



22

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www.cloverfonterra.com

Clover Fonterra Ingredients Newsletter

MARKET REPORT:

Supply:

EU: An average rise of 3% reported YOY in October for the region, signalling improvement in milk production. Q4 is forecasted to continue with the growth trend, with the first half of 2018 expected to be 2% up as well.

NZ: The region's milk production season had a slow start, mainly due to a wet spring. September 2017 production was reported to be 1.3% below the same period last year. This decrease is reported at a time when production is expected to be at its highest, and will have an impact on production for the rest of the season due to pasture growth being affected by wetter-than-normal conditions.

AUS: A 1% increase for the period June to September was recorded compared to the same period last year, this coming on the back of a 20-year low in the 2016/17 season i.e. July 2016 to June 2017. A 1% - 3% improvement is expected for the 2017/18 season from the previous year.

US: Milk production in September 2017 is up by 1.1% compared to the same period last year despite extreme weather conditions in some parts of the region. California production was reported to be mainly affected by extended warm weather conditions, and recorded a 3.4% decrease in September 2017 compared to September 2016. There were also hurricanes in some parts of the region, causing substantial wind and flood damages.

SA: A 1.8% increase in milk supply was recorded for the first 9 months of 2017,

compared to the same period last year, with September month showing a 6.2% increase compared to September 2016. Fewer disease incidents, lower grain prices and earlier calving were major contributors to these increases, despite the effects of the drought in the Eastern and Western Cape.

Demand and product information:

Butter demand still reported to be steady and supply not keeping up. Current reports state that there are no indications when this imbalance will be corrected, and supply is still expected to be tight in early 2018.

The demand for butter contributes to strong **SMP** supply especially out of the EU region, which is raising concerns of potentially additional SMP stock being sold into intervention when it re-opens in March 2018. It is reported that there is already 380'000 tons of aging SMP in intervention, which is expected to go into feed markets and domestic donations programs. Even though EU processors are reported to move towards producing more butter, slightly improving supply, production streams still favour cheese production due to the returns.

Cheese production in the US is reported to be high, resulting in record high inventory build-up in October.

Demand for **WMP** is currently reported to be quiet, with supply mainly to meet contractual obligations.

Outlook:

Even though cheese and butter demand

continue to be strong, cheese markets are reported to be steadier and expected to maintain this trend for the foreseeable future.

Butter supply is still expected to generally be limited for 2018 as producers still favour cheese production because of the returns. SMP supply remains relatively strong, supported by high demand from China and Mexico. It is yet to be seen what will happen with the intervention stock as supply is expected to remain strong in the first half of 2018.

On the local front, the **South African** agricultural sector has reportedly cut 109'000 jobs in the first 3 quarters of 2017, with the Western Cape accounting for 84% of the total job losses. This is mainly due to the effects of the drought on the sector. This will have an impact on the economy as more people are unemployed.

It is also worth noting that the Eastern Cape drought, a region which accounts for a third of all the livestock in the country, is now a national crisis. The region has experienced below average levels of rainfall for three consecutive years. Farmers in the region are reported to have exhausted available funds to keep them afloat, and their counterparts in KZN have been doing a lot to assist with feed for livestock.

With the reportedly **looming downgrading** of the SA credit status at the end of November, the exchange rate is expected to take a serious knock in the next few months, resulting in a negative impact on the economy. The general message is therefore to still approach the rest of 2017 with great caution.

