

# Global Dairy Market Overview



{Webinar}

**How Do World Markets Impact My Dairy?**



16 November 2016

HighGround Dairy launched in 2012 by industry veteran, Eric Meyer. Affiliated with HighGround Trading LLC, Eric is the President of its Dairy Division which services all those interested in trading dairy futures and options markets. Through the brokerage division and its related consulting company, HighGround Advisory Group, it specializes in dairy hedging, risk management and market analysis services for farmers & cooperatives, processors, manufacturers, distributors, traders and end-users.

## **Market Information & Analysis:**

- Comprehensive coverage of global dairy markets
- Special emphasis on GDT and global import/export analysis
- US Dairy Forecast Snapshot
- Monthly US Milk & Feed Report – written from producer perspective
- Thrice weekly and monthly technical analysis of CME markets
- Weekly/monthly market update reports
- Consistently first to Breaking News that may have market impact
- White-labeled market research for internal or external distribution
- Customized market data, white papers

## **Hedge Advisory Services:**

### ➤ **Education**

- Dairy market 101, 201, etc.
- Federal Order & CA milk pricing systems
- Introduction to hedging & price risk management
- Customized training/education programs

### ➤ **Retainer-based Advisory Programs**

- Weekly, monthly, quarterly market/strategy calls
- Risk management hedging policy development
- Customized hedge plans and recommendations catered specifically to client's risk profile

HighGround Dairy has the ability to utilize multiple clearing firms to match clients with a firm that best suits their trading requirements including ADM Investor Services, Straits Financial, Rosenthal Collins Group, RJ O'Brien, among others. HighGround offers a full service trading desk to handle customer needs and employs a full-time Director of Compliance to ensure clients and brokers are following latest NFA/CFTC standards. HighGround Trading LLC provides the brokerage firm infrastructure, Eric & his team provide the dairy market expertise.

*Access to execute dairy derivatives contracts at these exchanges:*



## 2016 Initiatives

- ✓ **Delivering Expanded Access to Global Dairy Derivatives Markets**
  - International interest in risk management/hedging is growing and HighGround's model of education, research/analysis, advisory & execution is well-suited to service this emerging market
  - Established clearing relationships with Straits Financial & ADM Investor Services to provide customers flexibility to execute CME, NZX and EEX derivatives at multiple firms
  
- ✓ **HighGround Dairy Opened Singapore Office – December 2015**
  - Ability to service customers in SE Asia, China, Oceania & other emerging markets
  - Expanded market intelligence and analysis from key dairy import and export regions to deliver back to subscribers and clients back home
  - Nick Vanderkolk – Managing Director Asia Pacific - previously served on Fonterra's Commodity Risk & Trading Team in South East Asia
  
- ✓ **Travis Stoel Hired as Director of Hedge Advisory Services in May 2016**
  - Travis came to HighGround after a five year stint at Cargill and has more than 11 years of dairy risk management experience including FCStone, Schwans & Kellogg's
  - HighGround well-positioned to meet the growing market/risk management advisory and consulting needs of dairy industry

## The Dairy Industry is Changing

- For every 25 pounds of milk produced in the US 3 pounds are sent out of the country.
- 20 years ago less than 1 pound left the country for every 25 pounds produced.
- At the export peak in 2013-2014 - 4 out of every 25 pounds of milk produced left US soil.

