

SEPTEMBER 2016

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#9

Food for thought:

“Even if you are on the right track, you’ll get run over if you just sit there – Will Rogers”

MARKET REPORT:

Supply:

EU milk production has for the first time in 14 months seen a negative milk growth rate of -2% YOY in June, keeping in mind this is their low seasonal milk production period. It’s likely that further decreases in milk production will be seen as cow culling has increased, less supplementary feed is available, poor weather conditions prevail and milk prices are below the 5 year historic average. This is not positive news for the EU as they have oversold their available stock and now need to encourage milk production not to default on contracts.

US milk production remains unchanged at 1% growth in July, both for YOY growth and for a rolling 12 month basis. Dairy herd sizes has increased as cow culling has subsided.

New Zealand had a slight milk production increase of 1% YOY in July, but remained down -2% for the past 12 months. Milk volumes are starting to rise slowly as they move into their peak production season, however milk production is still below budgeted levels.

Australia’s milk production continues to decrease as a result of continued high input cost and low milk prices. In July, milk growth had declined -10% YOY with a total of -3% for a 12 month rolling period. Cow culling remains high as farmers try to balance costs against lower milk prices.

Local milk production has seen a slight increase in August 2016, up 0.8% compared to August 2015. However, total milk production for the January to August period remains down, totalling at -3.4% when compared YOY.

Demand:

During July, the **Chinese** demand grew 9%, the 13th consecutive month showing positive growth. The increase is driven mainly by the demand for milk fat and infant formula, however the milk powder demand has also been improving. NZ is the key supplier to China for milk powders, then Australia and the US.

Asia’s dairy demand has grown by 2% for the 12 months to May 2016. Interest has been shown in Casein from Indonesia, the Philippines and Singapore.

Russia’s demand has increased significantly with 25% in May, compared to the 7% in April. This is mostly supplied from Belarus. India has been cleared to supply product to Russia, however due to the current global prices, imports seem to be financially unfavourable.

Middle East Africa (MEA) demand decreased -15% YOY in May, tracking -6% for the 12 months. The decrease is largely driven by the lack of demand in milk powder, but has now also extended into butter as a few key regional importers are continuing to struggle in the slow economy.

Overall:

The dairy market is in a rebalancing phase as global milk production continues to slow especially due to the slowing in the EU milk growth. Demand has seen positive growth in most regions, except in MEA.

International dairy prices increased slightly above 9% during September with the expectation that prices will continue the upward trend to the end of March 2017.

The Rand has remained under the R15 per USD mark since end of June and firmed in September to close around R13.73 per USD. This being said, volatility still remain with the Rand due to renewed warnings from ratings agency S&P Global Ratings of a possible downgrade for SA as well as the effects from the US election during November 2016.



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Let's get Technical: Milk Replacers

Apart from the 100% dairy Milk powders and the Creamers, two blended products are manufactured by Clover. These products can be used as you would use normal milk and milk powders, however neither of these products are suitable for infant or baby feeding. Both products are mixed by adding 100g powder to 900ml water and stirred until the powder has dissolved.



Clover Kremel

- It's a blend of milk solids, corn syrup solids and vegetable fat in a powder form.
- It contains at least 20% protein, 15% fat and is fortified with vitamin D and calcium.
- The product does not contain any preservatives but does contain a stabiliser and an emulsifier.
- It has a clean and pleasant flavour closely resembling that of milk when it is dissolved in water.
- Kremel can be used in both powdered form or when it is dissolved in water.
- **Suggested applications include:** Milk substitute as liquid i.e. over breakfast cereals; Bakery Products; Confectionery and desserts; Speciality Flavourings and Soups, Sauces & Dips.



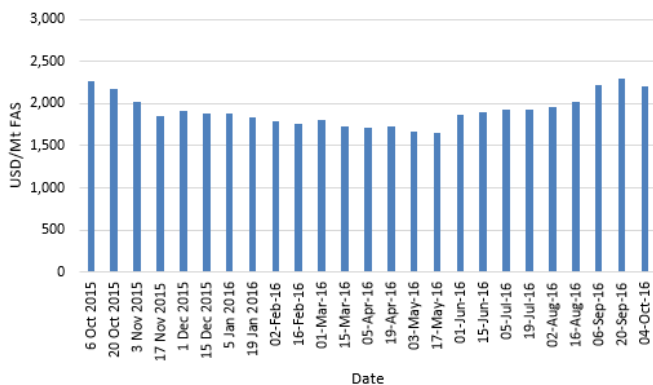
Clover Superior Mix

- It's a blend of whey solids, corn syrup solids, vegetable fat and casein in powder form.
- It contains approximately 13.5% fat and 6% protein.
- The product is preservative free, but does contain a stabiliser, emulsifier and an anti-caking agent.
- Superior Mix is used in recipes and or mixtures, and can be reconstituted.
- **Suggested applications include:** Dairy Fruit Blends; Bakery Products; Speciality Flavourings; Confectionery items; Soups, Sauces & Dips and Snack Foods

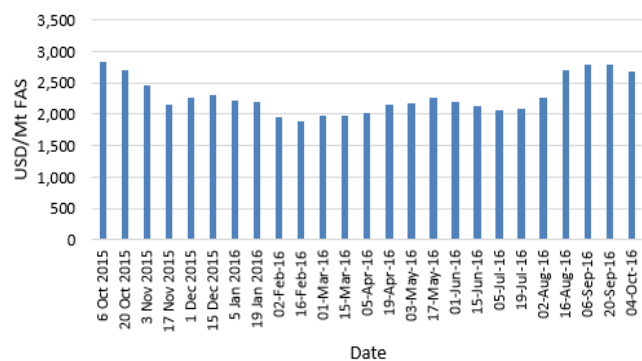


COMMODITY PRICE MOVEMENTS

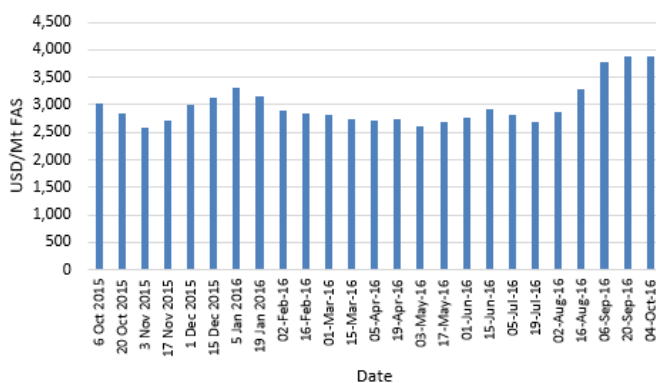
SMP Average Price Trend



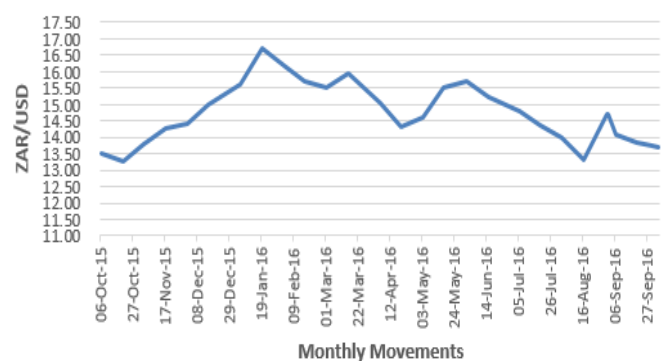
WMP Average Price Trend



Butter Average Price Trend



R/USD Movement



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