

DECEMBER 2016

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#12

Food for thought:

“Every accomplishment starts with a decision to try”
~ Unknown

MARKET REPORT:

Supply:

The slowdown in global milk production continues through November and December with Australia, New Zealand and the EU showing decreases in their YOY production.

NZ's milk production is down 6.1% YOY at October 2016. The earthquake of 7.8 magnitude in North Canterbury had minimal impact on milk supply.

Australia is down 7% for the 12 months to October compared to same period last year.

Australia's dairy farms are under cost pressure which is adding pressure on milk production and has seen a rise of 34% YTD in cow culling.

Both NZ and Australia is affected by wet weather causing limited pasture growth.

Milk production in 7 of the top 10 milking regions of the **EU** continues to decline, down 3% YOY in September 2016. This is a decrease in EU milk production for the fourth consecutive month.

Despite an increase in farm gate milk prices, tight cash flow problems are continuing to impact dairy farmers.

US was the only region with an increase in milk production of 2% at September YOY, the first increase since January 2015. Milk production for the 12 months to October 2016 is also +2%.

The increase in dairy herd sizes are expected to continue into Q2 2017 and will stabilize thereafter as strong domestic and international demand is expected.

Locally, milk production for the period January to October 2016 is 1.7% lower than the same period of 2015, however drier conditions and the limited water in certain areas will limit future milk production growth.

Demand:

Global import volumes were mixed.

Asia excluding China increased 15% YOY in August across all major dairy categories. The butter demand in Japan increased leading up to the Christmas season as local production was not sufficient.

Latin America grew 34% YOY in August, majority of this increase was seen in two product groups' i.e. milk powders and AMF. The demand outlook is positive as the population is growing and becoming wealthier due to the rise of urbanisation.

China imports decreased 2% YOY in September in especially WMP and SMP, however demand for cream remain strong. This decrease was overturned and demand increased 15% YOY for the month of October.

MEA's demand decreased 16% YOY July with WMP showing the biggest decrease, and continued the next month by decreasing a further 11% YOY in August.

Russia's demand fell 16% YOY July mostly in butter and fresh dairy, but they are stable for the 12 months to August 2016. It seems that the Russian trade embargo will continue until at least 2017, leaving Belarus the key supplier to the region.

Overall:

Global dairy prices are higher as a result of the relatively low Oceania and EU milk production. Prices increased a further 15.9% during November 2016 and increased 3% in December measured across all dairy categories. Large increases in the average futures prices were seen on the New Zealand stock exchange for WMP, SMP and butter and the average futures price on the Chicago Mercantile Exchange saw gains in the Cheese market as well.

The outlook is that global milk production is not likely to grow in the near future as the EU dairy market is stabilising after the milk quota removal and Australia is facing a challenging time due to increasing water prices and predictions of a hot and dry summer.

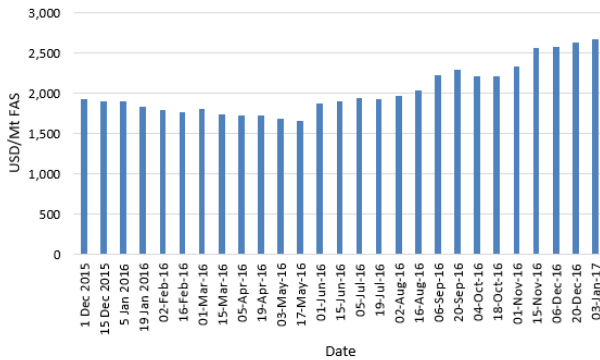
Following two critical outcomes in November 2016, the US election results and South Africa's credit rating review, saw the exchange weakened 4.53%. However exchange recovered in December 2016 to close at R13.74 per US dollar.



