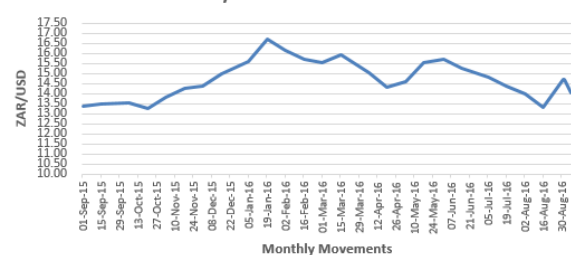
WMP Average Price Trend



Butter Average Price Trend



R/USD Movement



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