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Food for thought:

“Change is not a threat, it’s an opportunity. Survival is not the goal, transformative success is.”
~ Seth Godin

MARKET REPORT:

Supply:

EU milk production has decreased for the 2nd month totalling -1% YOY in August. The EU Commission and private companies are applying downward pressure by initiating incentive schemes which is targeting reduced production. This has resulted in an increase of 7.7% in cow culling YTD.

The **US** continued their positive milk growth with 2% in September. Due to improved margins from high domestic prices, this has enabled the US dairy market to expand their herd sizes.

New Zealand’s milk production is similar to September 2015, remaining -1% for the past 12 months. With the current unfavourable weather conditions, where there is sufficient rainfall but not enough sun to encourage grass growth, milk volumes will be negatively impacted leading into their peak production season. In response to the lower milk production, less volume will be available over the next 12 months.

Australia’s decline in milk production had continued during August at -9% which is driven by high supplementary feed costs, its limited availability, unfavourable weather conditions and better beef prices.

Local milk production has again increased in September 2016 when compared YOY, however the total milk production for the 12 month period is 2.2% down on last year. Feed cost is a major item for milk producers and with the uncertainty about the 2016 maize crop, has resulted in further grain price increases.

Demand:

China’s demand during August increased 25% YOY, in part led by demand for whey powder and infant formula. Demand for butter is growing, however SMP demand has slowed. The rest of **Asia** also had an increase in demand equal to 11% YOY. Increases were seen across all dairy categories, except SMP which fell 6%.

Latin America’s demand has increased 15% YOY mainly driven by WMP, AMF and cheese. Their local dairy production has slowed in response to low milk prices and severe weather, which has affected both the herd and the availability of feed.

Belarus remain the main supplier to **Russia’s** demand which grew by 6% in June and Russia is now actively looking for suppliers, outside of the traditional suppliers.

MEA’s demand continues to decrease and fell with 13% YOY in June. The economic volatility in this region is the main contributor for the weak demand, although pockets of new demand is noticeable.

Overall:

Global milk production slows as EU, New Zealand and Australia’s outputs are decreasing and the market is rebalancing, with demand mostly positive except for MEA. This has recently contributed to higher dairy prices.

Supply is not expected to increase in 2017 due to the incentives in the EU to reduce milk production, NZ milk production seem to be flat and although US milk production is increasing, it will not be sufficient to fill the volume gap caused by the EU/Oceania decreases.

Global dairy prices rose 9.4% in September, however decreased 1.6% during October. The price movements were mixed between the products with WMP slightly increasing but SMP slightly decreasing. The Rand has remained under the R14 per USD mark since early September and averaged around R13.69 for the month of October. The effect of the US elections and the possible ratings downgrade by agency S&P Global Ratings is still causing volatility with the ZAR/US exchange.



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Let's get Technical: Whey Powder

There are various Whey Powder products which differ in protein levels and minerals, but one of the main differences is in the application. We will be focussing on Whey Protein Concentrate in our November edition.

The Whey Powder discussed today is crystallised sweet whey powder which is manufactured by evaporating, crystallising and spray drying of skimmed whey, which is a by-product from the cheese making process.

The sweet flavour is due to the lactose content and due to its free-flowing nature, it's an 'easy-to-disperse' carrier in dry blends and it supplies texture. In certain applications, Whey Powder can substitute SMP for cost optimisation.

