



ETS FREDDY BAINES

Bi-weekly Market Update

JUNE 8th 2017

Summary:

Many EU traders will be at the Eurolait annual meeting in the Netherlands.

They will be hotly debating and wondering why dairy prices moved up so sharply and firmly and if it is likely to persist.

There may be some consensus that quite a few traders and producers were short.

EU milk production isn't quite as bad as was feared and with good prices being paid by the processors, it may continue at a good rate.

US milk production still going strong (production is more than 10 mln tons higher than domestic consumption of milk. That's about 12% ?)

NZ milk production likely to be quite a bit better than last year.

If prices are firm, then surely it can only be because the demand is there?

ETS FREDDY BAINES

TABLES

GDT n°188	plus 3,2%			GDT n°189	plus 0,6%
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	17/01/2017	08/02/2017	21/02/2017		21/03/2017	04/04/2017	02/05/2017	16/05/2017	06/06/2017	
AMF	5,470 \$	5,640 \$	5,560 \$	+/- \$5685	5,855 \$	5,930 \$	6,275 \$	6,690 \$	6,670 \$	210kg CP (2)
BUTTER Font	4,380 \$	4,620 \$	4,595 \$	+/- \$4699	4,975 \$	4,892 \$	5,100 \$	5,680 \$	5,915 \$	82%, uns,cp2
SMP Font	2,685 \$	2,675 \$	2,700 \$	+/- \$2085	1,930 \$	2,044 \$	2,080 \$	1,975 \$	2,180 \$	MH CP 3
SMP Arla	2,310 \$	2,170 \$	2,135 \$	np	np		1,900 \$	2,025 \$	2,185 \$	MH cp 2
FCMP Font	3,225 \$	3,290 \$	3,160 \$	+/- \$2747	2,835 \$	2,998 \$	3,410 \$	3,340 \$	3,110 \$	Reg cp 2

EEX									
	12/04/2017	19/04/2017	26/04/2017	03/05/2017	10/05/2017	17/05/2017	24/05/2017	31/05/2017	07/06/2017
BUTTER	€ 4,425	€ 4,448	€ 4,462	€ 4,522	€ 4,608	€ 4,737	€ 5,090	€ 5,407	€ 5,433
SMP	€ 1,727	€ 1,727	€ 1,730	€ 1,750	€ 1,783	€ 1,827	€ 1,880	€ 1,948	€ 1,982
WP	€ 867	€ 867	€ 870	€ 877	€ 883	€ 923	€ 950	€ 968	€ 960

Dutch official prices									
	12/04/2017	19/04/2017	26/04/2017	03/05/2017	10/05/2017	17/05/2017	24/05/2017	31/05/2017	07/06/2017
BUTTER	€ 4,450	€ 4,480	€ 4,520	€ 4,540	€ 4,600	€ 4,720	€ 5,070	€ 5,370	€ 5,450
FCMP	€ 2,640	€ 2,660	€ 2,680	€ 2,730	€ 2,780	€ 2,830	€ 2,950	€ 2,950	€ 2,980
SMP Food	€ 1,710	€ 1,710	€ 1,730	€ 1,750	€ 1,790	€ 1,830	€ 1,890	€ 1,970	€ 1,980
WP	€ 870	€ 870	€ 880	€ 890	€ 910	€ 950	€ 970	€ 970	€ 970