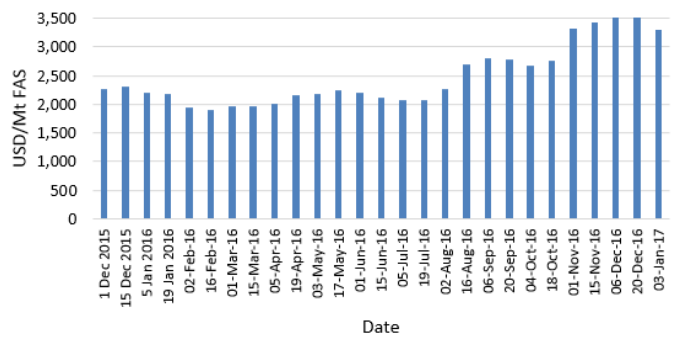
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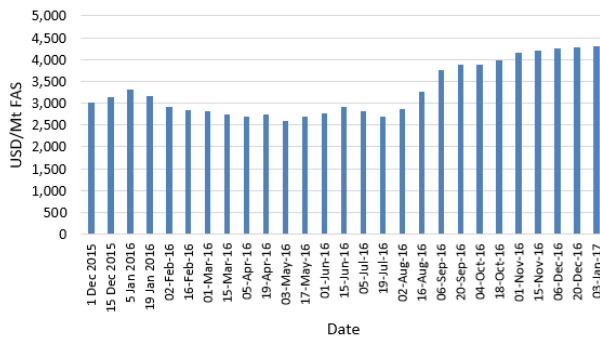
SMP Average Price Trend



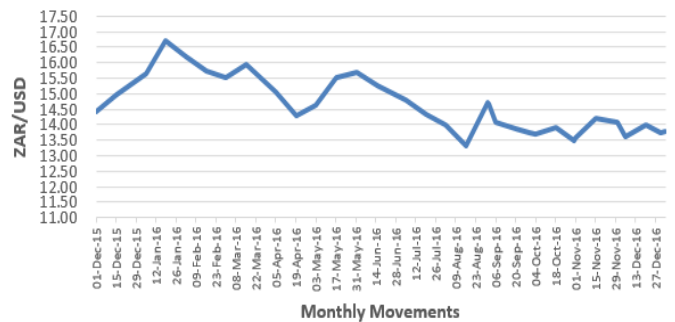
WMP Average Price Trend



Butter Average Price Trend



R/USD Movement



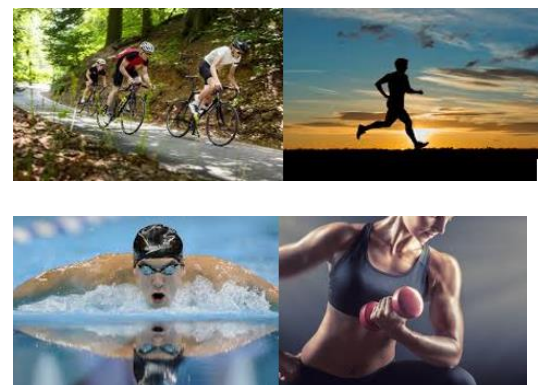
Let's get Technical: Whey Protein Concentrate (WPC)

In the October 2016 issue, we spoke about Whey Powder. This edition, we are focusing on WPC which is a spray-dried, soluble milk protein manufactured from fresh cheese whey or casein whey using an ultrafiltration process. It is a highly concentrated protein product. The low temperature processing ensures retention of both nutritional and functional properties.

The most common WPC used in South Africa is the Instant WPC and it displays the following characteristics which makes it an ideal ingredient in many applications: bland flavour; low solubility; low viscosity; excellent nutritional value and superior functionality. Contact your Key Account Manager for any further information required.

The key benefits of WPC include:

PURE	FUNCTION	UNIQUE	RANGE
It's a premium source of protein. It is rapidly digested by the body allowing fast absorption of its nutritional benefits into the blood stream and muscles.	WPC is highly soluble, providing excellent emulsifying, foaming and water binding benefits in various food applications.	Our functional WPC specifications can be used to fortify numerous consumer products such as yoghurt, sport beverages, bars, protein gels and medical nutrition products.	Available in different protein, fat and mineral contents and specifications designed for specific dairy, food and meat industry applications.



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