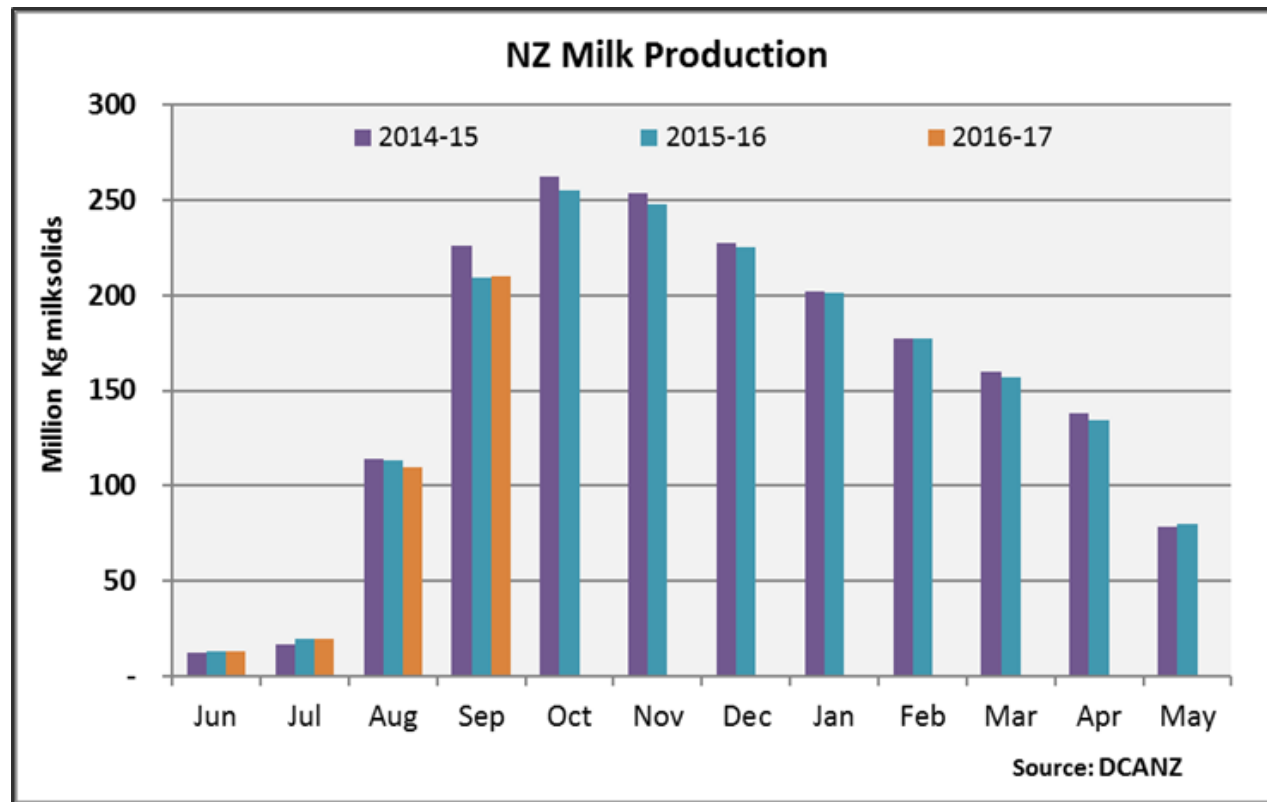
## Consumer Trends Favor Dairy

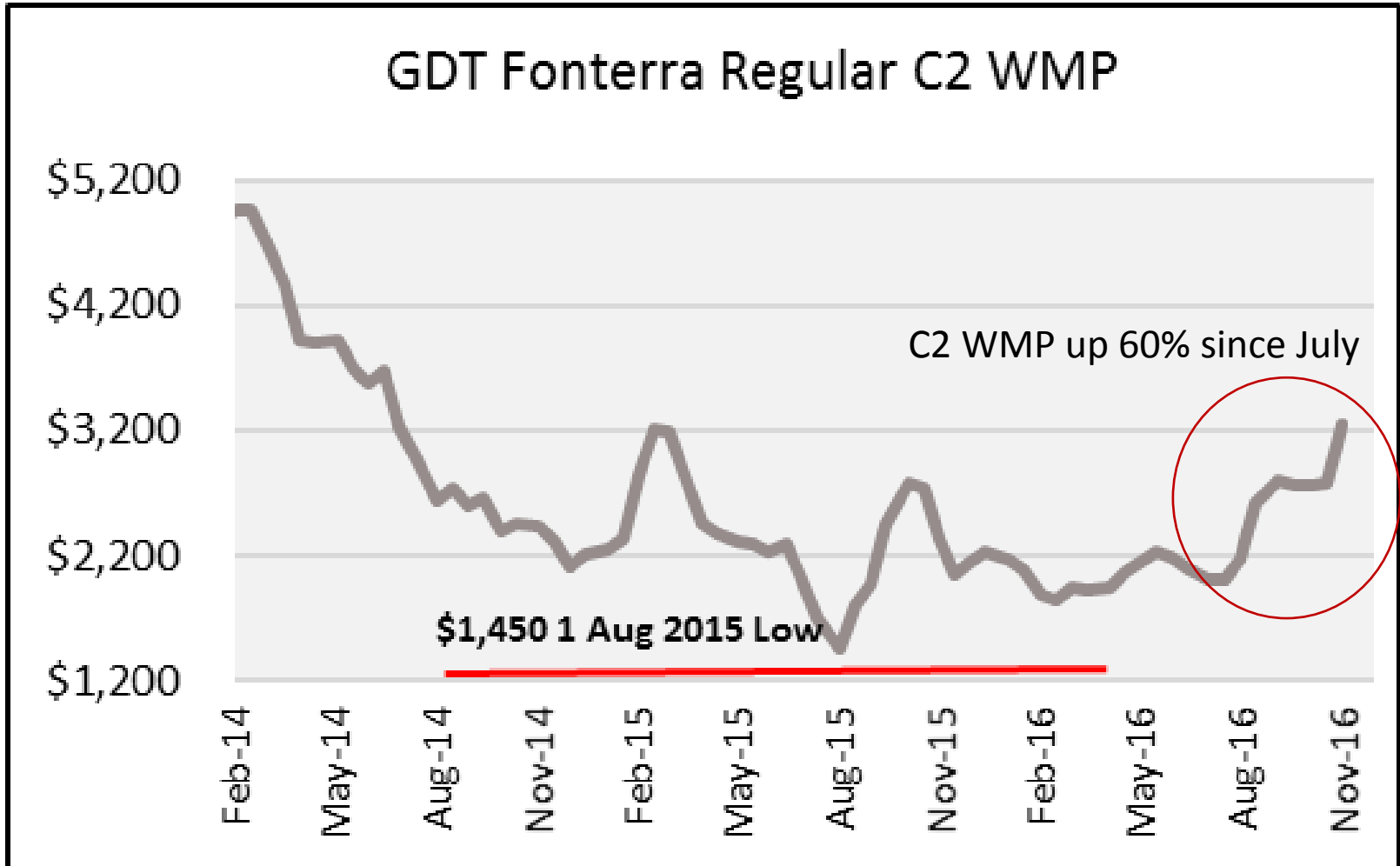
- Butter is now good for you. (Good fats vs. Bad fats)
- Diets are high protein – low sugar (whey protein energy drinks and Greek yogurt)
- Smart snacking and consumer friendly packaging helped boost cheese sales 14% since 2009