NZX FUTURES

	WMP								
	06/03/2017	08/03/2017	20/03/2017	22/03/2017	15/05/2017	22/05/2017	05/06/2017	07/06/2017	in €
SEPT	\$2,950	\$2,770	\$2,720	\$2,970	\$3,375	€ 3,225	€ 3,125	€ 3,130	€ 38,059
OCT	\$2,970	\$2,780	\$2,720	\$2,980	\$3,200	€ 3,190	€ 3,120	€ 3,150	€ 2,777
NOV	\$2,970	\$2,790	\$2,750	\$2,990	\$3,100	€ 3,180	€ 3,115	€ 3,125	€ 2,795
DEC	-	\$2,790	-	-	\$3,060	\$3,170	\$3,110	€ 3,100	€ 2,773
JAN	-	-	-	-		\$3,150	\$3,100	€ 3,100	€ 2,751
FEB					-	\$3,150	\$3,100	€ 3,085	€ 2,751
MAR	\$2,920	\$2,725	\$2,700	\$2,910		\$3,150	\$3,100	€ 3,085	€ 2,737
APR	\$2,900	\$2,700	\$2,680	\$2,910		-	\$3,075	-	-
MAY	\$2,910	\$2,725	\$2,710	\$2,920	\$3,375				-
JUNE	\$2,910	\$2,740	\$2,715	\$2,930	\$3,200	\$3,350	\$3,240		€ 0
JULY	\$2,920	\$2,750	\$2,715	\$2,940	\$3,100	\$3,275	\$3,170	€ 3,175	€ 2,817
AUG	\$2,950	\$2,760	\$2,720	\$2,960	\$3,060	\$3,225	\$3,150	-	-

	AMF								
	06/03/2017	08/03/2017	20/03/2017	22/03/2017	15/05/2017	22/05/2017	05/06/2017	07/06/2017	in €
SEPT	\$5,270	\$5,200	\$5,180	\$5,520	\$6,100	\$6,650	-	€ 6,800	€ 6,034
OCT	\$5,620	-	\$0	\$5,450	\$6,000	\$6,500	\$6,650	€ 6,700	€ 5,945
NOV	\$5,620	-	\$0	-	\$5,900	\$6,450	\$6,500	€ 6,700	€ 5,945
DEC	-	-	\$0	-	€ 5,900	\$6,400	\$6,350	€ 6,700	€ 5,945
JAN	-	-	\$0	-	€ 5,900	\$6,350	\$6,250	-	-
FEB				-		\$6,350	\$6,150		-
MAR	\$5,480	\$5,560	\$5,560		-	\$6,350	\$6,100		
APR	\$5,520	\$5,530	\$5,500	\$5,800		-	-	-	-
MAY	\$5,450	\$5,460	\$5,450	\$5,780	\$6,400				
JUNE	\$5,380	\$5,390	\$5,350	\$5,730	\$6,375	\$6,750	\$6,800	€ 6,800	€ 6,034
JULY	\$5,250	\$5,320	\$5,300	\$5,660	\$6,200	\$6,750	-	€ 6,850	€ 6,078
AUG	\$5,275	\$5,250	\$5,200	\$5,590	\$6,150	\$6,750	-	€ 6,900	€ 6,122

Country overview

Argentina

- (a) At the latest SIAL China, there was not one dairy company present.
- (b) Whether because of inflation, lack of supply or increased profit margins, the price of “dairy products” had increased by 15.3% by April '17, compared to December '16. Foodstuffs in general only went up by 8.9 %.

Between April 2016 and April 2017, dairy product prices (art retail level) increased by 45.4% , whereas foodstuffs in general only by 29.1%
- (c) according to a recent study, the Central Region of Argentina produced about 15% less milk than last year. In Santa Fe, the drop was 26% and in entre Rios down by 29%. It seems therefore logical that exports were down by 18.8%
- (d) In Q1, Brazil's imports of Arg. FCMP increased by 31% to 13.315 [I thought that Brazil had imposed some kind of quota???Needs to bechecked !]
In second place comes Algeria with 8,206 mt: but this does represent a 18% drop. Venezuela of course is special; down 60%

Australia

- (a) From **The Land**, June 7th : “ ... Murray Goulburn's decision to offer dairy farmers a lower-than-expected milk price has set the scene for a major upheaval of the dairy industry, as rival processors weigh up whether to break ranks and exact further pain on the besieged co-operative by offering a higher price. The nation's biggest dairy processor, has set its opening milk price at \$4.70 a kilogram of milk solids, which farmers argue is below the cost of production and could force some to leave for rival companies or quit their farms.....The news pushed shares in MG's unit trust down 14.5 per cent to a record low 73.5¢, well below their 2015 issue price of \$2.10.....Several farmers and industry groups argued MG's price was well below the cost of their production.....United Dairy Farmers of Victoria president Adam Jenkins said anything below \$5/kg was "pretty challenging for farmers".

