

## SMP Achieves Fresh Multi-Year High as Fat Prices Continue Selling Off

### Key Takeaways:

- WMP weighted average price gains supported by deferred contract price gains
- Fonterra C2 SMP shows seventh consecutive increase but EU, US settlements rise less-than-expected
- All AMF contracts settle sharply lower; Fonterra C2 unsalted moves below \$4,000/MT for first time since August

Butterfat optimism was brushed aside at Tuesday's GDT event as settlements came in well below NZX futures trader expectations. Prices sank across the forward curve on both butter and AMF with C2 unsalted butter settling at \$3,990/MT, the second lowest print for the contract this calendar year, while C2 regular AMF ended at a fresh 2019 low at \$4,675/MT. While these are slight improvements over the corresponding auction last year, fat values remain well below 2016-2017 levels.

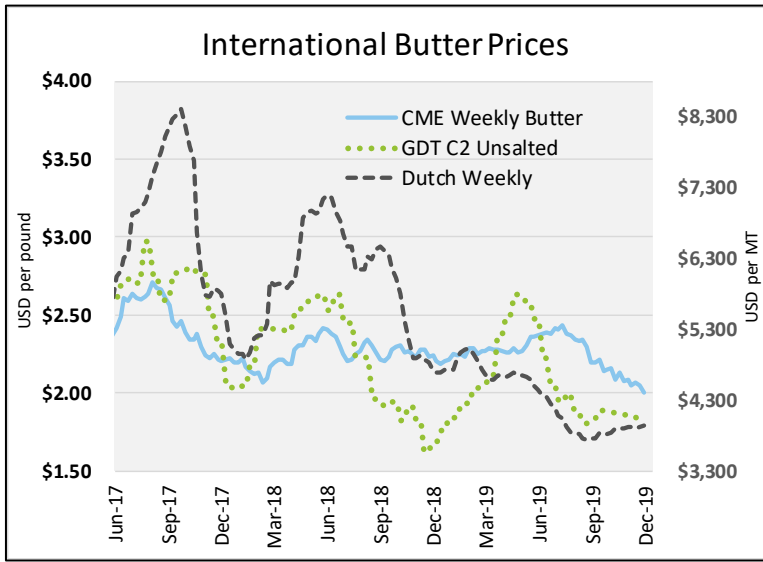
Surprisingly, butter demand improved from both the prior event and last year due to an increase from the Southeast Asia/Oceania region that reached 18-month highs. Also, year-to-date volumes procured by the North Asia region are at a five-year high. In fact, butterfat exports are at a record high on a global scale, reducing New Zealand's market share as the EU, India and South America take on increased presence in the market. The second consecutive butter price decline has put NZ converging with the EU, a favourable position for Fonterra before next year when milk production will recover seasonally from the region.

Despite the slight move lower on C2 regular, whole milk powder prices have not been this high in December since 2016 and while there is plenty of availability in NZ, the lack of WMP being produced from the EU and Australia has helped any excess product find a home. Chinese purchases remained steady at the beginning of Q4 as the region is unfazed by the price rise given their increased need for food security and high domestic prices this year. It was strength in C5 WMP (+2.0% from prior auction) that lifted the average winning price to positive territory, which has reached three-year highs. The boost to May 2020 prices is coming from the uncertainty of meeting demand needs during NZ winter milking, which may look a little different next year. An environmentalist who campaigned against winter grazing practices in Southland last winter says he has "no desire" to campaign again next winter, but he will if large improvements in the industry are [not made](#).

Global Dairy Trade Auction			
Trading Event 249 Results - 3 December 2019			
Commodity	Average Winning Price		% Change*
	\$/MT	\$/Lb	
Whole Milk Powder (WMP)	\$3,331	\$1.51	0.1%
Skim Milk Powder (SMP)	\$3,068	\$1.39	1.9%
Anhydrous Milkfat (AMF)	\$4,840	\$2.20	-5.1%
Butter	\$3,983	\$1.81	-4.9%
Buttermilk Powder (BMP)	\$2,846	\$1.29	1.6%
Cheddar Cheese	\$3,797	\$1.72	2.7%
Rennet Casein	\$8,047	\$3.65	4.9%
Lactose	\$779	\$0.35	n.a.
<b>Avg Winning Price</b>	<b>\$3,467</b>	<b>\$1.57</b>	<b>-0.5%</b>

