



24

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Clover Fonterra Ingredients Newsletter

MARKET REPORT:

Supply:

EU: The eastern side of the region, being mainly France and Germany who contribute most of the milk supply, has recorded a YOY increase of 4- 6% milk collection in November. Reports out of the region is that the general consensus is to have more milk moving into cheese and WMP production and less into SMP production to try and manage SMP inventory levels in 2018.

NZ: The region recorded a 1% increase in milk production in November YOY, mainly due to the season starting off well. As of end December, some parts of the region are reported to be experiencing drought conditions mainly due to below average rainfall, causing very dry soils. Parts of the South Island recorded the driest November in more than 100 years. These dry conditions are expected to continue and to intensify for at least the next 3 months, which will further affect the soil moisture levels and significantly impact milk production.

AUS: A 3.07% increase in milk production was recorded for the period Jul-Nov 2017 due to good weather conditions. After a slow start to the current season, milk production is showing signs of gaining momentum and expectations are high that this will remain steady for the rest of the season due to favourable weather conditions, however, it's not expected to have a major impact on global market.

US: Compared to a year ago, milk production is reportedly continuing to increase at a moderate rate despite freezing weather conditions in the midwestern and eastern parts of the region.

SA: The Eastern and Western Cape continue to experience persistent drought, with the Western Cape predicted to run dry by

March 2018. The province has reportedly only received 345mm of rain in 2017, compared to the annual 520mm it normally records. 50'000 permanent jobs have reportedly been lost in the Western Cape mainly in the field crops & horticulture, livestock and mixed farming sectors. This is mainly due to the reduced farming activities affected by the drought.

Demand and product information:

Supply for **cheese** is reported to be relatively steady, and some plants in the US region are reported to be easing off production to manage growing stock levels. Although currently showing soft demand, the market is expected to increase reportedly due to a shift in consumer eating habits towards healthier eating.

Butter supply is reported to be relatively light, with inventories being steady to drawn down. The inventory downside is expected to be managed by the soft demand as most buyers are reported to be covered until the end of February. Demand for **WMP** is reported to be relatively weak, with most sales fulfilling Q1 contracts. Supply out of the US and EU is expected to increase as some of the manufacturers will consider WMP to reduce the milk supplies. Supply out of the NZ region is expected to be reduced due to the current drought conditions being experienced in the region.

SMP demand is reported to be relatively quiet, with very little inquiries from buyers. Inventory levels have been reported to still be relatively high, and some of the stock past being sold for human consumption. This has raised questions on what will be done with the stock, causing uncertainty in the market.

Outlook:

Milk **production** continues to be relatively firm in most of the regions, supported by good weather conditions in the regions.

Supply constraints are expected out of New Zealand due to the drought conditions being experienced in the region.

Demand for dairy products remain strong in China and Asia, but a decline is being recorded in the Middle East and Africa.

Farmgate prices for both EU and NZ continue to be a challenge, with up to 10% decreases reported between August and December 2017 for NZ. To date, milk farmgate prices have remained relatively stable but there are reports of expected reduction on the prices due to global market pressures on pricing. This is expected to negatively affect milk production as farmers will not see the benefit of increasing production.

On the **local** front, a 2% economic growth was reported in the third quarter, mainly due to strong performance from the agricultural sector. Overall economic growth for 2017 was reported to be 0.8%, and the World Bank is reporting a 1.1% growth expectation for 2018. There are also huge expectations from the ruling party, with the recent election of a new ANC president and leadership raising hope that they will bring positive change to the country's economy. The election as mentioned above, had a positive impact on the **exchange rate**, but with a warning that the market will be looking to see what changes this will bring, making the exchange rate very sensitive and volatile to any political news. This will mainly be determined by the ANC NEC meeting being held in January 2018. With agriculture being the increasingly important contributor to the economy, and reported to helping pull the country out of a recession, the effect of the drought will have a huge impact on the economy as well.



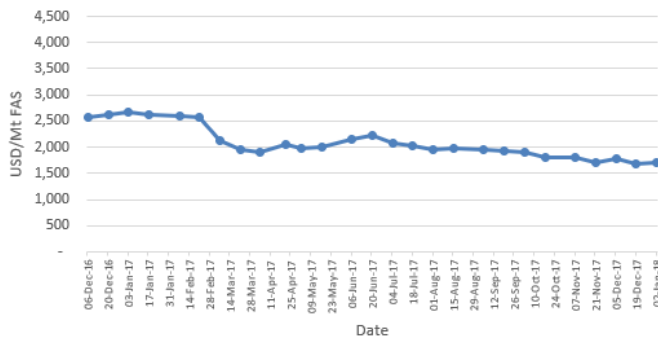
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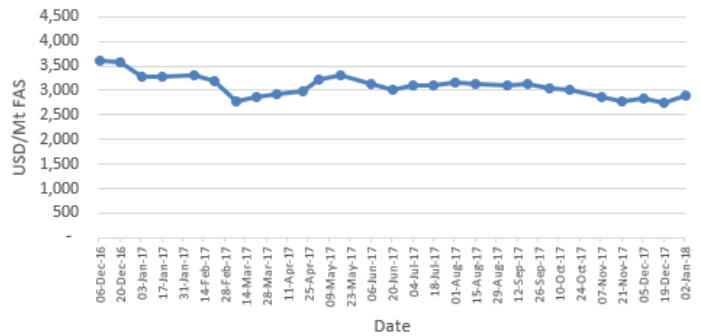
Sources used: NZ Perspective; www.xe.com; MPO; www.globaldairytrade.info; US Market Commentary; <https://www.ams.usda.gov>; <http://www.thebullvine.com>; <http://edairynews.com/en/>

COMMODITY PRICE MOVEMENTS

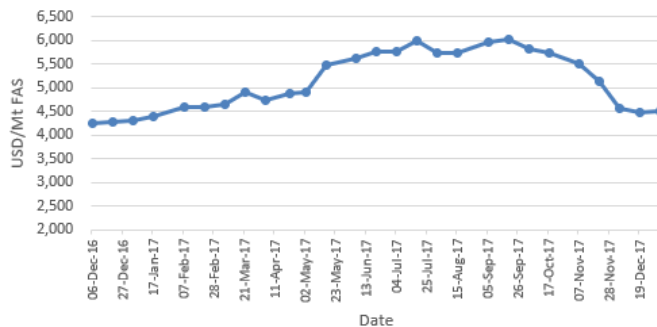
SMP Average Price Trend



WMP Average Price Trend



Butter Average Price Trend



ZAR/USD Movements



Let's get Technical:

Previously, we have covered the processing of milk and the products that can be obtained from milk. We will be starting the **2018 Technical sessions** by taking a step back to explore **what milk is made of** and then to look at the various components in the following few editions.

Until next time, here's a few interesting facts about milk:

- ❖ Did you know that calcium helps your muscles to work properly? The calcium helps your muscles to bend and stretch.
- ❖ One glass of milk has almost 9 times the calcium of a glass of soya milk.
- ❖ You would need to eat 5 servings of broccoli to get the same amount of calcium as 1 glass of milk.
- ❖ Milk contains all the essential amino acids needed by your body.



It doesn't matter where you are coming from. All that matter is where you are going! ~ Brian Tracy

We wish you a year of great success and look forward to the new opportunities that 2018 may bring!



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Sources used: NZ Perspective; www.xe.com; MPO; www.globaldairytrade.info; US Market Commentary; <https://www.ams.usda.gov>; <http://www.thebullvine.com>; <http://edairynews.com/en/>