



17

May 2017

www.cloverfonterra.com

Clover Fonterra Ingredients Newsletter

MARKET REPORT:

Supply:

EU: Even though milk production for the first quarter is reported to be 2% lower than the same period last year, a positive outlook for EU milk production is expected for the second half of the year. Biggest boost being the 5% increase forecasted for Irish milk production.

NZ: Despite the two cyclones that hit NZ, production was reported to be up 6.8% compared to last year April. Production was 2% down YOY, as at the end of March. Spring is forecasted to have high milk production generally due to good cow and pasture conditions.

AUS: Milk production for April was down 6.3% from April last year, which was slightly better than the 6.7% decrease forecasted. A decline of 2.7% is predicted for the rest of the year, mainly due to lower farm gate prices and smaller dairy herds.

US: A 2% increase YOY in milk production was reported in April, and is mostly used for domestic consumption. This increase is in total contrast to what is being reported in other global regions. The west coast producers are the only ones who are showing declines ranging from -1.1% in California to -2.5% in Washington, with the dry weather in the region being a contributing factor.

SA: More favourable early-season production conditions in pasture areas and a decrease in grain prices since the beginning 2017, have contributed to the recovery of milk production. The Northern and Western Cape has experienced severe drought, affecting the areas' milk production. The Eastern Cape is the leading milk producer in the country, and most areas are reportedly showing promising recovery from the drought experienced last year.

Demand and product information:

Demand for fat is still strong. The tight supply of fat in the world is reported to be near record highs. In the last GDT event in May, the fat prices were reported to have shown their highest average price on the platform's history. This trend is not showing signs of weakening in the short term.

The demand for butter has resulted in the increased supply of Skim Milk Powder.

Even though the price for Skim Milk Powder has remained relatively low, demand has shown an increase as a result of longer term contracts generally being taken out. This is possibly to take advantage of these low prices.

Whole Milk Powder prices in the last GDT event in May declined, and this was reportedly influenced by the announced increased supply over the next 12 months. Demand for Whole Milk Powder for the past 12 months has remained relatively flat, and is forecasted to remain relatively stable for the rest of the year.

Outlook:

EU milk production has been relatively weak, but expected to improve during the second half of the year. The US is the only region that is showing an increase in milk production, but product is being used for the local market. The supply of fat currently remains very tight, and buyers are reportedly struggling to source product. Despite milk powder prices still being at the lower end of the pricing curve, improved levels of overall demand have contributed to the price increase in the dairy market during the month of May. Skim Milk Powder supply is expected to increase in the next few months mainly due to butter production.

FOOD FOR THOUGHT:

The trick is in what one emphasizes. We either make ourselves miserable, or we make ourselves strong. The amount of work is the same.
– Carlos Castaneda



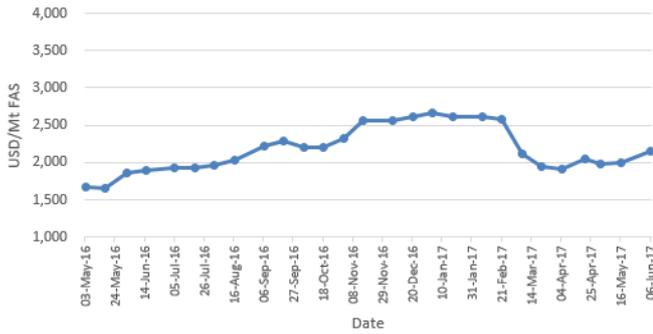
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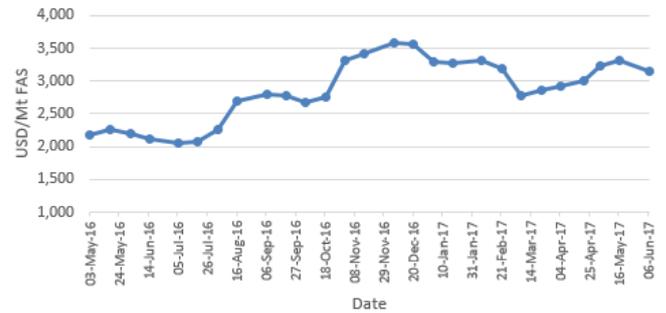
Sources used: NZ Perspective; www.xe.com; MPO; www.globaldairytrade.info;

COMMODITY PRICE MOVEMENTS

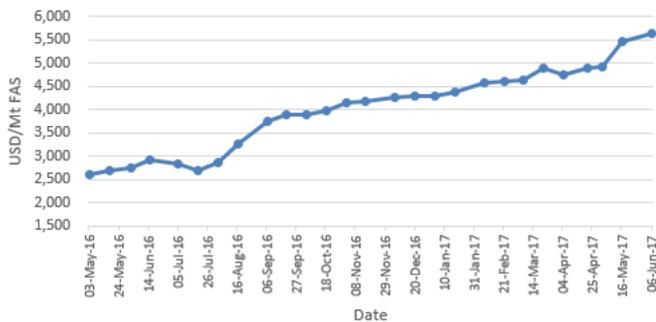
SMP Average Price Trend



WMP Average Price Trend



Butter Average Price Trend



ZAR/USD Movements



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

WHAT IS CHEESE?

- Cheese is one of mankind's first biotechnology ventures and has been a popular food for thousands of years, with its origins predating recorded history.
- Countless experiments have produced a variety of cheeses that range in texture from soft to hard and in flavour from mild to sharp to pungent.
- The distinctive cheeses, often named after the village or region in which they were created e.g. Emmentaler, Roquefort, were unique because of a combination of milk composition, natural micro flora, cheese making techniques and ripening temperature and humidity.
- Interesting to note is that about 10Lt of milk makes 1Kg of cheese.

In our next edition, we will go into more detail on the process of turning milk into cheese.

Below are the **basic steps in cheese making**:

Concentration process:

Reducing water from
~86% to ~30-50%

Consists of several interlinked operations:

Physical, biochemical
and microbiological.

Preservation process:

Dehydration;
Acid (pH); Salt;
Cooling.

Ripening and the Maturing phase:

Producing the change in
texture and flavour.



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