\*Change in GDT Price Index vs. last auction

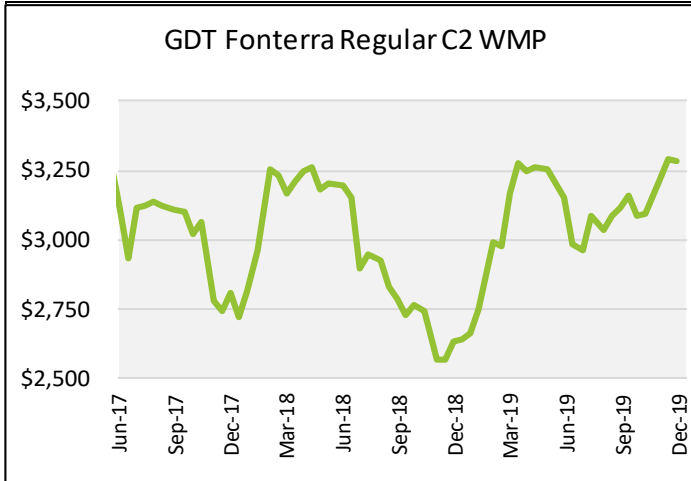
**Key Statistics from Tuesday's Auction**  
 Total Volume Sold: 36,258MT (79.9 million pounds)  
**DOWN 1,710MT (-4.5%) from last auction**  
**DOWN 192MT (-0.5%) from last year**  
 Winning Bidders: 135 (+1 from last auction)



SMP has risen for seven consecutive events or 3 ½ months, now at fresh highs not observed since March 2015. The path of least resistance remains to the upside with values supported by existing fundamentals. **As the NZ milking season drops off through Q1, HighGround believes Oceania dairy prices will remain supported over the next two months, with the potential for fat prices to recapture recent losses as well at the beginning of 2020. Pullbacks are expected to be met with an increase in demand on fat and protein, preventing material price declines; though if existing conditions remain intact during Northern Hemisphere's spring peak, strong milk volumes will start to limit this bull market.**

## Whole Milk Powder – Expected Price Increases Fail to Materialize

*Regardless, weighted average price climbs higher, still supported by deferred contract price gains*



- Settlements disappointed across most contracts, with Fonterra C1-C3 declining \$5/MT versus the prior event. Deferred contract gains (C4, C5) did help push the weighted average price UP slightly for the third consecutive increase and to the highest value since December 2016.
- This auction marked the first Fonterra C2 price decline in two months. In deferred contracts, the price has shown six consecutive increases, moving higher as buyers pay up to secure product into Q2 2020. While Northern Hemisphere milk production will be at peak at that point, nervousness persists about late season NZ product availability.

**HighGround's Take:** NZX futures market expectations anticipated stronger price increases at this event versus the slight near-term contract declines. Now at multi-year highs, it is possible some hesitation has crept into buyer mindsets as end users balance demand versus price. That said, deferred contract values that continue to increase show that some buyers remain cautious about supply availability into the Kiwi offseason and are paying up for product to prevent being caught short. **HighGround views this event as slightly bearish with C2 losing the upward momentum seen in recent weeks.** While unable to meet expectations, HighGround opines that prices remain well supported at current levels as buyer and seller sentiment comes into balance and values are not expected to move materially lower through the end of the year. The expected lower milksolids output versus prior year could push WMP values higher still, but more bullish data will be needed for those gains to be justified.

Commodity	Contract 1 (Jan)		Contract 2 (Feb)		Contract 3 (Mar)		Contract 4 (Apr)		Contract 5 (May)	
	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.
<b>Whole Milk Powder</b>	\$3,323	<b>\$1.51</b>	\$3,308	<b>\$1.50</b>	\$3,322	<b>\$1.51</b>	\$3,362	<b>\$1.52</b>	\$3,422	<b>\$1.55</b>
Fonterra (regular)	\$3,300	<b>\$1.50</b>	\$3,285	<b>\$1.49</b>	\$3,290	<b>\$1.49</b>	\$3,325	<b>\$1.51</b>	\$3,390	<b>\$1.54</b>
<b>% vs. last reported price</b>	<b>-0.2%</b>		<b>-0.2%</b>		<b>-0.2%</b>		<b>0.3%</b>		<b>2.0%</b>	
Fonterra (Instant)	\$3,395	<b>\$1.54</b>	\$3,380	<b>\$1.53</b>	\$3,385	<b>\$1.54</b>	\$3,420	<b>\$1.55</b>	\$3,485	<b>\$1.58</b>
<b>Premium to regular spec</b>	<b>\$95</b>		<b>\$95</b>		<b>\$95</b>		<b>\$95</b>		<b>\$95</b>	
Fonterra - Guaranteed ATOD	n.s.		n.s.		n.s.		n.s.		n.s.	
<b>Premium to regular spec</b>										
<i>n.s. - No Product Sold</i>										

## Cheddar Cheese & Casein

The Cheddar cheese weighted average price continued higher at this event and is now UP 19.3% versus one year ago, the strongest year over year premium since November 2017. Settlements were bullish at this event with C4 showing the highest percentage growth versus prior event while C5 settled at a premium against all other contracts. This is the first time since July that all contracts increased versus the prior auction.