And on May 21st :

“ ...Parmalat Australia, which owns the big-selling milk brand Pauls, Vaalia yoghurt and Oak flavoured milk, produced a nine per cent rise in annual revenues to \$1.8 billion in 2016 in a fiercely competitive sector where large rival Murray Goulburn has been in turmoil. Parmalat, owned by French dairy giant Lactalis, has a resilient Australian business where Pauls is the leading white milk brand, and has also increasingly been making inroads in Asia, where the UHT long-life version of Pauls is the number one seller in Hong Kong.

(b) From **ABC News**, June 7th : interesting to see what some people think about China “.....Monday night's episode of Four Corners lined up an array of academics, bureaucrats and politicians expressing alarm about China's attempts to influence Australia through clandestine activities.

Australia's former ambassador to China, Geoff Raby, was a notable exception.....

China working to 'persuade, manage, discipline and control'

As John Fitzgerald noted in an episode of the Little Red Podcast, "the Propaganda Bureau and others have given up on trying to persuade non-Chinese Australians ... it couldn't care what they think. Rather it's messaging to them the consequences of what they think. Whereas within the Chinese community there's an effort to persuade, manage, discipline and control."

The first incident to alarm Australia's intelligence service — the sudden mobilisation and arrival of thousands of Chinese students to Canberra to protect the Olympic torch ("sacred flame" in Chinese media reports) from anti-China protesters — provided a perfect illustration of this difference.

For mainstream Australian TV viewers, the sight of Chinese students being arrested after shouting down and assaulting pro-Tibet protesters looked like a colossal soft power fail.

But the elaborately choreographed and expensively assembled protest wasn't staged for non-Chinese consumption. It sent an effective message that the party line extended well beyond China's borders.

The comparison also does little justice to the sophistication of Israel's public diplomacy, embodied by Australian-born Mark Regev, former chief spokesman for the Israeli Prime Minister, now ambassador to Great Britain.

Will we ever see an Australian-born Chinese citizen arguing — in a reassuring drawl — for Australia to give China "a fair go" in Tibet or Xinjiang? It seems unlikely.

It also misses the point that Israeli citizens can choose from a range of political parties with different foreign policies.

Chinese citizens cannot remove their ruling party, or even mildly rebuke it abroad for failing to deal with air pollution.

Under President Xi Jinping's more assertive approach, Ministry of Foreign Affairs representatives even feel comfortable organising the disruption of international forums in Australia, and inciting other countries to join in.

Politicians can no longer claim ignorance

Against this background of renewed assertiveness brought by Mr Xi's leadership, it is the zeal for controlling the message about China to Chinese Australians that is perhaps most difficult to fathom.

All 24-hour Chinese language radio stations in Australia now broadcast content identical to that delivered by China's Ministry of Propaganda. Yet Chinese consular officials visit the stations in person to vet talkback callers and instruct the stations on which guests are off limits.

The majority of print media outlets follow a similar line, and arms of the Chinese state actively pressure the holdouts.

All Chinese language media are instructed on what they should and should not run at "sensitive" times, such as the recent visit of Premier Li Keqiang. As the child of Scottish migrants, it would be as if Nicola Sturgeon's Scottish Nationalist Party decided it had the right to act as the arbiter of what I heard, read and said about Scotland — and had the means to stop me criticising the weather or my countrymen's love of offal. It is an absurd situation.

It is tragic that Chinese citizens live in what political theorist Stein Ringen has described as a "controlocracy", but we should not tolerate Chinese Australians being subject to the perfect dictatorship.

Our politicians can no longer claim that they don't know.

It is time to ask China to stop interfering in our internal affairs.

Graeme Smith is a research fellow at the Australian National University and the host of The Little Red Podcast.

