



25

January/February 2018
www.cloverfonterra.com

Clover Fonterra Ingredients Newsletter

MARKET REPORT:

Supply:

EU: The region has been experiencing colder than normal weather in the past few weeks, which has reportedly resulted in milk production being slower than expected. Despite this, the milk supply out of the region is still healthy. Most milk collected is going towards cheese production due to the higher returns from the stream and the demand for cheese, with butter inventories levels reported to be relatively low.

NZ: It is reported this region is currently experiencing the hottest summer since weather recording started in 1909. Mid-level drought has been declared in some of the areas in the region. Milk production is limited by weather conditions, resulting in poor pasture conditions and limited feed stock. This has also affected stock build up for winter months between June and September.

AUS: Milk production in the region continues to grow, supported by strong seasonal conditions, but is still not contributing much to global supply as majority of production is used locally.

US: January milk production reportedly up by 1.8% YoY, with the extra milk reportedly going towards cheese production.

SA: The current drought in the Northern, Eastern & Western Cape have been declared a national disaster. The Western Cape is reported to account for 13% of the country's GDP, and the drought is expected to have a serious knock-on effect on the country's GDP.

Demand and product information:

Reports show that **cheese** production is the highest returning stream, especially in the EU & US.

The global demand is also continuing to remain strong, with export demand for cheese out of China, Japan and South Korea supporting growth.

Butter demand is currently reported to be stable, with expectations of the demand picking up in March due to the Easter holidays.

With a significant high amount of **SMP** Intervention Stock that needs to be cleared, SMP weak prices are currently affecting the Butter/SMP stream production and is expected to constrain butter supply in 2018.

As per reports, SMP sellers are not contracting long term as they wait to see what will happen in the market once decisions have been made regarding SMP Intervention Stock. The EU Commission has taken a decision not to buy any more SMP into intervention.

WMP has seen an increase in short term demand, especially in the EU region. Demand is however expected to increase due to the demand for healthy, convenient & better shelf life milk, especially in the emerging markets.

Outlook:

Due to cheese production being a preferred stream, expectations are relatively less for the butter/SMP stream production.

NZ supply is expected to be tight due to the weather conditions and expected to improve in the new season.

Most of the demand for dairy products is reported to come out of the oil – producing countries, and with the recovery of oil prices as well as weakening of the US Dollar, demand is expected to improve in 2018. Speculations are that production might not be able to keep up with demand, which could lead to suppliers' inventories being drawn low as the year progresses and into the latter part of 2018.

Positive news on the local front is that, despite the current drought challenges in the country, January business sentiments index was sitting at 99.7, which is the highest it has been since Oct 2015. This is credited to improved business and economic expectations in the country within the next 6 months, as well as stable political conditions in the wider Southern African region, not excluding the recent positive changes in Zimbabwe. The SA budget, in a difficult fiscal environment, shows the willingness towards economic growth and increase investor confidence. Moody's and S&P rating agencies were positive about the budget. This also gives SA hope to avoid another downgrade by Moody' when they do another rating review scheduled for 23rd March, as well as positive reviews for inflation and economic growth forecasts.

Following the Dec/Jan holidays, resulting in a 'short' January, the Jan & Feb 2018 editions of the CFI Newsletter were combined. The monthly newsletters will continue from March 2018.



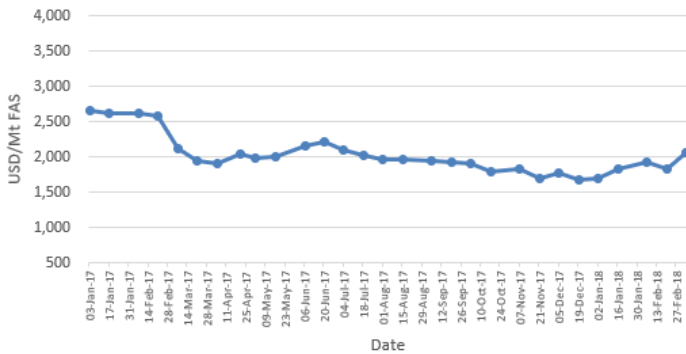
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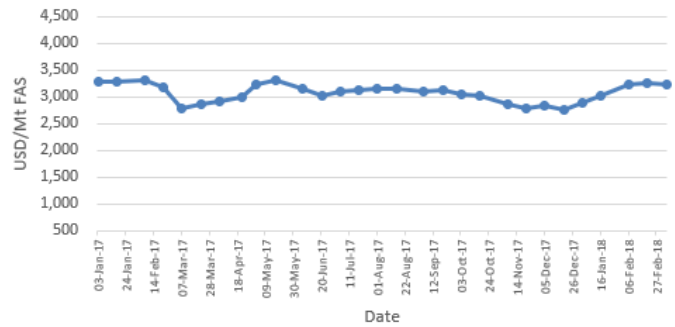
Sources used: NZ Perspective; www.xe.com; MPO; www.globaldairytrade.info; US Market Commentary; <https://www.ams.usda.gov>; <http://www.thebullvine.com>; <http://edairynews.com/en/>

