



21

September 2017

www.cloverfonterra.com

Clover Fonterra Ingredients Newsletter

MARKET REPORT:

Supply:

EU: Milk supply for the first 7 months of the year has been reported to be 0.3% lower than the same period last year. Production of SMP for the first 7 months of 2017 has shown a 9.3% decrease compared to the same period last year, with butter production showing a 5.5% decrease in the same period. There was a 1.3% increase in cheese supply, as well as 0.6% increase in WMP reported, with increases in the region low compared to the decreases reported.

NZ: Wet conditions are impacting early season production, resulting in lower milk volumes out of the region. A 1.5% decrease in milk production was reported in August 2017 compared to the same period last year, but expected to improve as the region goes into its peak collection period from October, weather dependent.

AUS: August 2017 showed a 2.1% increase in milk production, compared to the same period last year for the region. Mild winter conditions, favourable feed and fertiliser costs are expected to positively impact supply out of the region.

US: Milk production was up by 2.1% in August 2017, compared to the same period last year. It is interesting to note that this region has been increasing at a rate of 2% consistently for the past 13 months.

SA: Estimated milk production for the first 8 months of 2017 was 1.7% higher than the same period last year. For July and August 2017 milk production was 5.9% higher than the same period

last year. This is despite the drought experienced in the Eastern and Western Cape. High milk production is expected for the next quarter, mainly due to the normal sharp seasonal increase this time of the year.

Demand and product information:

Butter prices are expected to ease off record highs, but still to remain firm as demand remains strong ahead of the holiday season. Supply remains tight, with limited supply out of the EU and the slow start up in NZ being the main contributors.

The high demand for butter is contributing to the production of **SMP**, thus a strong supply of **SMP**. **SMP** intervention has been closed for 2017 and will re-open in March 2018. A total volume of 19 562MT of **SMP** was offered into Intervention since the beginning of 2017, with the total volume offered into intervention since June 2015 is 395 000MT.

Although **cheese** supply out of the EU remains tight due to lower than expected milk production, cheese manufacturers in the US are reportedly starting to ramp up production in the build-up for holiday season buying. Cold Storage report shows that as of the end of August there was 7.4% more cheese compared to the same period last year.

WMP supply is currently constrained due to the preference to produce Cheese, **SMP** and **Butter**, and any increase in demand for **WMP** will put pressure on the price to increase.

Outlook:

The general overview is that **fat demand** will remain firm. **Butter** prices have continued to be firm with supply remaining relatively tight.

The global demand for **cheese** remains stable, with expectations of demand steadily increasing. Producers are also increasing their cheese production in anticipation of the increase in demand.

SMP supply remains relatively strong, and is expected to exceed the increasing demand in China, Asia and Latin America. On the local front, flat demand for dairy products is expected out of South Africa, mainly due to expected continuation of low economic growth. The **exchange rate** broke the R13.50/\$ level during September, which was the first time in 3 months. This was reported to be because of expected rate hikes by the Federal Reserve Bank in December and the US economy becoming stronger. The Rand is also affected by ongoing political and policy uncertainties being experienced in the country. The institutional strength of a country is a key issue for rating agencies. The latest 14-point deterioration in South Africa's institutional strength reported in the World Economic Forum's Competitiveness Index has sparked concerns regarding a further credit downgrade. The general message is to approach the rest of 2017 with great caution.

FOOD FOR THOUGHT:

You must either modify your dreams or magnify your skills.

