

## #3

We hope you had a great rest over the Easter break and business is back in full swing.

Some food for thought in our current market conditions:

“Your income is directly related to your philosophy, not the economy.” – Jim Rohn

Trust you will find this edition informative and we welcome your feedback and/or suggestions.

## MARKET REPORT:

### Supply:

**EU** remain ahead with milk production growth, 5.4% ahead of the previous year’s production. The high milk production as well as Russia remaining closed for EU exports, has led the EU Commission to announce that the intervention volumes will be doubled for SMP (218kMt) and Butter (100kMt).

**US** production has a slow growth rate at 1.3% compared to same period last year and due to the favourable domestic market, the US are limiting exports and focussing on nearby markets such as Mexico.

**NZ** milk production is down 2% for the year as a result of the low milk price and farmers reducing the herd sizes to manage costs. Some rainfall in January has improved soil moisture levels and are now at normal levels.

**Australia’s** milk production is slow at 1% up for the year ending 2015. The outlook is that production will remain slow as the dairying regions in the South West and South East continue to be dry and the added cost pressure of supplementary feed.

Slow milk production is continuing in the **local** market. It’s expected that this trend will continue as the drought continues in some areas. Also, coupled with the continued increases in grain prices and the announced increase in electricity cost is driving costs higher.

### Demand:

Global demand is still relatively flat with high stock levels continuing.

China had a strong start to 2016 compared to the low demand of 2015, however, this demand is inflated due to them taking advantage of the reduced tariffs on NZ milk powder imports.

Although demand for SMP and WMP has increased in Latin America, this was largely supplied by US and had no effect on the EU or NZ stock levels. Asia (excluding China) and MEA had demand increases toward the end of 2015, however coming off a smaller volume base as China, has not impacted the stock levels as one would expect.

### Overall:

Global dairy prices slightly decreased further in March, in line with most major commodities. Demand continues to be low and milk production remain fairly strong, therefore not reducing the milk inventories.

Milk production in the EU is most likely to keep increasing as they approach their peak production period in April/May. The Southern Hemisphere is now entering the winter’s low milk production season and preparing for the start-up again later this year.

Some good news for SA importers is the strengthening of the ZAR vs the USD. By end March it dipped below the R15/mark, but early April was at about R15.04 vs USD. This is a 4.35% improvement since mid-February 2016.

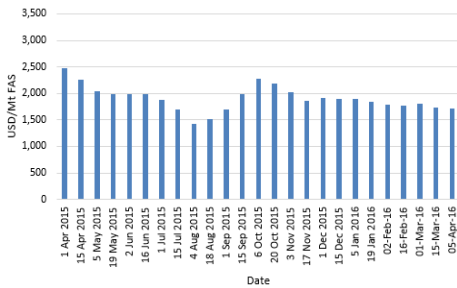


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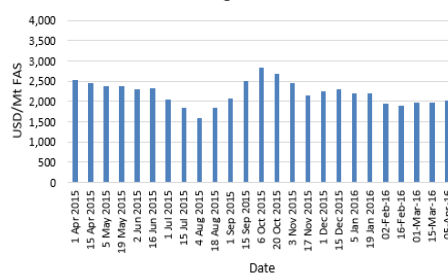


# COMMODITY PRICE MOVEMENTS

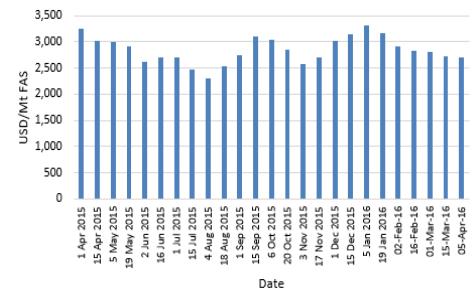
SMP Average Price Trend



WMP Average Price Trend



Butter Average Price Trend



## Let's get Technical: Featuring Skim Milk Powder (SMP)

SMP is made by drying fresh skim milk. It is an excellent source of **protein** for flavour and functional properties. It is also an ideal source of **essential nutrients** for nutritional applications: protein (providing all the essential amino acids), carbohydrates and vitamins & minerals.

There are two main types of SMP: **Regular** SMP and **Instant** SMP and the option will depend on the application. The respective product properties as well as the more common applications are noted below.

**Note:** Regular SMP is further divided into 3 Heat Classifications which will assist you in identifying the most suitable option for your application.

SKIM MILK POWDER		
Product	Regular SMP	Instant SMP
<b>Properties</b>	Excellent solubility; Good dispersibility; Low fat content; Clean flavour.	Agglomerated to improve dispersibility; Optimised for fast and easy reconstitution in consumer applications.
<b>General Applications</b>	<b>Low Heat:</b> Recombined cheese; range of recombined milk products including condensed milk; cultured milk and ice cream. <b>Medium Heat:</b> This is the standard offering when there are no functional requirements for the application. Suitable for a wide range of applications including confectionary, yoghurt, ice cream & bakery products. <b>High Heat:</b> It's developed to withstand high-heat treatment in various applications i.e. bread; UHT etc.	Typically repacked for consumer use in beverages.
<b>Specific SMP is designed for the following applications:</b>	Recombined Sweetened Condensed Milk; Recombined Evaporated Milk; UHT Milk; Dry Processed Nutritional Application i.e. for use in Infant formula; Recombined Nutritional Application i.e. for use in Functional foods.	Repacking into smaller pack size options for reconstitution i.e. in households; vending machines etc. Dry Processed Nutritional Application i.e. also for use in Infant Formula.



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