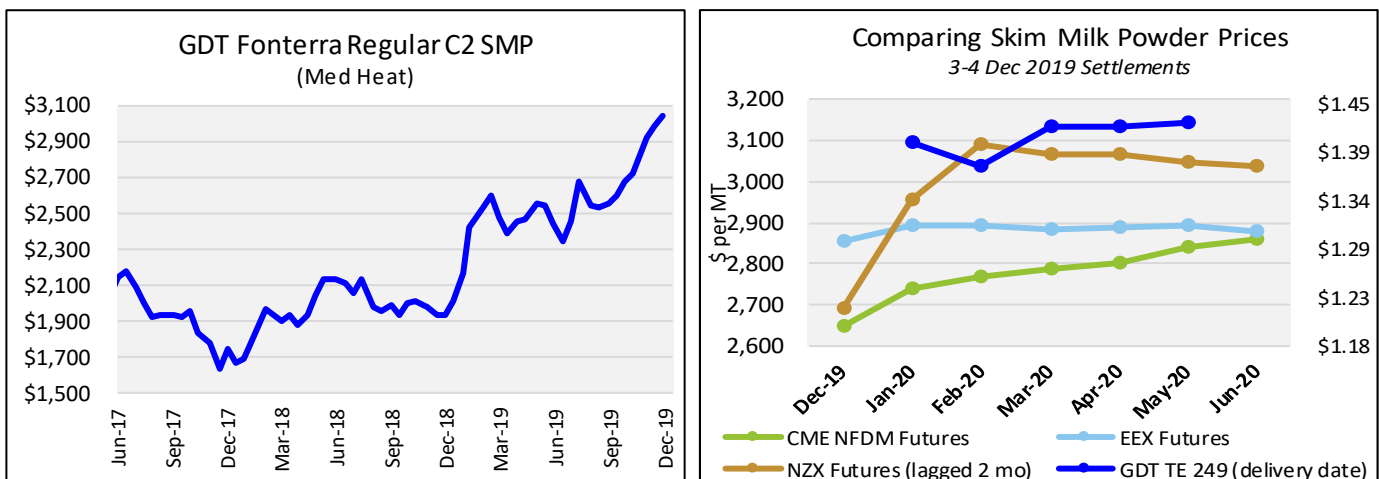
Rennet Casein posted the seventh consecutive increase (UP 4.9%) versus prior event and is now UP nearly 56% versus last year. C3 showed an impressive 7.8% gain, the highest increase of all contracts. The \$415/MT C2 climb pushed C2 to the highest price since March 2015 with casein remaining well into bullish territory.

Commodity	Contract 1 (Jan)		Contract 2 (Feb)		Contract 3 (Mar)		Contract 4 (Apr)		Contract 5 (May)	
	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.
Cheddar Cheese	\$3,865	\$1.75	\$3,775	\$1.71	\$3,741	\$1.70	\$3,834	\$1.74	\$3,920	\$1.78
% vs. last reported price	2.7%		2.6%		1.3%		4.3%		0.4%	
Rennet Casein	\$7,965	\$3.61	\$7,990	\$3.62	\$8,177	\$3.71	\$8,225	\$3.73	n.a.	
% vs. last reported price	1.3%		5.5%		7.8%		4.4%			

*n.s. - no product sold if cell left blank - No Product Offered*

## Skim Milk Powder – Prices Continue Higher but Regional Disparities Emerge

**Fonterra C2 shows seventh consecutive increase in neutral finish; slightly bearish result from EU, US**



- While SMP values climbed higher at this event, settlements mostly failed to meet lofty expectations. The Fonterra C2 increase of \$45/MT or +1.5% was below the NZX December settlement, a neutral finish as the market expects a further gains at the second December GDT event. Deferred Fonterra contracts showed stronger gains versus the C2 climb and the C1 decline with C3-C5 each posting increases of 3% or more. All Fonterra contracts settled above the \$3,000/MT benchmark for the first time since August 2014 with C2 remaining at the highest level since March 2015 as it remains the lowest priced contract along the forward curve.
- Arla’s EU SMP spec also showed a \$45/MT increase, keeping the Fonterra versus Arla C2 \$150/MT difference the same as in the last event. The EU SMP has moved higher for five consecutive events and remains at the highest level since August 2014. However, the lowest valued EU SMP price came from Arla’s UK-sourced offering (\$2,860/MT) which represented just a \$15MT increase (+0.5%) versus both the UK and general EU spec vs. last event.