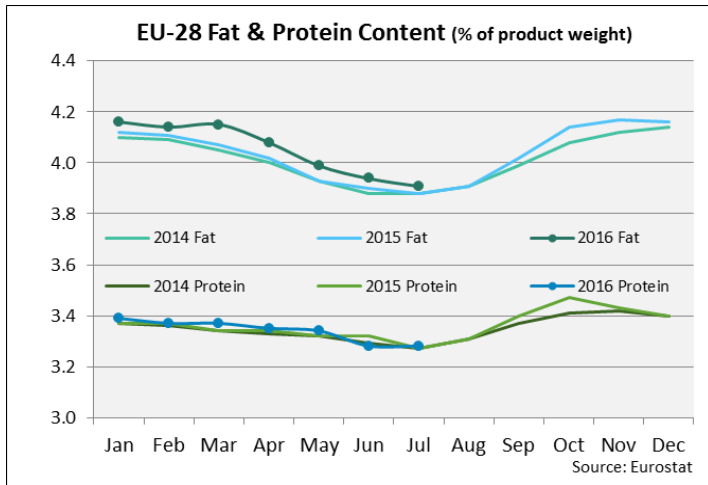
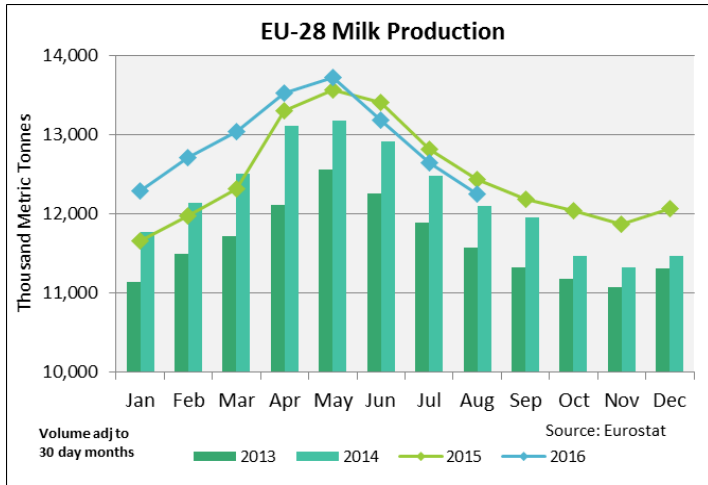
## NZ Production Slowing:

- Rainfall in October 120% to 149% above normal
- Pasture Conditions well below last year
- Fonterra collections down 2% in September and expected to be down 7% to 10% in October.
- Shortfalls for the peak production pushing GDT prices higher