– Jim Rohn

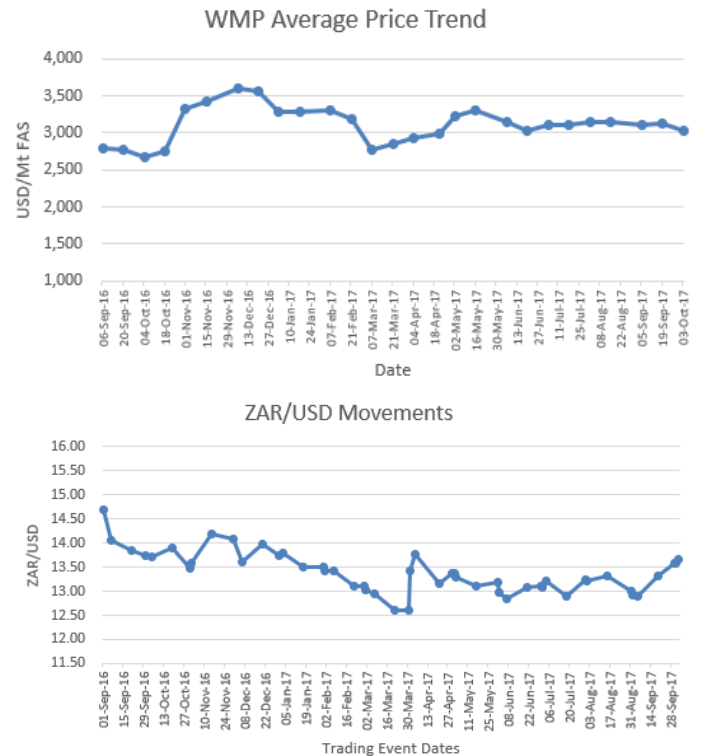
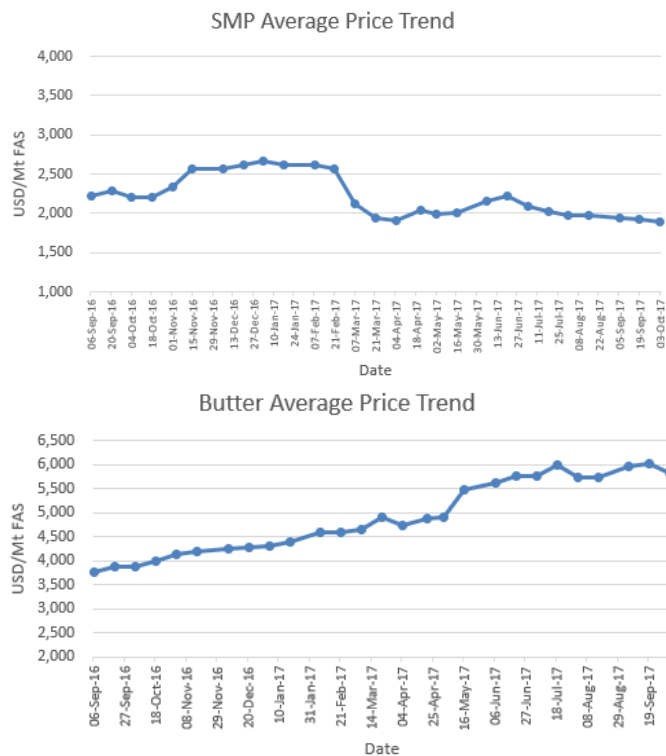


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Sources used: NZ Perspective; www.xe.com; MPO; www.globaldairytrade.info; US Market Commentary; News24; Bizcommunity.com; Dairy Business News – Mielke Market Update: ec.euroopa.eu

COMMODITY PRICE MOVEMENTS



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

For the next few editions, we will take you on a journey of exploring the **Food Safety aspects of dairy production**. The aspects to be covered include Milk collection, Tankers & Milk testing, Manufacturing, Storage, Transport, Storage & Market entry, and Documentation.

Food Safety refers to the handling, preparing and storing of food in a way that is suitable to reduce the risk of foodborne illnesses. The principles of food safety aim to prevent food from becoming contaminated and causing food poisoning. This is achieved by monitoring the handling of food right from receiving of raw materials until distribution.

We will start off by looking at **Milk collection and Tankers & Milk testing**.

1. Milk Collection



- Raw milk is monitored through a range of testing methods carried out on every load of raw milk from each farm.
- Every farm also undergoes a range of notified and non-notified audits each year.
- Farm samples can be sent to an independent lab to test for comparison, microbiological and inhibitory substances.

2. Tankers & Milk Testing



- When tankers arrive on site, every load is tested for inhibitory substances, i.e. antibiotics, before the milk is unloaded.

In the **next edition**, we will cover **Manufacturing of Milk: Processing & Packaging**.



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