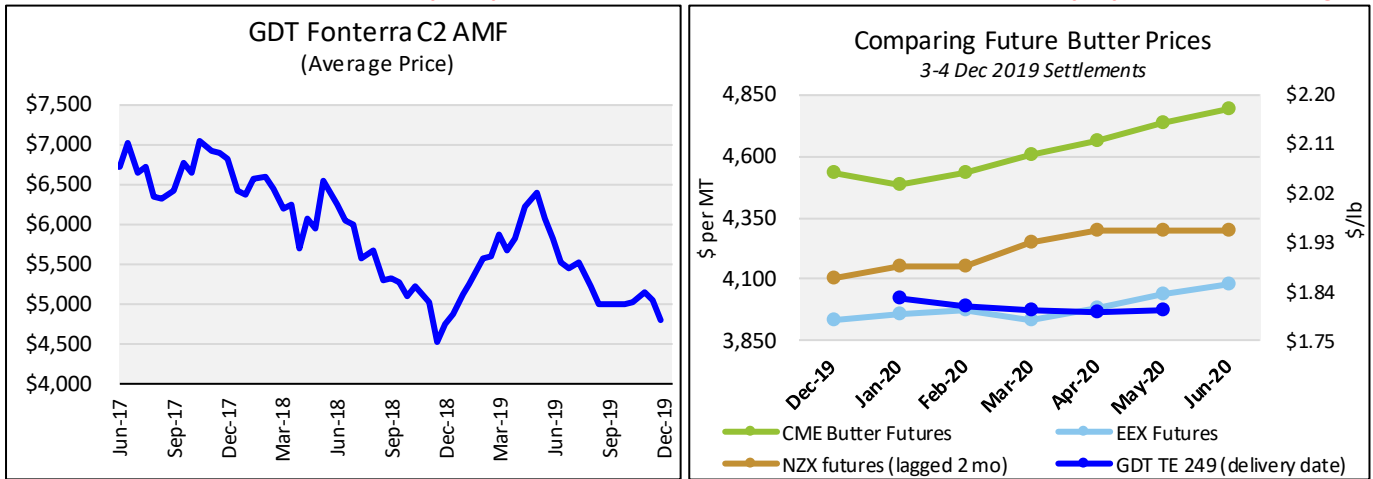
- The North American price eked out a gain but climbed just \$4/MT or +0.1% versus the prior settlement, the smallest gain since the first September auction but the eighth consecutive climb nonetheless. As product has been offered for just ten sessions, the price has declined just once since being offered at the GDT. While different specs, the DairyAmerica (enhanced medium heat) GDT price at \$1.30 per pound remains at premium versus the US CME spot NFDM (regular low heat) price of \$1.25 per pound on 3 December.

**HighGround's Take:** While more neutral sentiment continues to take hold of the market, SMP values remain well supported across regions, climbing more slowly in recent weeks and missing expectations for continued lofty gains but continuing to show increases overall. Fundamentals support prices at current levels with little new data emerging to change HighGround's view in recent weeks. Lower stocks continue to make end users nervous with deferred contracts carrying a premium to C2. Overall, while some bearishness has emerged as prices fail to keep up with recent momentum that could lead to a nearby correction, SMP prices remain largely supported in the coming months.

Commodity	Contract 1 (Jan)		Contract 2 (Feb)		Contract 3 (Mar)		Contract 4 (Apr)		Contract 5 (May)	
	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.
<b>Skim Milk Powder</b>	\$3,114	<b>\$1.41</b>	\$3,025	<b>\$1.37</b>	\$3,143	<b>\$1.43</b>	\$3,144	<b>\$1.43</b>	\$3,160	<b>\$1.43</b>
Fonterra - NZ (med heat)	\$3,095	<b>\$1.40</b>	\$3,040	<b>\$1.38</b>	\$3,135	<b>\$1.42</b>	\$3,135	<b>\$1.42</b>	\$3,145	<b>\$1.43</b>
<b>% vs. last reported price</b>	<b>-0.2%</b>		<b>1.5%</b>		<b>3.0%</b>		<b>3.0%</b>		<b>3.1%</b>	
Fonterra - UHT	\$3,145	<b>\$1.43</b>	\$3,090	<b>\$1.40</b>	\$3,185	<b>\$1.44</b>	\$3,205	<b>\$1.45</b>	\$3,195	<b>\$1.45</b>
<b>Premium to regular spec</b>	<b>\$50</b>		<b>\$50</b>		<b>\$50</b>		<b>\$70</b>		<b>\$50</b>	
Fonterra - Guaranteed ATOD (med heat)	n.s.		\$3,080	<b>\$1.40</b>	n.s.		\$3,160	<b>\$1.43</b>	n.s.	
<b>Premium to regular spec</b>			<b>\$40</b>				<b>\$25</b>			
Fonterra - NZ (low heat)	n.s.		\$3,040	<b>\$1.38</b>	n.s.		\$3,135	<b>\$1.42</b>	\$3,145	<b>\$1.43</b>
<b>% vs. last reported price</b>			<b>1.0%</b>				<b>N/A</b>		<b>N/A</b>	
North America (DairyAmerica)	n.a.		\$2,873	<b>\$1.30</b>						
<b>% vs. prev event</b>			<b>0.1%</b>							
Amul (med heat)	n.s.									
<b>% vs. last reported price</b>										
Arla (low heat - DE)			\$2,920	<b>\$1.32</b>						
<b>% vs. last reported price</b>			<b>2.1%</b>							
Arla (med heat - EU)			\$2,890	<b>\$1.31</b>						
<b>% vs. last reported price</b>			<b>1.6%</b>							
<i>n.p. - No Price Published n.s. - No Product Sold if cell left blank - No Product Offered</i>										