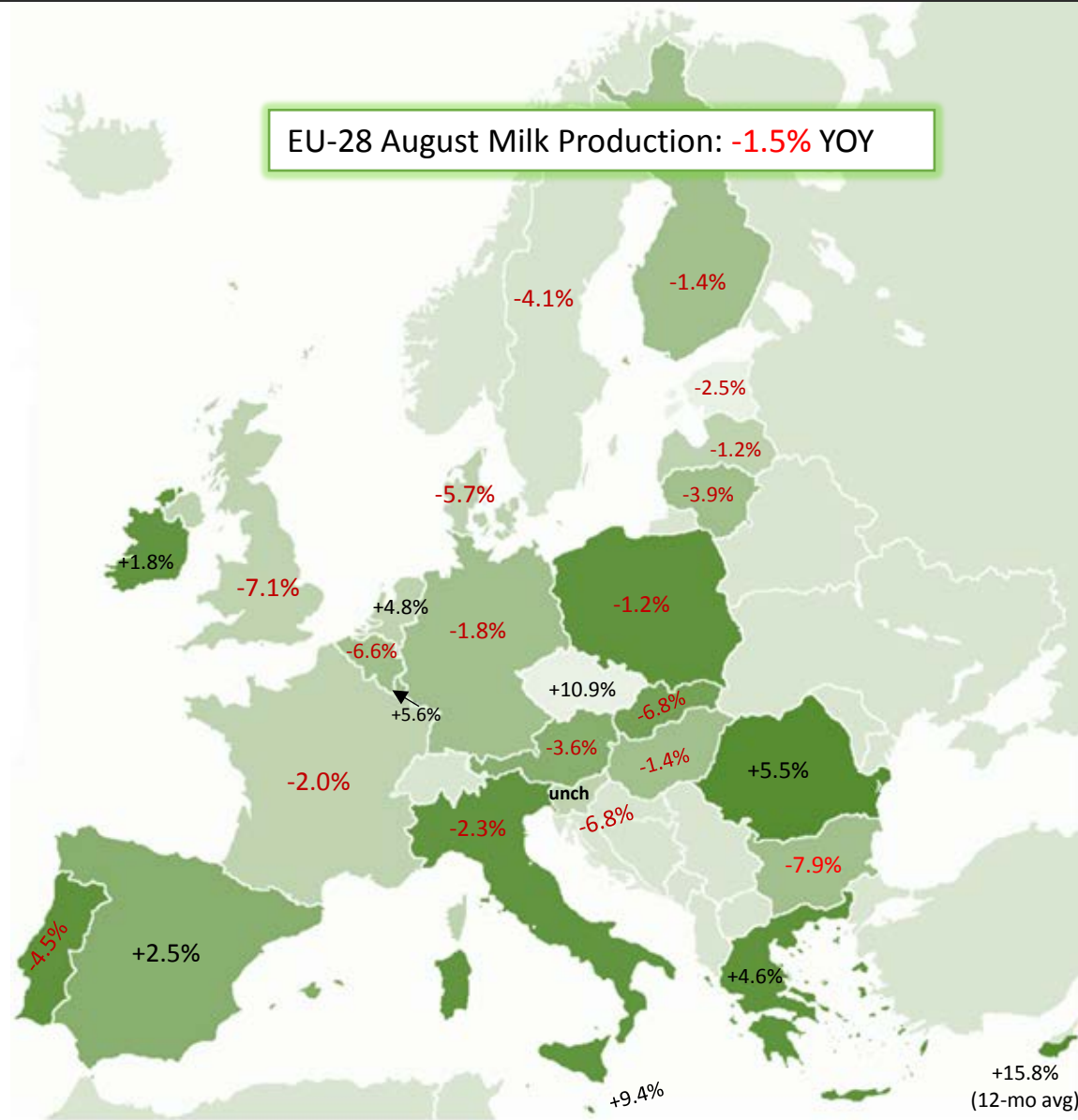




# EU-28: August 2016 Milk Production



**Note:** some figures are reported as 'preliminary' from Eurostat and are subject to change

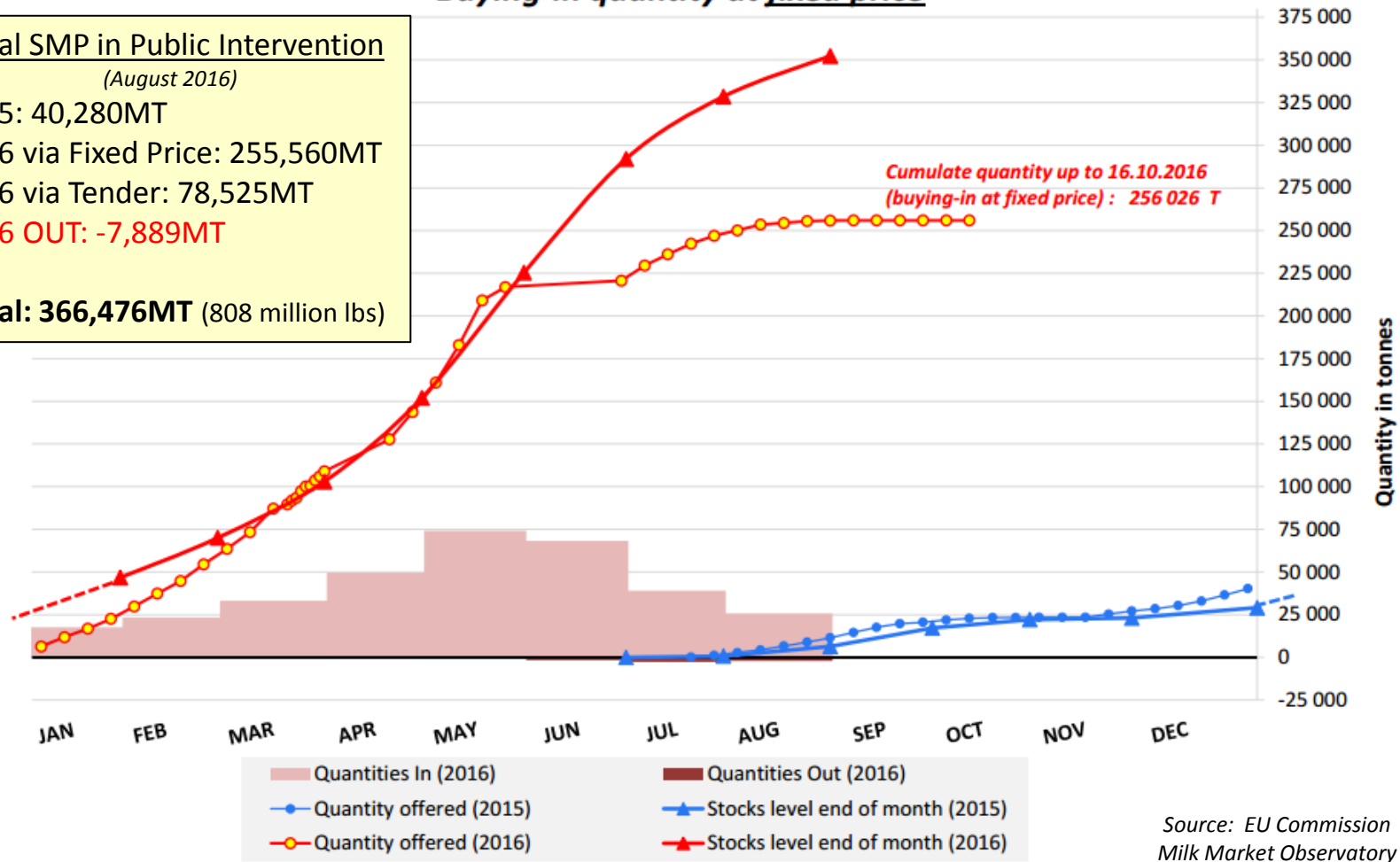




## Public SMP Intervention scheme (2015-2016)

