



28

May 2018

www.cloverfonterra.com

Clover Fonterra Ingredients Newsletter

MARKET REPORT:

Supply:

EU: Milk supply is lower than expected due to the region currently experiencing hot and dry weather conditions - this coming on the back of cold weather conditions in March/April. Most of the milk supply is going towards cheese production, due to increased demand and high returns.

NZ: Extreme cold weather conditions reported in several regions, but rainfall and soil moisture levels reported to be in the normal range. A 3% increase in milk production was recorded for April 2018, compared to the same period last year, mainly due to improved pasture conditions. Y.O.Y. production has remained flat for the 12 months to April 2018.

Aus: Dry weather conditions prevailing, with most of the region experiencing less than half of the normal rainfall. It should be noted that this region does not contribute much to the global market.

US: Milk supply reported to be below forecast, mainly due to the poor start to the spring milking season. There are also trade volatility in the region affecting business, such as Mexico introducing duties on US cheese. Dairy products sale reports showing an increase between Mar & May, with the biggest growth on butter pricing.

SA: Drought conditions still reported in the Western Cape, Northern Cape and Eastern Cape. Reasonable to good veld and livestock conditions have been reported for the majority of summer rainfall areas, with possibilities of above normal rainfall during mid and late winter.

Demand and product information:

Reports show that demand for butter continues to be strong in the short term. Butter production currently lower than expected due to constraint cream supply, as well as concerns about holding inventories at the current high prices. Production concentrated on cheese.

The current strong cheese pricing is expected to be maintained due to the cheese supply trying to keep up with demand. Production is mostly committed.

SMP demand is currently strong, but supply for fresh stock remains relatively tight. Due to age intervention stock is also not sufficient to fulfil the demand. Speculation is that buyers have changed their buying pattern due to intervention stock not being available as a source when they require stock. These conditions have led to the slight firming of SMP pricing.

EU and NZ production for WMP reported to be focused on fulfilling

contracts, and there is limited product for spot buying. There has also been reports that manufacturers are struggling to meet their contractual obligations.

Outlook:

Milk supply from all regions reported to be lower than forecasted, mainly due to unfavourable weather conditions. Global dairy market prices continue to be firm and expected to maintain these levels for the near future.

The SA economy has reportedly decreased by 2.2% in the first quarter of '18, compared to the last quarter of '17 and the forecasted 0.5% decrease. This decrease has been reported to be the largest quarterly fall since the second quarter of 2009, with agricultural sector showing a drastic 24.2% decrease. GDP grew by 0.8% compared to the same quarter last year, which was below the forecasted 1.9% growth for the quarter. There are expectations that the economy will improve for the rest of the year due to expected global economic condition improvements, as well as the positive sentiments with SA escaping full junk status.

Success is often achieved by those who don't know that failure is inevitable – Coco Chanel



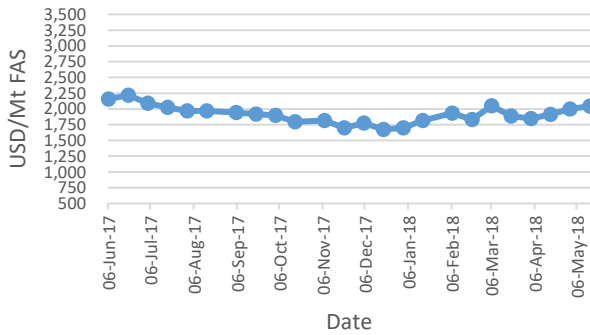
INGREDIENTS | Quality Dairy. Quality Life.