## Bearish Trends Continue with Fat Falling Lower for Second Consecutive Decline

*All AMF contracts show sharp drops; Fonterra C2 unsalted moves below \$4,000/MT for first time since August*



- AMF values materially decreased across all contracts at this event with the weighted average price falling 5.1% for its steepest decline since June. Contract moves ranged from a 2.5% C5 drop to a steeper 7.0% C4 decline. C2 fell 4.8% or \$243/MT to the lowest level in exactly one year. The decline was opposite NZX expectations for gains during December. The price move lower is possibly due to higher offer volumes at this event versus prior estimates, with an additional 495MT of AMF available. Volumes available at future auctions will decline seasonally, possibly giving AMF a floor. **Overall, while values have moved lower recently, HighGround expects some end users to step back into the market and increase demand, helping to stem the decline.**
- Like AMF, bearishness prevailed in butter as all contracts moved lower. Fonterra unsalted C1 showed the sharpest drop, DOWN 4.2%, even as the inverted forward curve ended with C4 at the lowest value among all contracts. The C2 settlement was the second lowest of the calendar year with only the late August auction posting a lower value. NZX expectations called for a price increase; with Fonterra instead moving lower to better align with global values, It is possible that end users will step back into the market at the next auction to fulfill needs at current value prices.
- Fonterra C2 buttermilk powder moved lower after three consecutive climbs even as the overall C2 price moved UP for the fifth consecutive increase and to the highest value since May. At \$440/MT less than the Fonterra WMP C2 value, the price disparity between the two products is less than in August and September but opposite the trend one year ago and into the first half of this year when BMP held a premium to WMP. One year ago, BMP settled \$580/MT ABOVE the WMP price.

Commodity	Contract 1 (Jan)		Contract 2 (Feb)		Contract 3 (Mar)		Contract 4 (Apr)		Contract 5 (May)	
	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.	\$/MT	\$/lb.
Anhydrous Milk Fat	\$5,013	\$2.27	\$4,805	\$2.18	\$4,838	\$2.19	\$4,741	\$2.15	\$5,003	\$2.27
% vs. last reported price	<b>-4.7%</b>		<b>-4.8%</b>		<b>-5.9%</b>		<b>-7.0%</b>		<b>-2.6%</b>	
Butter	\$4,025	\$1.83	\$3,990	\$1.81	\$3,980	\$1.81	\$3,965	\$1.80	\$3,975	\$1.80
Fonterra (unsalted)	\$4,025	\$1.83	\$3,990	\$1.81	\$3,975	\$1.80	\$3,965	\$1.80	\$3,975	\$1.80
% vs. last reported price	<b>-4.2%</b>		<b>-1.5%</b>		N/A		<b>-2.0%</b>		<b>-1.7%</b>	
Buttermilk Powder (Fonterra - UHT)	\$2,995	\$1.36	\$2,845	\$1.29	\$2,980	\$1.35	\$2,880	\$1.31	\$2,945	\$1.34
% vs. last reported price	<b>4.0%</b>		<b>-0.7%</b>		<b>2.2%</b>		<b>-1.0%</b>		<b>2.1%</b>	
Buttermilk Powder (Arla - UK)			\$2,670	\$1.21						
% vs. last reported price			<b>4.3%</b>							
<i>n.s. - no product sold if cell left blank - No Product Offered</i>										

