



18

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Clover Fonterra Ingredients Newsletter

MARKET REPORT:

Supply:

EU: Milk production in April 2017 reported to be 0.7% higher than the same period last year, which is the first production growth recorded since May 2016. Strong Irish and Polish volumes supported the growth. Increased production is expected in quarter 4, and generally a positive outlook by the industry and dairy traders for the rest of the year.

NZ: Milk production for the period June 2016 to May 2017 was reported to have decreased by 1.1% compared to the same period last year. There is an expectation of increased volumes in the new season due to good cow and pasture conditions.

AUS: Milk production decreased by 2.8% in May 2017 compared to the same period last year, and expected to be 7.5% down YOY. The region has experienced tough seasonal conditions in the past 12 months and farm – gate price cuts. This has led to cautious expectations for improvements in the new season as farmers anticipate production increases only in the next three years.

US: A 1.8% increase in milk production reported for May 2017 compared to May 2016. The region continues to show growth, which is expected to remain constant for the next few years. Even though currently most of the production is for domestic use, some of the volume may enter the export market.

SA: The Eastern Cape, which is the leading milk producer in the country, has been affected by devastating fires in the recent weeks during a period when the region was recovering from last year's drought. Milk production in the Northern and Western Cape is also still recovering from severe droughts experienced last year.

Demand and product information:

Demand for **fat** is still very strong and supply tight. It is reported that there is no region that has a surplus of butter, and prices are currently relatively high where stock is available. This current trend is expected to continue until the latter part of the calendar year, when butter supply is expected to improve. The general view is that consumers still prefer butter over substitutes, but the big uncertainty is how they will react to the high prices.

The price for **SMP** in the last GDT in June showed an increase, but is still generally low and sitting at the lower end of the pricing curve. The general view is that demand and supply for SMP is close to balance. There has been very few offers for the intervention stock, and stock levels are reported to be high. There is still some uncertainty with regards to how this stock will be handled.

Current supply for **WMP** is relatively limited, mainly due to returns being higher for butter and SMP and so

production for butter and SMP is preferred over WMP production. An increase in the demand will result in an upward movement on price, which will have a positive effect on supply. **Cheese** is currently showing growth globally, and is expected to continue growing albeit at low levels. EU cheese exports to their top 10 destinations have shown an increase in the first 4 months of the year.

Outlook:

The general outlook for the dairy market is positive, with EU and NZ milk production showing some recovery. The US's milk production growth is expected to be constant for the next few years, with the exports expected to gradually increase as well. Fat prices are trending upwards globally, with supply continuing to be tight. There are expectations that NZ milk production will lift later in the year, and will improve the butter supply. Good cheese growth, with good returns, expected going forward. Prices on milk powders on the GDT platform are also reasonably stable, and still at the lower end of the pricing curve.

FOOD FOR THOUGHT:

If you see a bandwagon, it's too late.

James Goldsmith



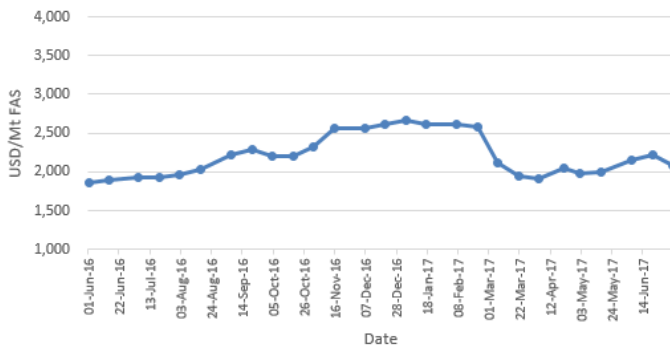
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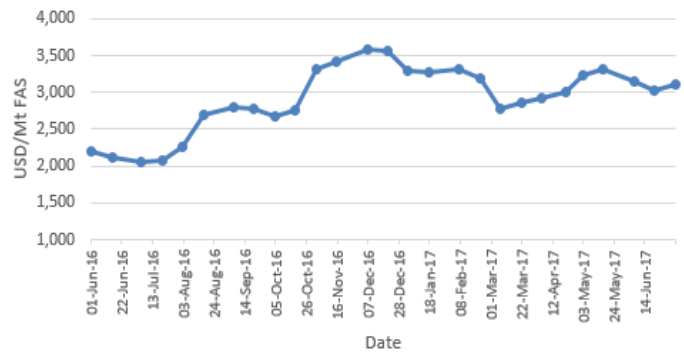
Sources used: NZ Perspective; www.xe.com; MPO; www.globaldairytrade.info;