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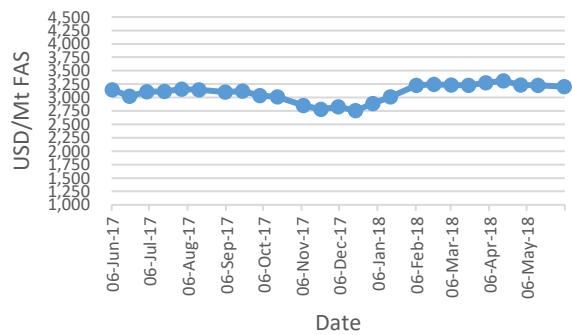
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COMMODITY PRICE MOVEMENTS

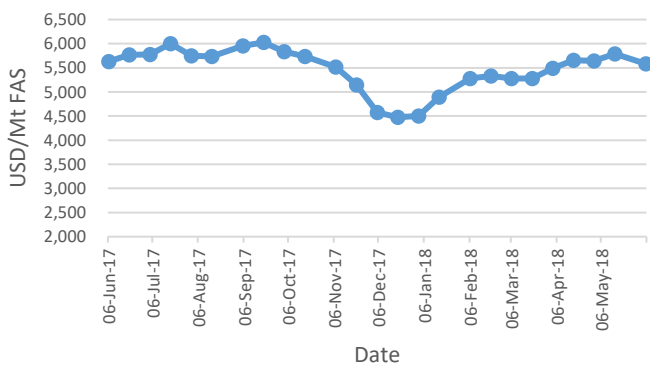
SMP Average Price Trend



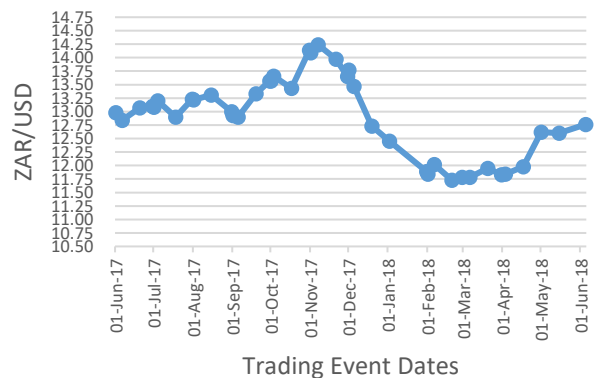
WMP Average Price Trend



Butter Average Price Trend



ZAR/USD Movements



Let's get Technical: A bucket of milk final!.....Fat

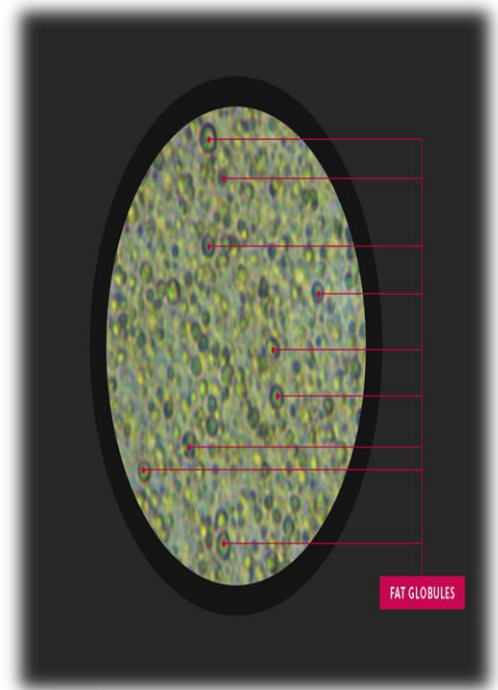
To close off the bucket of milk, we will explore fat. Milk contains 4.7% Fat.

Within the fat globule exists many types of fats. There are two key parts to this fat: Fatty acids & glycerol. The fat type that is the most commonly occurring type in milk is called a Triglyceride.

Fatty acids vary in chain length and degree of saturation. These variations influence the physical properties of the milk, including: Melting point (state at room temperature-i.e. liquid or solid), Mouth Feel, Flavour & flavour stability.

The fatty acid chain lengths, along with the different glycerides, impact the characteristics of the milk fat. These variations influence the products that are produced in dairy manufacturing plants, and also variation in the products themselves, such as creams, butters & fat blends etc.

The composition of the milk fat globule is affected by the type of feed & the season. This results in a different overall composition of milk fat. Processing conditions of products like butter are managed to minimise differences perceivable to customers.



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