COMMODITY PRICE MOVEMENTS

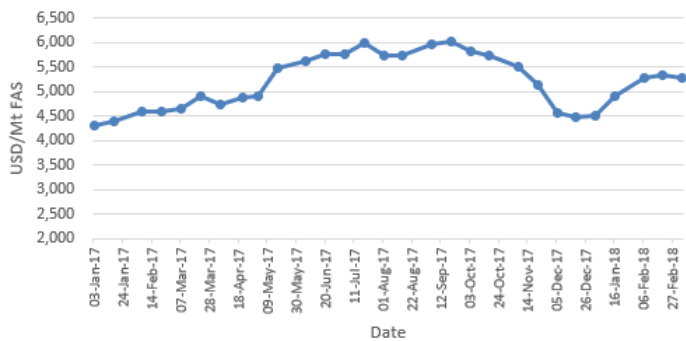
SMP Average Price Trend



WMP Average Price Trend



Butter Average Price Trend



ZAR/USD Movements



Let's get Technical: A bucket of milk

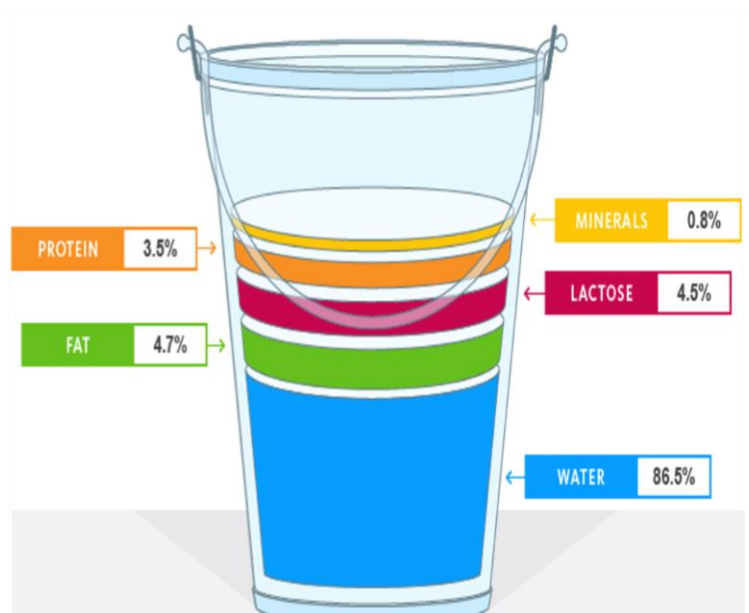
To start 2018, we will take a step back and explore what milk is. What is in a bucket of milk?

The composition of milk is as follows:

- ✓ Minerals - 0.8%
- ✓ Protein - 3.5%
- ✓ Lactose - 4.5%
- ✓ Fat - 4.7%
- ✓ Water - 86.5%

Let's look at Minerals in more detail:

- The minerals found in milk include Phosphorus, Potassium, Calcium, Sodium & Magnesium.
- Without these minerals interacting with the proteins, the protein structure would change, and milk would lose some of its characteristics, for example its whiteness.
- In many societies, dairy products are an important source of calcium. Calcium is critical in human nutrition as a building block for bones and teeth.
- Calcium absorption (uptake) during digestion is higher from milk or dairy food systems than tablets from other food systems.
- Minerals can be further concentrated in many dairy ingredients and products to get the desired composition and functionality



In the next edition, we will explore the **Protein** component of milk.



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