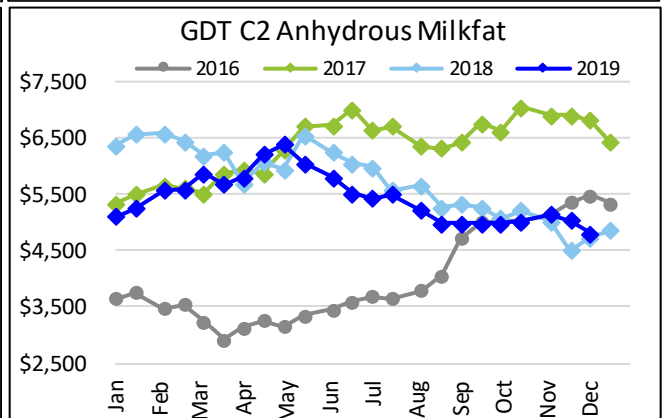
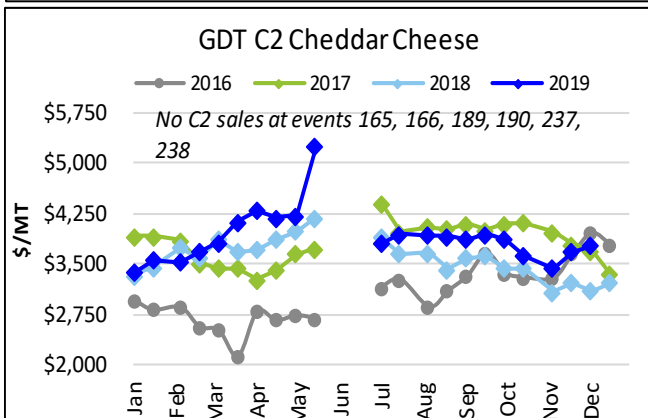
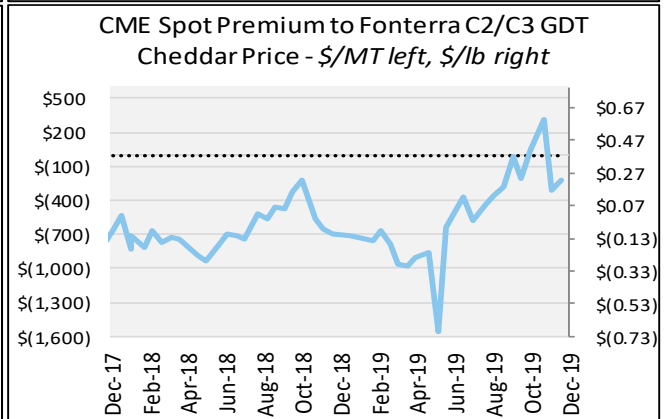
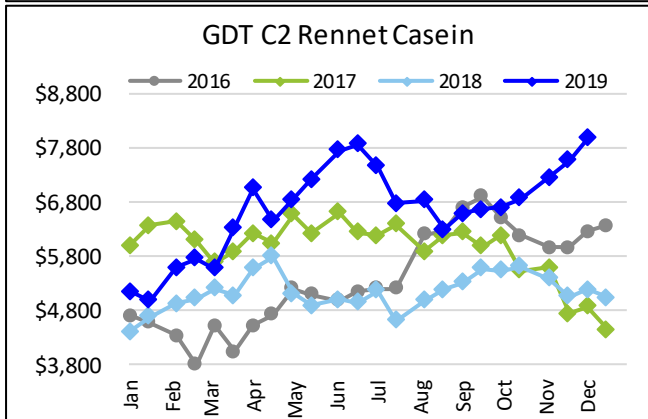