EU BUTTER

EU Jan to March 2017	production compared to last year:	-4%
Apr 2016 to Mar 2017	production compared to last year:	-1.5%

EU exports Jan to March 2017 compared to last year -15%
(but the graph shows a really steep increase between Feb and March)

EU MILK

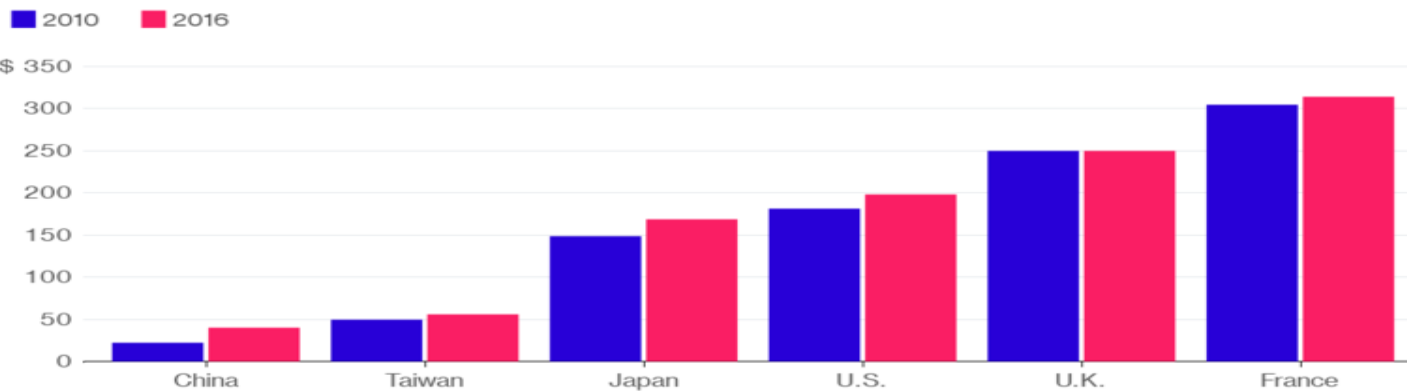
Muller is paying €31.82 DMK €31.33 Hochwald €31.69

CHINA

(a) does one actually need to write anything about potential growth if you can look at a graph like the one below ?

Dairy Budgets

Annual per capita expenditure on dairy products around the world



Source: Euromonitor International

Bloomberg

(b) from Bloomberg: May 24th 2017 : “.....China’s packaged-food market, valued at \$226 billion by Euromonitor International Plc, is helping forge domestic companies that rival some of the world's biggest food giants, from state behemoth Cofco Corp. to dairy company Inner Mongolia Yili Industrial Group Co. and meat producer WH Group Ltd. But swaying Chinese taste buds may be easier than swaying hearts and minds. In a nation where even eggs and milk can be deadly fakes, consumers have become cynical about home-grown food and are willing to pay a premium for foreign brands they assume contain better ingredients and had to pass tougher safety checks.....Chinese companies have announced more than 80 overseas deals valued at about \$12 billion in the food industry since 2009, according to data compiled by Bloomberg. That’s the year after at least six people died from drinking melamine-laced concoctions sold as milk. Yili said just this month it bid \$850 million for Danone SA's Stonyfield brand.....One of the most active acquirers is government-owned Bright Food Group Co., based in Shanghai. China’s second-largest food company is recovering from scandal after its former chairman was sentenced in 2015 to 18 years in prison for embezzlement and bribery.

(c) From the People’s Daily, May 26th : “Statistics from the Russian Export Center show that China has become a major consumer of Russian food, with the former purchasing \$1.55 billion of food products in 2016, up by 20 percent from 2015. China and Russia have already made major achievements in bilateral agricultural cooperation. According to a report issued by Milknews, a Russian analysis center, and Souzmoloko, the national union of milk producers, Russia’s exports of dairy products to China increased by 170 percent to total \$6.7 million. That figure may well rise further in 2017, said Artyom Belov, executive director of Souzmoloko, adding that China is a crucial strategic destination for the country to expand its exports of dairy. China and Russia agreed at the recently concluded Belt and Road Forum for International Cooperation to establish an investment fund promoting regional development and cooperation, within which agriculture would be a priority. Meanwhile, China conditionally ended its ban on Russian wheat at the end of 2015, and a long-term supply contract for agricultural products was signed by both countries in April,

FRANCE

(a) adapting an article in Usine Nouvelle dated 26th January : “ Producers of viennoiseries

[according to WIKIPEDIA a yeast-leavened dough in a manner similar to bread, or from puff pastry, but with added ingredients (particularly eggs, butter, milk, cream and sugar)

and assimilated are worried about were complaining that butter had gone from a floor price of €2500 to a massive price of €4500 per ton, and this when butter represents 24% of their ingredient cost.