### Buying-in quantity at fixed price

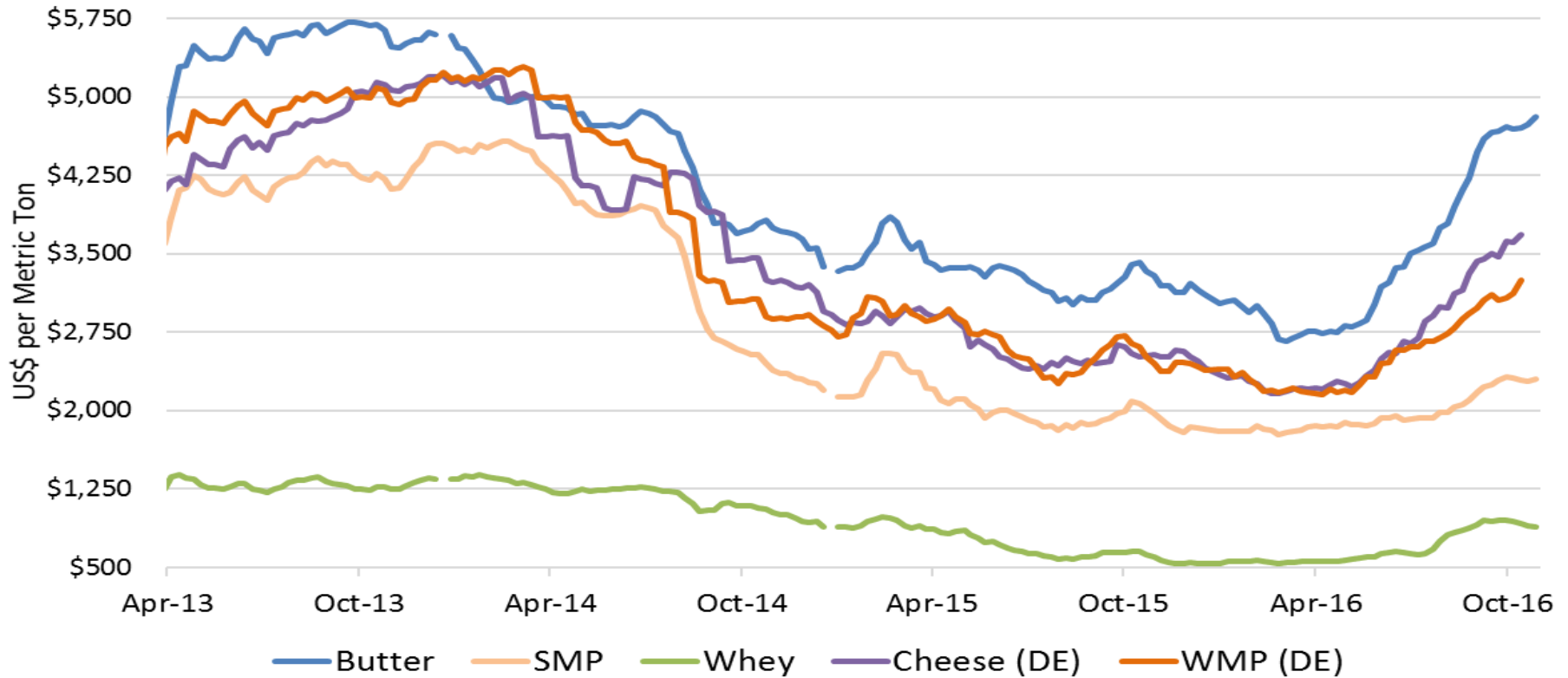
**Total SMP in Public Intervention**  
*(August 2016)*  
 2015: 40,280MT  
 2016 via Fixed Price: 255,560MT  
 2016 via Tender: 78,525MT  
 2016 OUT: -7,889MT  
**Total: 366,476MT** (808 million lbs)