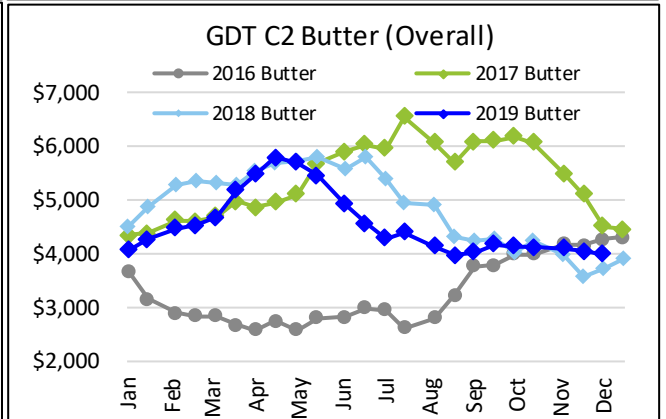
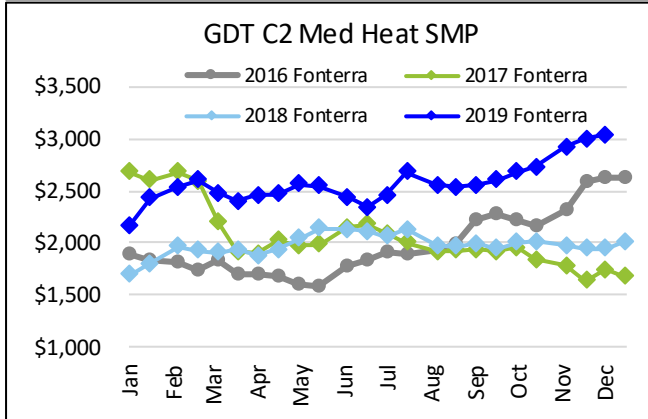
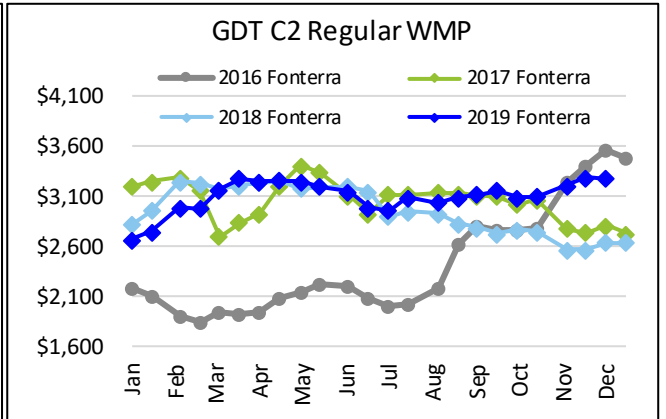
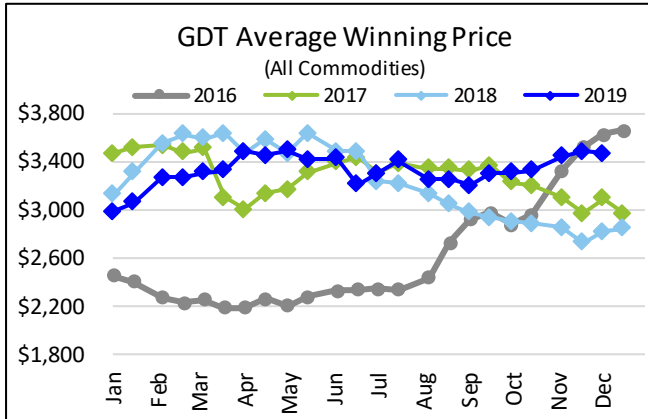
### Lactose & Sweet Whey Powder