What will they be saying now, I wonder?

Well, I see that on June 2nd, in France Agricole, the Federation of Bakeries said on May 10th;

“ there is now a major crisis in the sector...A price of €5.37 per kilo, i.e. a 13.8% increase in two weeks ! when a year ago, they paid less than €3 for a kilo.

There’s a wave of panic...thinking about sales at the end of the year...

(b) the cost of publicity:

Danone has signed a 3 year contract with Soyouzmultfilm for 30 episodes of 6.5 minutes each of cartoon films.

For which they’ll be paying 4.7 millions to Soyouz (plus 3 millions royalties for 70 years usage)

Ireland

(a)

Intake of cows' milk					2016	2017	2017			
JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	
782.50	699.30	583.80	500.10	337.10	178.50	140.9	264.80	617.60	853.10	
Intake of cows' milk					2015	2016	2017			
JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	FEB	APRIL	
768.90	693.90	604.20	536.30	347.90	181.60	147.60	287.10	594.60	760.80	

(b) On June 2nd, by Gillian Dufficy, from Agriland :

The average farm income across the 83,377 farms represented by the Teagasc National Farm Survey was **€24,060** in 2016.

The average **dairy** farm income in 2016 was **€51,809**, according to a preliminary estimate from Teagasc’s National Farm Survey results.

Dairy farms are consistently the most profitable enterprise.

Cattle-rearing enterprises reported the lowest average farm income in 2016, at **€12,908**.

The average sheep farm income remained stable at **€16,011**.

Netherlands.

(a) In May 2017, Friesland-C's guaranteed price was €36 per 100kgs of milk. For JUNE, they are guaranteeing €36.75 (up by €0.75)

(b) With the probable restructuring, possible bankruptcy of Huishan Dairy (Freisland-Campina's joint venture partner) , F-C may lose more than €50 million.

New Zealand

(a) from SCOOP business:

The Overseas Investment Office hasn't yet received an application from the reported buyer of Harvard University's 5,500-head dairy farms in the South Island. US private equity firm KKR & Co was reported by Bloomberg as being close to making a US\$70 million purchase of 8,500 acres.....Harvard bought the Big Sky Dairy Farm properties in 2010 for about \$32 million out of receivership, after what was Central Otago's biggest dairy farm operator defaulted on payments in 2007 before being placed in liquidation two years later. The Cambridge, Massachusetts-based university has held about 10 percent of its US\$35.7 billion endowment fund in natural resources

Also :

....New Zealand's cow slaughter season got off to a slow start this year as good conditions prompted farmers to keep milking for longer, however that led to a wave of demand for slaughter late in the season that could have seen the month of May hit a new record for cow slaughter.....farmers selecting their least productive dairy cows for slaughter.....favourable early autumn weather conditions meant dairy cows were milked for longer than typical, causing this lagged spike in the cow slaughter. The improvement in farmgate dairy returns also meant there was less culling earlier in the season simply to ensure adequate cash flow

And: Milk output from New Zealand is expected to lift this season and Fonterra has already made a small upwards revision in the volume of whole milk powder expected to be sold on GDT next season

(b) NZ Dairy Farmer in June 2017

Reporting on what Rabobank said: "...NZ will really struggle to be a significant player in providing the additional milk required given we are facing challenges on-farm in the form of increasing compliance costs and tightening regulatory requirement...Demand growth in Asia and Africa...consumption in China...grow at a slower rate....Farmgate prices forecast to reach \$6.25/kg of MS for the 2017/2018 season....Europe is the key and we are expecting growth in the second half of 2017 of 1.5 %.