COMMODITY PRICE MOVEMENTS

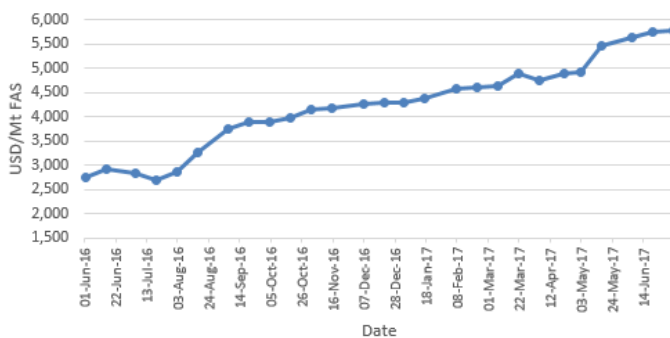
SMP Average Price Trend



WMP Average Price Trend



Butter Average Price Trend



ZAR/USD Movements

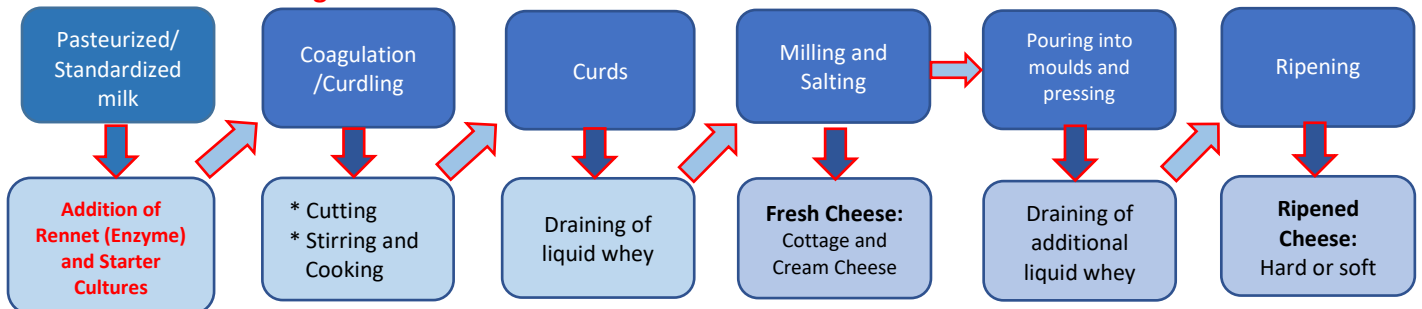


Let's get technical: **Cheese continued!**

In May's edition, we were introduced to cheese and the basic steps in making cheese and now we are looking into more detail on **how milk is turned into cheese**. The next edition will focus on the **range of cheese** available.

Interestingly, the stories told is that cheese was 'accidentally' made many years ago when milk was stored in a sheep's stomach!

The Basic Cheese Making Process:



Why is Starter Bacteria (cultures) added to milk?

They produce lactic acid from the lactose in the milk which reduces the pH of the cheese and it has a preservative effect on the cheese.

They are involved in the final flavour of the cheese along with the effects from the milk; the composition of the cheese and the interactions of all these factors.

What does Rennet do to milk?

It's added to the cheese to form a gel (junket). This is coagulation and it takes 34-45 minutes at 32° Celsius.

It's either Microbial or Calf rennet.

Microbial rennet is a vegetarian type used in majority of the cheeses. It involves a change in the 'configuration' of the casein which is the principal protein of the milk.



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Sources used: NZ Perspective; www.xe.com; MPO; www.globaldairytrade.info;