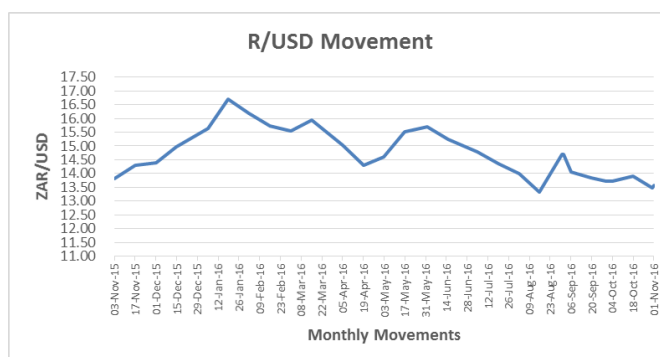
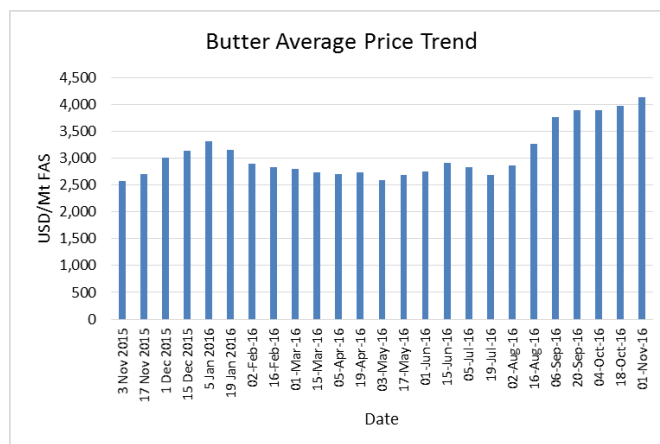
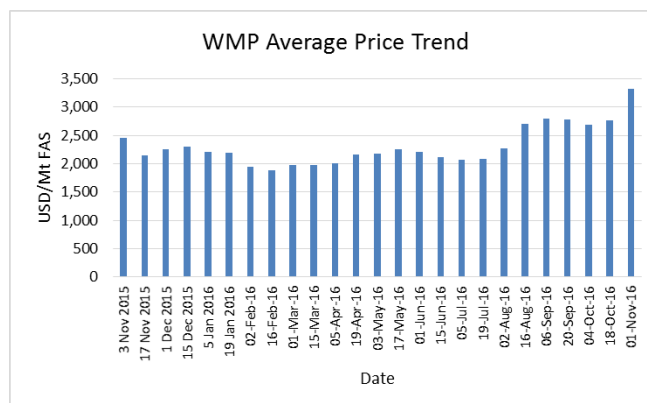
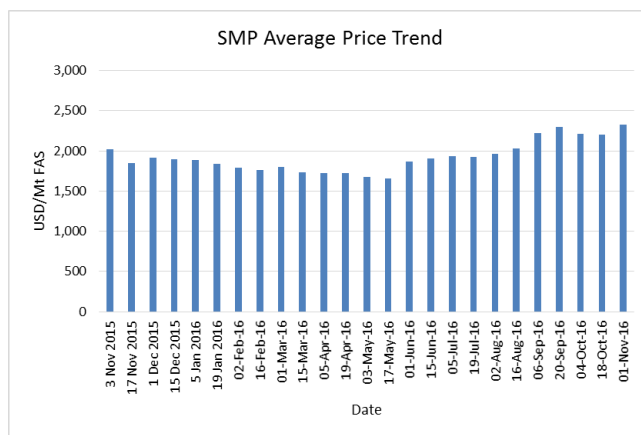
The two most commonly known Whey Powders are:

- **Sweet Whey Powder:** Made by drying fresh whey from which the milkfat has been removed during the preparation of various cheese manufacturing, principally with rennet type enzymes. It contains all the constituents, except water, in the same relative proportion as in liquid whey.
- **Demineralised Whey Powder:** Same as above, however a portion of the minerals have been removed from pasteurised whey. Typical levels of demineralization are 25%, 50% and 90%.

Whey Powder has the following functional properties:

Functional Property	Mode of Action	Type of Food
Solubility / Hydration	Proteins bind/ entrap water	Meats, beverages, breads, cakes, sausages
Gelation / Viscosity	Protein matrix formations and setting	Salad dressings, soups, setting cheeses, baked goods, gravies, meats
Emulsification	Proteins stabilize fat emulsions	Sausages, soups, cakes, salad dressings, infant foods, coffee whiteners
Foaming / Whipping	Proteins form stable film	Whipped toppings, chiffon cakes, desserts
Flavour/ Aroma/ Browning	Lactose undergoes caramelization reaction	Confections, meats in microwave, sauces, breads, baked goods, soups, dairy products

COMMODITY PRICE MOVEMENTS



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