And

It is expected that if Fonterra's pay-out and forecast pay-out is realised, the average dairy farmer's income will rise by NZ\$80,000- and total dairy income increase by NZ\$4.2 bln, of which Fonterra farmers are NZ\$3.2 bln.

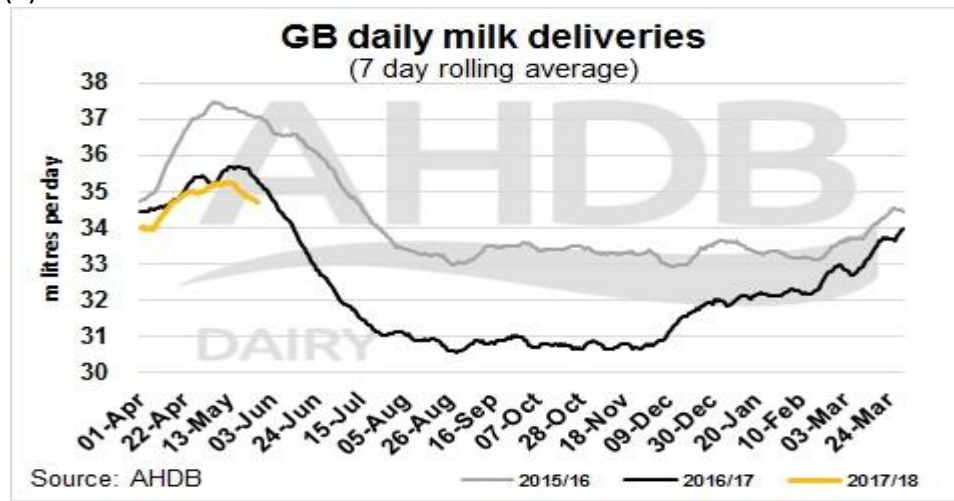
And

Dairy NZ has estimated this season's milk production figure would only be slightly reduced at -0.5% hand has a projected increase of 2% in 2017-2018 which could lower prices. It said farm working expenses were an average of NZ\$3.65- 3.75, the lowest since 2009.

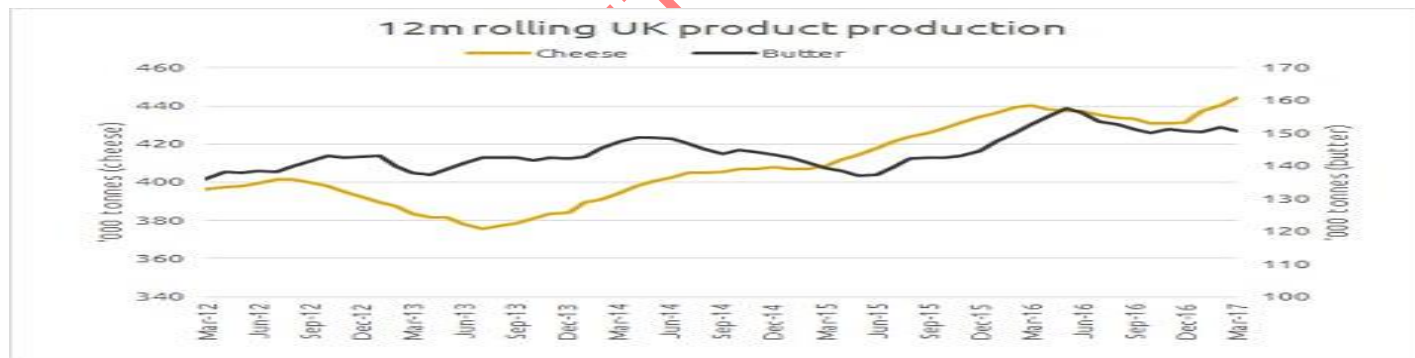
The break-even is estimated to be NZ\$5.2, rising to NZ\$5.4 for next season.