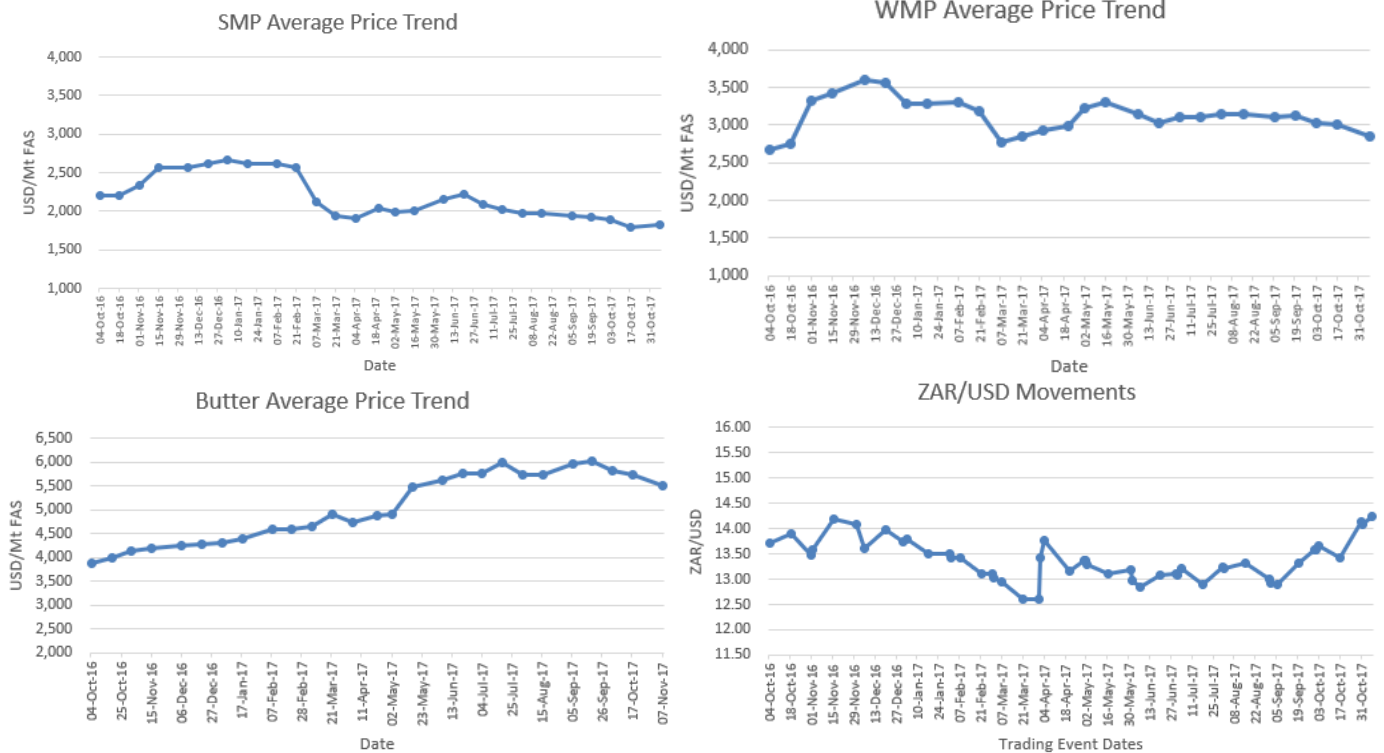


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Sources used: NZ Perspective; www.xe.com; MPO; www.globaldairytrade.info; US Market Commentary; <https://www.iol.co.za/mercury/news/kzn-helps-eastern-cape-drought-farmers-11498131>; <https://www.fin24.com/Economy/weak-agricultural-commodities-continue-to-slide-20171027>.

COMMODITY PRICE MOVEMENTS



Let's get Technical: Milk and Food Safety at Fonterra continued...

In the September edition, we looked at the definition and purpose of food safety and touched on the food safety aspects of the Milk collection and Takers & Milk testing processes of dairy production.

We will now look at the food safety aspects of the **Manufacturing Process: Processing & Packaging**.



1. Manufacture:

In process and final product testing:

- ◆ Ingredients are tested or verified for composition, quality and concentration.
- ◆ Final product testing includes Chemical, Microbiological, Functional, Physical, Sensory and customer/market specific testing.
- ◆ Testing can take 7-21 days depending on the test. The results are captured and used to generate a certificate of analysis (COA).

2. Environmental testing:

The manufacturing environment is monitored to ensure that it is safe for the manufacture of food.

3. Plant Audits:

- ◆ Risk Management Programme verification audits are conducted quarterly by recognized Agencies.
- ◆ International government regulatory bodies may audit the process, packaging and storage facilities.

In the next edition we will close off Food Safety by covering **Storage, Transport, Storage & Market entry, and Documentation**.

FOOD FOR THOUGHT:

There's no shortage of remarkable ideas, what's missing is the will to execute them. - Seth Godin



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