Source: EU Commission Milk Market Observatory



## European Union: Weekly Dairy Commodity Prices

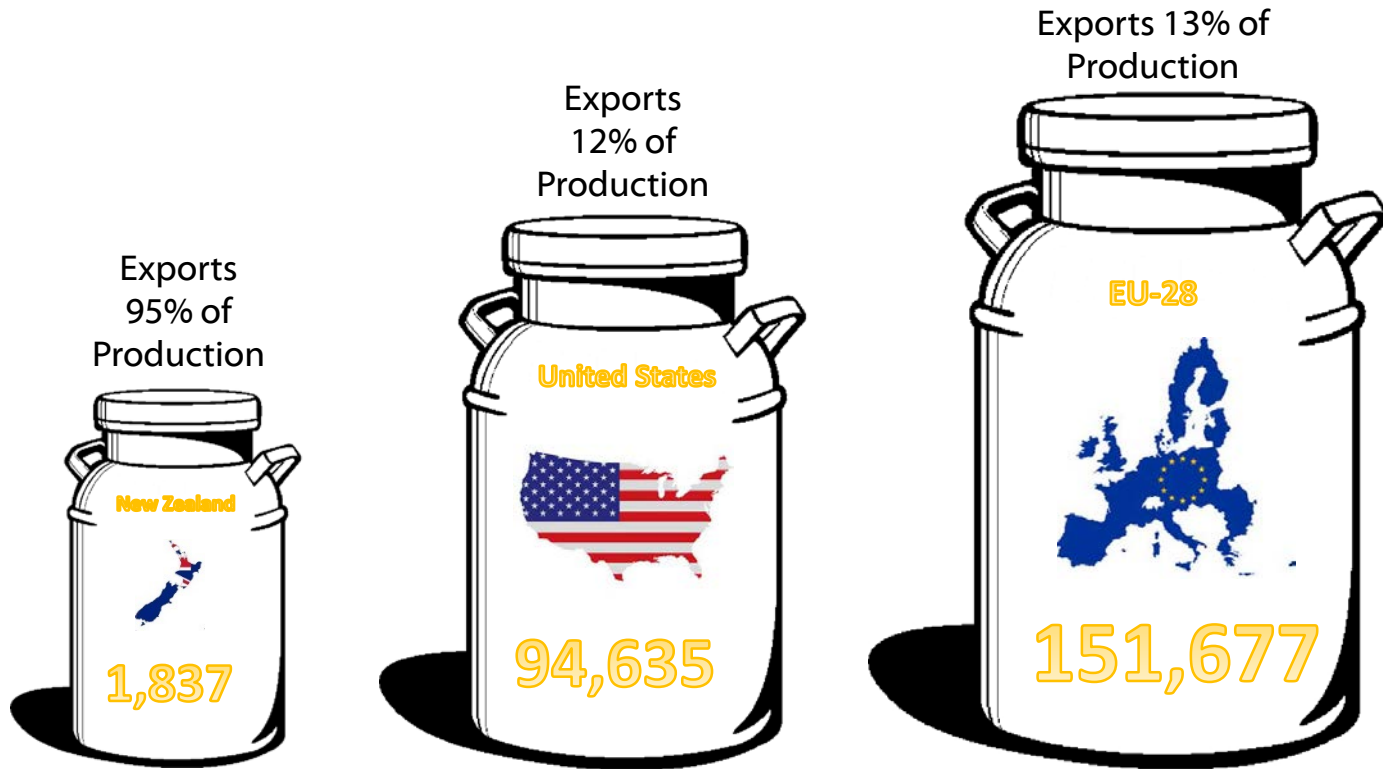


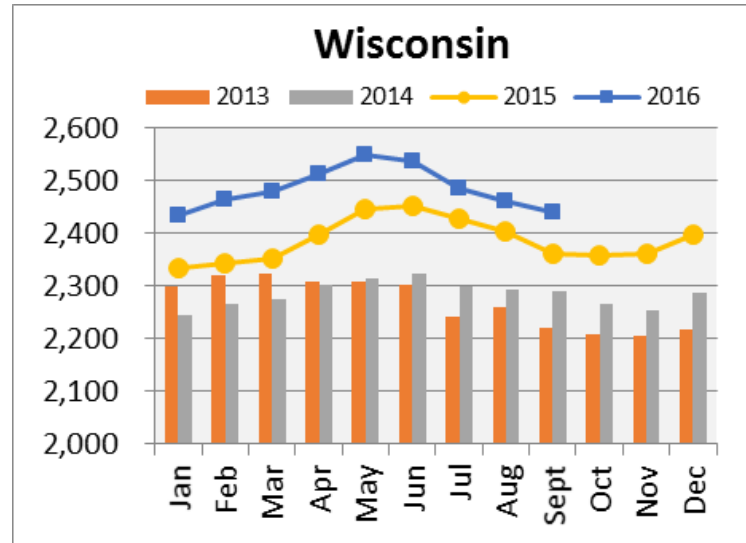
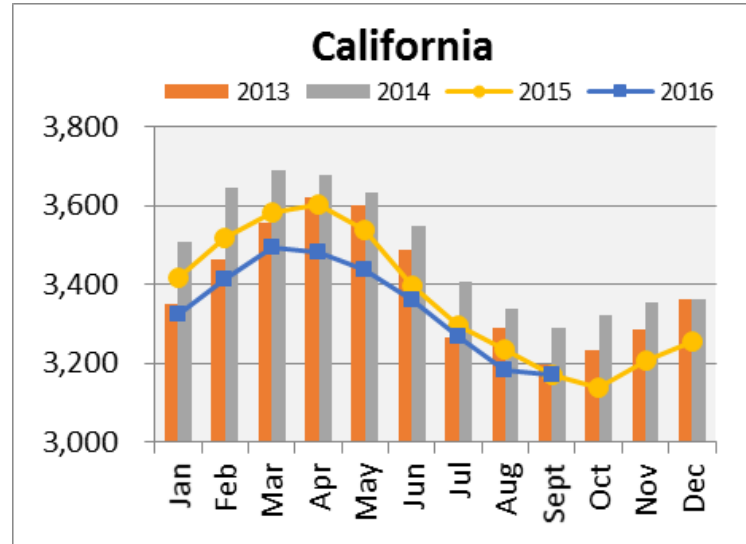
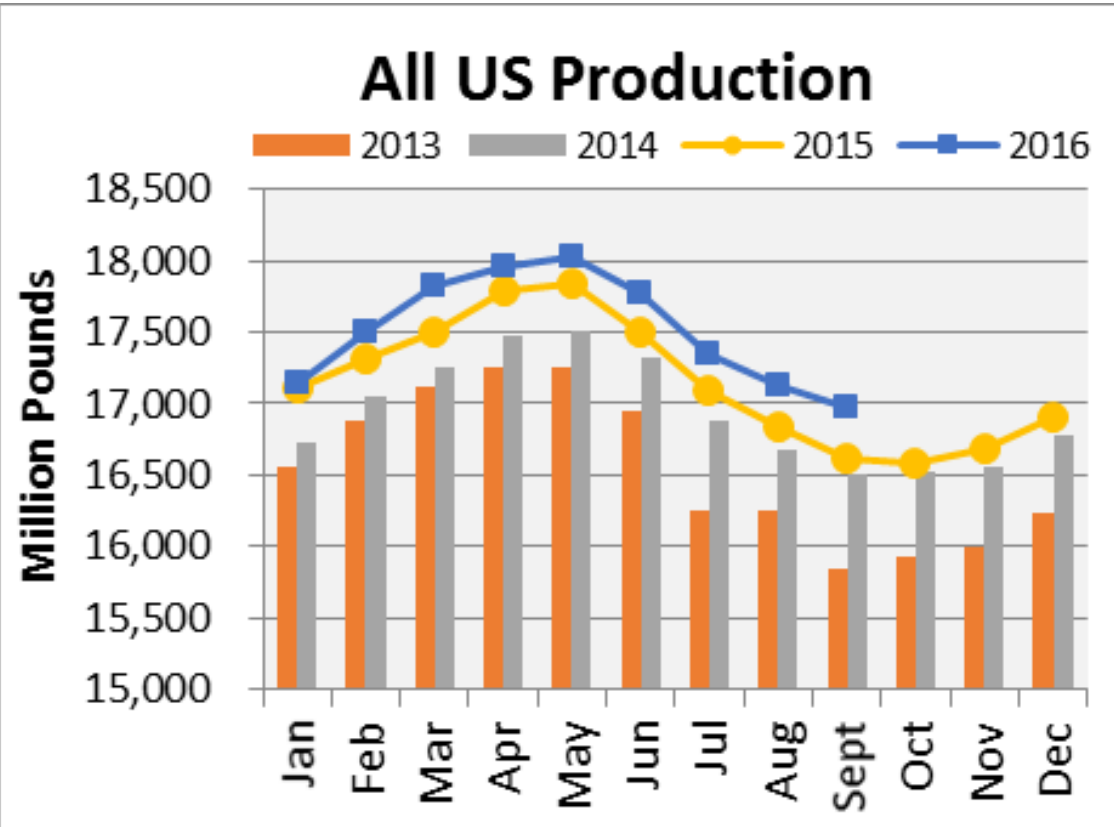
Since April :

- Butter UP 74%
- Cheese UP 66%
- WMP UP 48%
- SMP UP 24%

# 2015 Milk Production - Top 3 Major Exporters

(1,000 Metric Tons)