UK

(a)



(b)



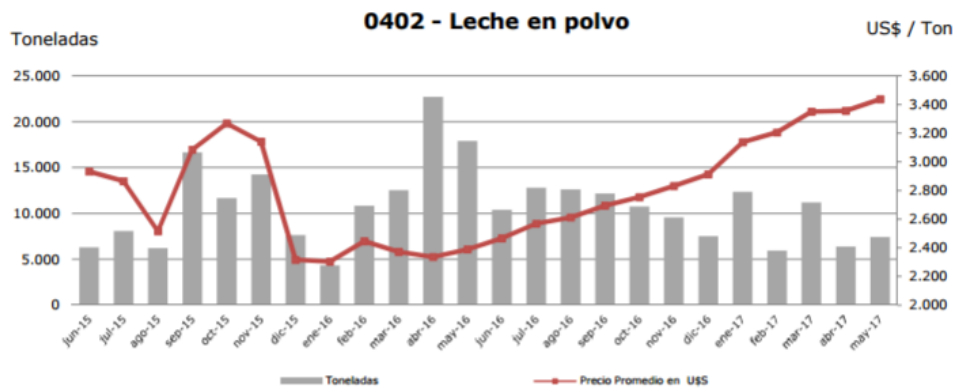
(c) interesting to see industry confirmation of the value of by-products.

According to South Caernarfon Creameries “cheese by-product returns on cream and whey have continued to strengthen....On the back of these improved returns we [improve price to farmers]”

Uruguay

Value of their exports of FCMP:

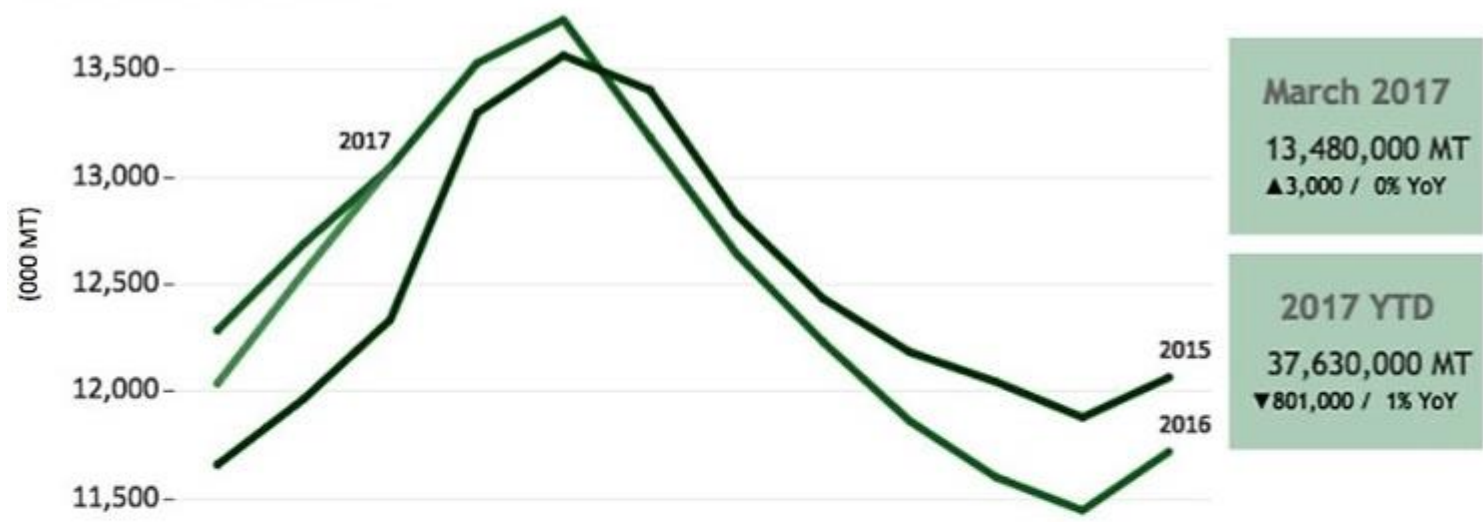
En toneladas y precio promedio en US\$ corrientes de partidas destacadas en las exportaciones de nuestro país
Período: Jun 2015 - May 2017



BAINES

E.U.

