



29

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Clover Fonterra Ingredients Newsletter

MARKET REPORT

TRENDING: The ongoing trade war between the US, China and Mexico is currently disrupting the global economy. It is expected to cause a reduction in trade volumes and disrupt supply chain on a global scale. China, being a key role player in global dairy market and trading with other countries with links to the US, is expected to consider renegotiating agreements as a result of their trade war with the US. The global economy is therefore expected to be impacted as different countries react to the trade war, and the world is watching in caution.

Supply:

EU: The region is still experiencing hot and dry weather conditions which affect feed, with Ireland reported to have recorded its hottest day ever. The region's milk supply is also on a seasonal downtrend.

NZ: June milk production was up by 0.15% compared to the same period last year. The region is currently at the end of season and production is reported to be at a seasonal low. The current season that is ending experienced very wet conditions followed by difficult dry conditions, causing poor pasture growth. This has been challenging for dairy producers. Supply out of the region is currently tight.

Aus: The region has experienced an untypically hot and dry autumn, which has affected feed. Drought is a concern in some areas as well. Even though the region is at a seasonal low, the rest of the season is expected to have favourable weather. It is worth noting that the region does not contribute much to the global market.

US: The region has experienced weather volatility, with the Midwest experiencing heavy rains that affected milk production due to a wetter than normal spring season.

Milk supply is expected to improve during the upcoming winter season, with cream currently being available across the region. Most of the supply is for local consumption, and very little goes into the global market.

Demand and product information:

Butter stocks are reported to be sufficient for current and short - term demand, with the forward demand showing a reasonably flat curve. There is some uncertainty currently in the market due to the ongoing trade war, with signs of prices firming up.

Demand for cheese has remained strong, with prices firm as well. There are concerns regarding future pricing as a result of the trade war, which mostly affects the EU and US who are large cheese manufacturers.

SMP supply for fresh stock is still tight, with buyer interest reported to be calm as they await the decision regarding the intervention stock.

WMP market currently relatively quiet, with production mostly focused on fulfilling contractual obligations. Prices are showing signs of firming slightly due to the demand for fat.

Outlook:

Supply from all the regions is reported to be tight. The main focus is on the impact of the trade war between US, China and Mexico on the dairy market. There is a lot of uncertainty in the market on what the effect will be, and how it will affect supply and demand going forward.

On the local front, the latest fuel price increase is expected to have a negative effect on the South African consumer, as it will increase prices and affect disposable income. This increase will also have an impact on the agricultural sector as transport and operating costs increase. With the South African GDP reported to have decreased by 2.2% for the first quarter compared to the previous quarter, the government is looking at implementing an intervention to assist consumers with the effect of the VAT increase and the ongoing fuel price increase.

Whether you think you can or you think you can't, you are right! – Henry Ford



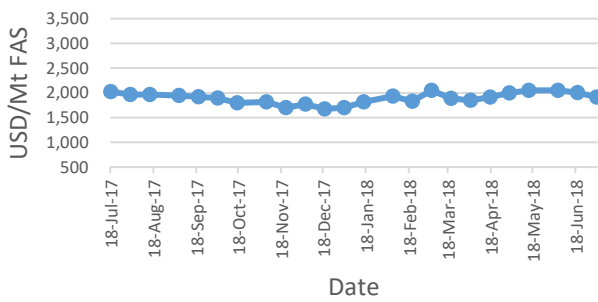
INGREDIENTS | Quality Dairy. Quality Life.

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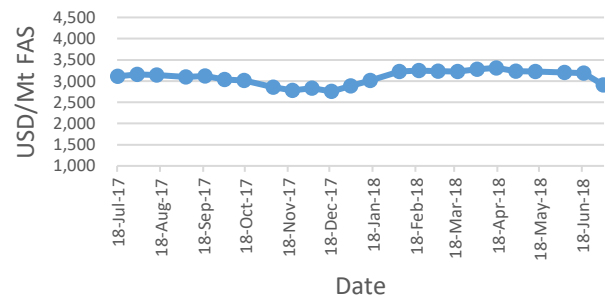
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COMMODITY PRICE MOVEMENTS

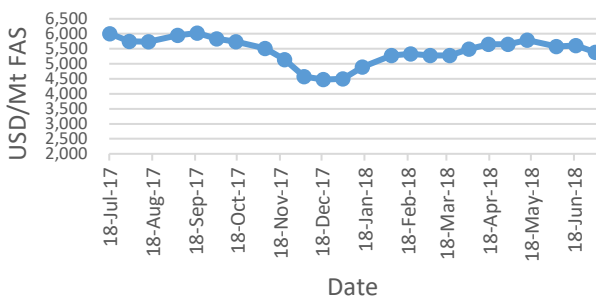
SMP Average Price Trend



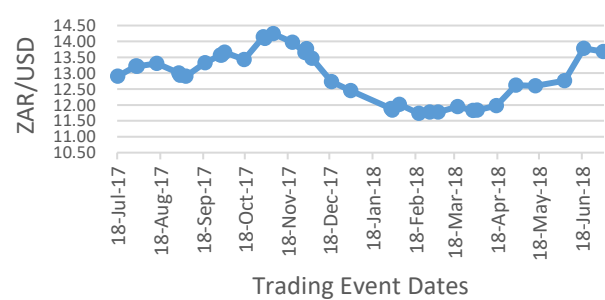
WMP Average Price Trend



Butter Average Price Trend



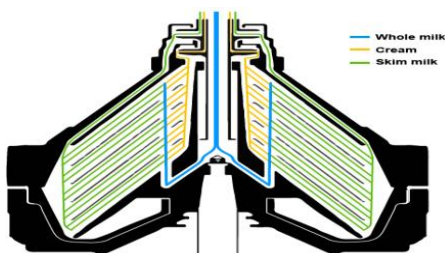
ZAR/USD Movements



Let's get Technical: Milk Processing

Milk processing involved three main steps which are separation, pasteurisation & standardising. In this edition, we will explore separation & pasteurisation.

Separation

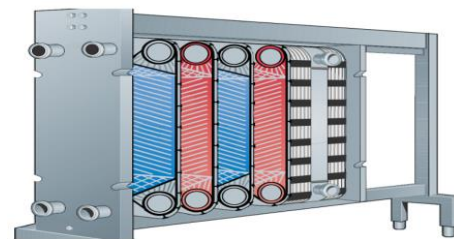


To achieve optimum product quality it is typically best to separate whole milk into skim milk & cream. Cream contains most of the milk fat and skim milk contains most of the non-fat components.

Milk fat exists in milk as a suspension of globules or spheres (0.003-0.005mm in diameter). Fat is less dense (lighter) than water so it will rise to the surface over time.

Milk fat can be separated from milk centrifugation-spinning at high speed. This accelerates the separation.

Pasteurisation



This is the heat treatment of milk to kill harmful (pathogenic) bacteria. For whole & skim milk, this must be equal to or greater than 72°C for 15 seconds.

To heat the milk, plate heat exchangers are predominately used. These are highly efficient to ensure fast & even heating & cooling of liquids.

Regulations require that every pasteuriser is certified to ensure compliance 100% of the time. This includes the provision of safeguards to ensure all milk receives at least the minimum treatment.

In the next edition, we will close off Milk processing by taking a tour of standardisation.



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