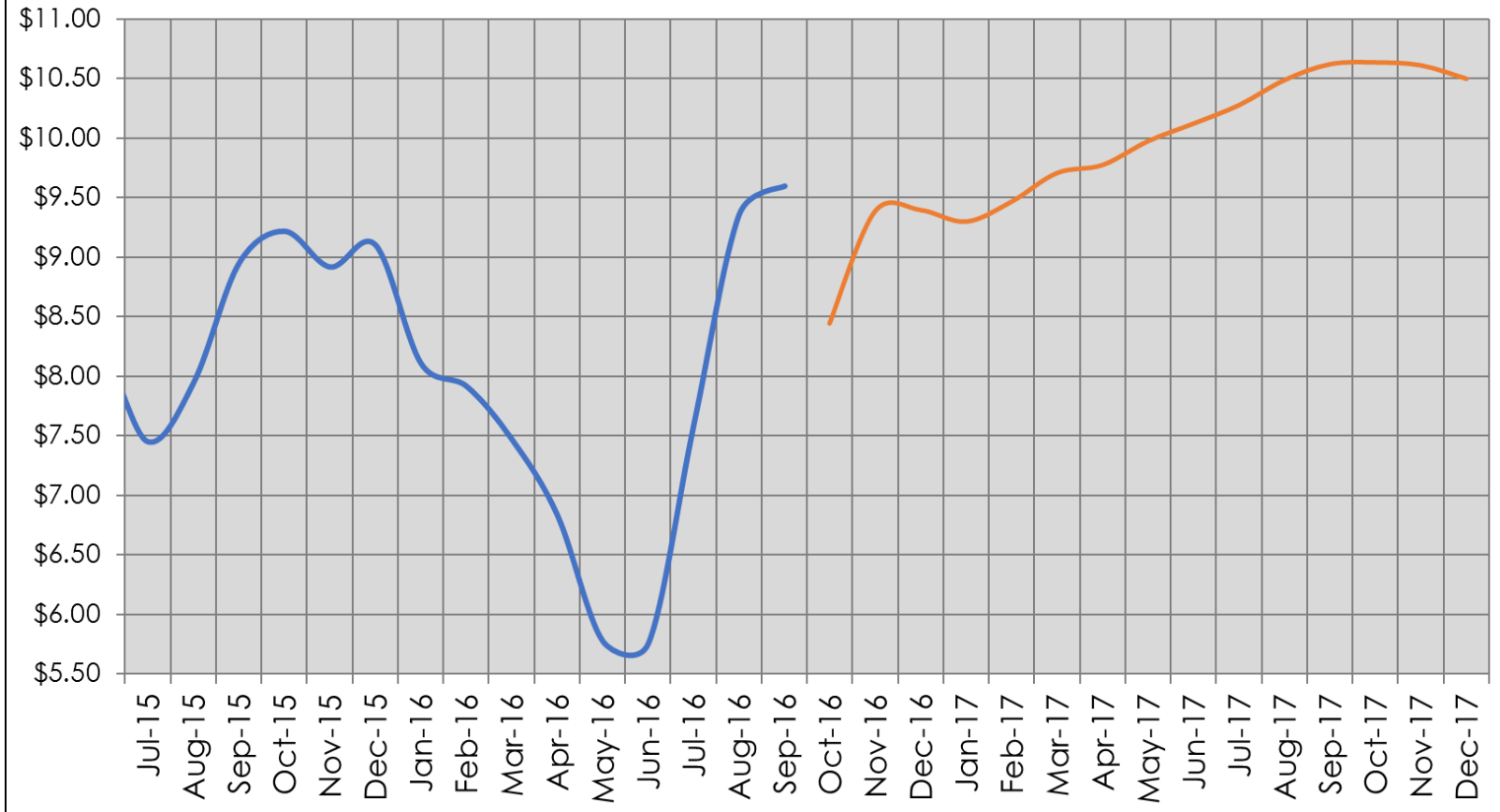


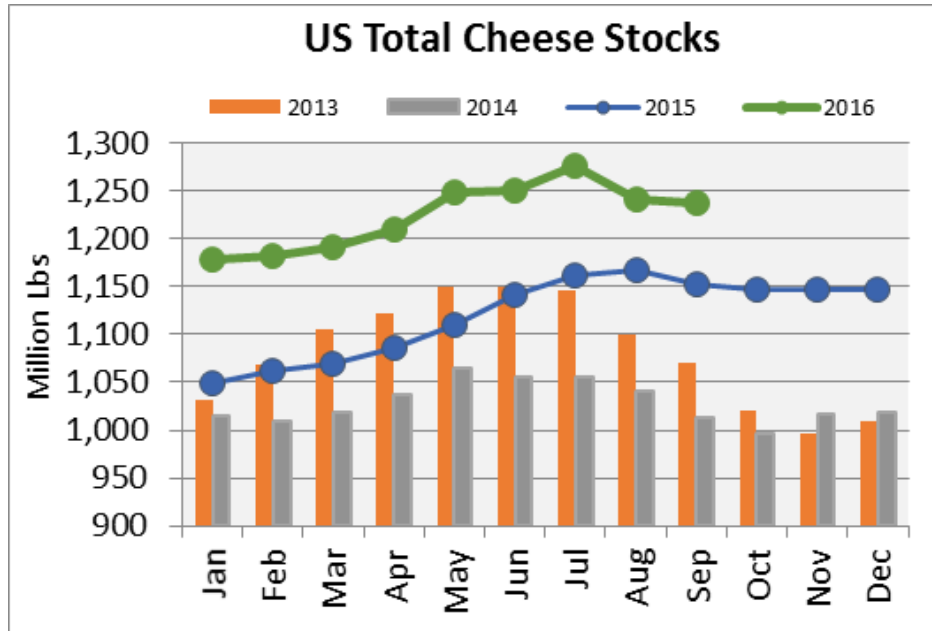


- September Production up 2.1% vs. last yr.
  - California DOWN -0.1%
  - Wisconsin UP 3.3%
    - Idaho UP 4.9%
    - Texas UP 5.3%