EU-28 Milk Production



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	TOTAL
<input type="checkbox"/> 2010	10,949	10,293	11,750	11,884	12,626	11,960	11,723	11,452	10,941	11,063	10,545	10,912	32,992	136,098
<input type="checkbox"/> 2011	11,333	10,566	12,077	12,217	12,726	12,019	12,075	11,676	11,096	11,157	10,705	11,289	33,976	138,936
<input type="checkbox"/> 2012	11,667	11,049	12,365	12,370	12,978	12,277	12,001	11,561	10,883	10,991	10,545	11,056	35,081	139,743
<input type="checkbox"/> 2013	11,515	10,731	12,109	12,014	12,984	12,254	12,290	11,957	11,330	11,547	11,077	11,690	34,355	141,498
<input type="checkbox"/> 2014	12,158	11,328	12,923	13,107	13,617	12,908	12,900	12,500	11,959	11,844	11,324	11,849	36,409	148,417
<input checked="" type="checkbox"/> 2015	12,044	11,165	12,743	13,295	14,015	13,401	13,248	12,845	12,181	12,443	11,876	12,465	35,952	151,721
<input checked="" type="checkbox"/> 2016	12,691	12,263	13,477	13,527	14,187	13,181	13,060	12,636	11,860	11,984	11,442	12,107	38,431	152,415
<input checked="" type="checkbox"/> 2017	12,435	11,715	13,480										37,630	37,630

EU-28 and Argentina are milk deliveries. Volumes converted to 30-day months for graphs. Source: USDA, EuroStat, DCANZ, Dairy Australia, Argentina Ministry of Agriculture. Latest months may include USDEC estimates. Percent changes adjusted for leap day.

USA

President Donald J. Trump issued a detailed fiscal year 2018 federal budget proposal yesterday (23 May), recommending drastic cuts to agricultural and rural related agencies and programmes.

The proposal would cut Farm Bill programmes by nearly \$230 billion and slash the US Department of Agriculture (USDA) annual budget by 21 per cent FROM Market Watch May 21st:

U.S. dairy industry was in trouble long before a trade squabble with Canada last month that reduced demand for ultrafiltered milk, a cheese ingredient. Dairy farmers fear a spat that has jeopardized roughly \$150 million in sales for Wisconsin, New York and Minnesota producers is just a prelude to disruptions to come if President Donald Trump renegotiates the North American Free Trade Agreement as promised..... Dairy farmers aggressively expanded their herds three years ago when milk prices were driven up by growing demand from middle-class consumers in North America, Asia and other markets. By March, there were 9.4 million commercial dairy cows in the U.S..... Commodities markets like dairy are prone to booms and busts because of the long lead time to ramp up supply. But the current glut -- and the accompanying downswing in exports -- may pose one of the biggest challenges yet to the U.S. dairy industry.

"A lot relies on exports, and that's why swings are such a big deal," said Ben Laine, an economist at CoBank Acb, an agriculture cooperative bank. "That's where any surplus goes."

The glut is likely to grow this spring, the most productive time of the year as temperatures rise and days grow longer. An unusually mild winter started this year's milking season months early at some dairies, further contributing to the milk crush.

"You can't turn the cows off," said Ken Nobis, president of a dairy cooperative in Michigan, where the busy season started three months early....

Meanwhile, U.S. dairy products are piling up. The U.S. has more than 800 million pounds of American cheese in reserve, the most since 1984, according to the USDA. The amount of butter in reserve totals 272 million pounds, the most since 1994.

From USDEC, Alan Levitt June 2, 2017

Sales in April 2017	to Mexico:	+ 9%	to S.E. Asia:	+23%	Sales to China	: +91%
NFDM/SMP : in April	55,555 mt	+9%	Lactose			+9%
Cheese	26,876 mt	+27%	MPC, AMF and FCMP	negligible < 2,200 mt each in April		
Whey products	43,294 mt	+11%				

Michael

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