## National Income Over Feed Cost

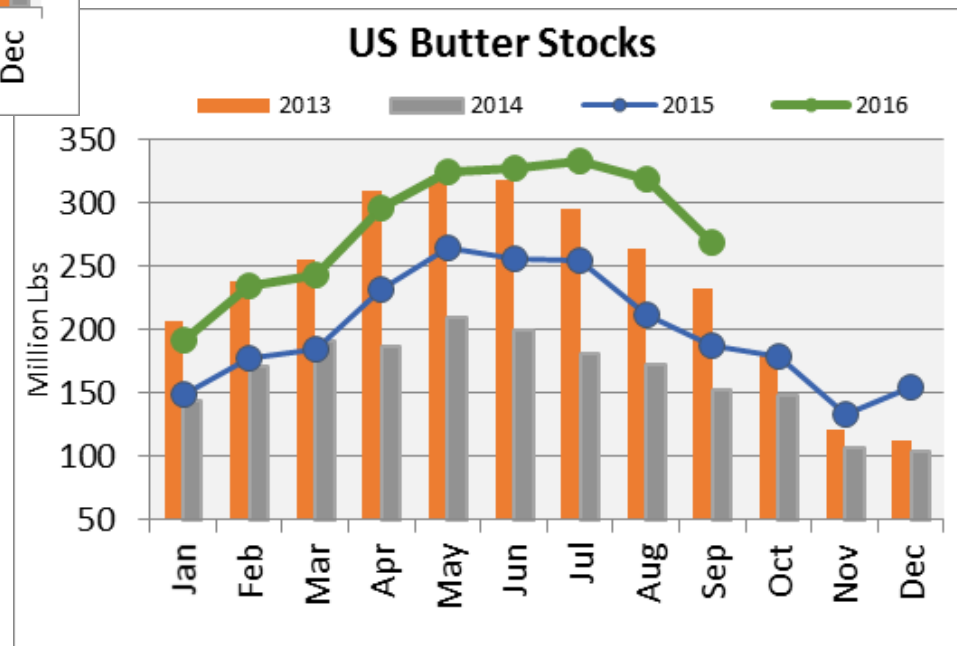
— National IOFC Margin — CME/CBOT Futures (11/10/16)



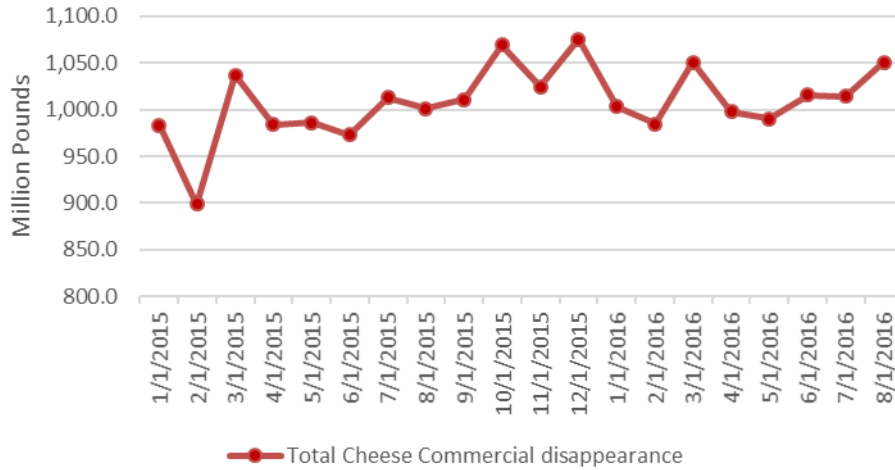


- Natural American Cheese saw a rare Aug to Sep Increase in inventories.

- Butter inventory decline of a record 49.6 million pounds
- Sharpest % decline since 2010



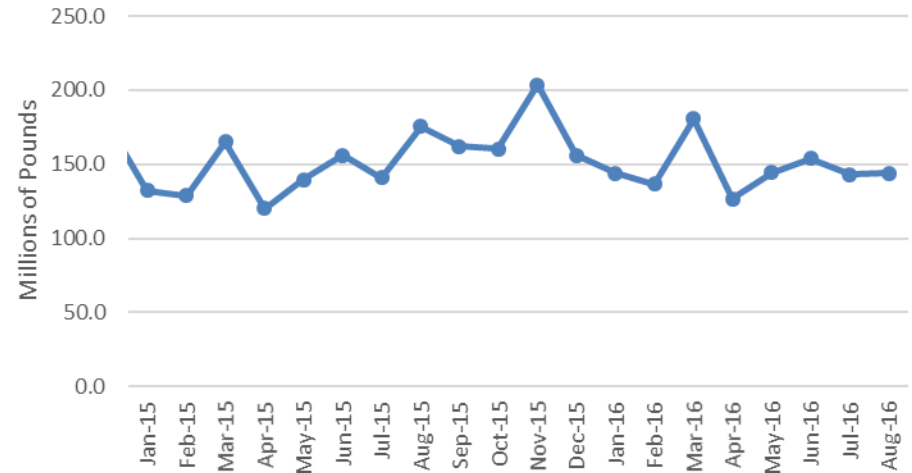
### Total Cheese Commercial Disappearance



- Aug Cheese Disappearance UP 4.8% over last year

- Aug Butter Disappearance UP 3.0% over last year

### Butter Commercial Disappearance



## 2016 Dairy Market Debrief

- ✓ **Global milk production slowing.**
  - NZ weather dropping peak season productions anywhere from 5% to 15%. Weather forecast is calling for a return to normal, but damage to peak production may already be done. Poor pastures and fewer acres of feedstuffs could hamper production.
  - EU incentivizing producers to make less milk. Intervention programs and Cooperative reduction programs are starting to take effect. Most programs run for a 4 to 6 month window. Keep in mind however programs are voluntary and higher prices could push additional production.
  
- ✓ **US dairy farmers not fully participating in global market downturn, US price recovery to lag rest of world**
  - Difficult Q2 farm margins, but Income Over Feed Cost nowhere close to 2009 or 2012 levels. Summer milk price rally, grain market collapse saved dairy farmers, encouraged expansion! Cheap feed will produce more milk in US for foreseeable future.
  - US is a cheese/butter-driven market, and stocks of both remain robust though at whim of domestic demand. Rest of world has sufficient SMP/NFDM stock to stymie a significant rally in coming months (barring any supply shocks), though beware of short squeezes on fresh supply.
  - Opportunities to export are not that far off (whey proteins, SMP today!), but US dollar strength and limited incremental demand growth will prevent a shift to sustainable bull market.
  
- ✓ **Policy Unknowns to have an effect on demand / export**
  - President Trump trade policy and economic plans
  - Brexit parliament vote will effect EU trade and currency.