- Lactose settled in slightly bullish territory, UP \$4/MT from prior event. The sole contributor to the weighted average price continues to be C2, the only contract offered this auction.
- Polish Dairy offered sweet whey powder at this week's event in Contract 1, but GDT reported that no product was sold (n.s.) and therefore, did not post an average price.

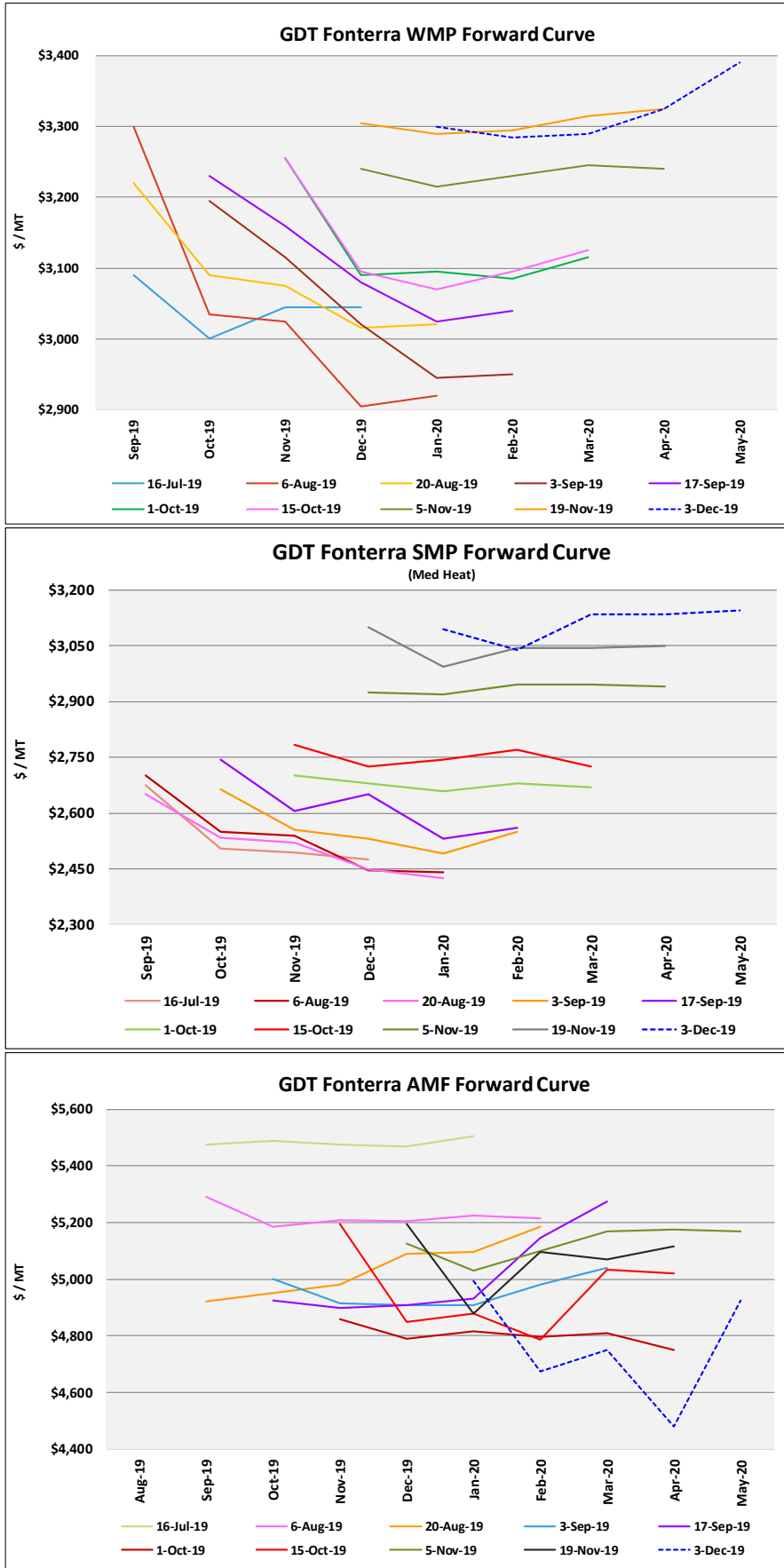
Commodity	Contract 1 (Jan)		Contract 2 (Feb)	
	\$/MT	\$/lb.	\$/MT	\$/lb.
Lactose	n.a.		\$779	\$0.35
% vs. last reported price			<b>0.5%</b>	
Lactose - Arla Food UM/M100/200 avg			\$785	\$0.36
% vs. last reported price			<b>0.9%</b>	
Lactose - Polish Dairy Food M100, M200	n.s.			
% vs. last reported price				
Sweet Whey Powder Polish Dairy	n.s.			
% vs. last reported price				
<b>n.p. - No Price Published n.s. - No Product Sold If cell left blank - No Product Offered</b>				

## Global Dairy Trade Trends

\*All graphs are quoted in USD/metric ton



## Forward Curve Historical Graphs





## Prices Compared by Delivery Month

\*All prices are quoted in USD/metric ton

Fonterra Whole Milk Powder Results				Fonterra Skim Milk Powder Results			
Delivery Month	TE 248 Nov 19	TE 249 Dec 3	% change	Delivery Month	TE 248 Nov 19	TE 249 Dec 3	% change
Jan-20	3,290	3,300	0.3%	Jan-20	\$2,995	\$3,095	3.3%
Feb-20	3,295	3,285	-0.3%	Feb-20	\$3,045	\$3,040	-0.2%
Mar-20	3,315	3,290	-0.8%	Mar-20	\$3,045	\$3,135	3.0%
Apr-20	3,325	3,325	0.0%	Apr-20	\$3,050	\$3,135	2.8%

Fonterra AMF Results				Fonterra Unsalted Butter Results			
Delivery Month	TE 248 Nov 19	TE 249 Dec 3	% change	Delivery Month	TE 248 Nov 19	TE 249 Dec 3	% change
Jan-20	\$4,880	\$4,995	2.4%	Jan-20	\$4,050	\$4,025	-0.6%
Feb-20	\$5,095	\$4,675	-8.2%	Feb-20	n.p.	\$3,990	n.a.
Mar-20	\$5,070	\$4,750	-6.3%	Mar-20	\$4,045	\$3,975	-1.7%
Apr-20	\$5,115	\$4,480	-12.4%	Apr-20	\$4,045	\$3,965	-2.0%

Fonterra Cheddar Cheese Results			
Delivery Month	TE 248 Nov 19	TE 249 Dec 3	% change
Jan-20	\$3,665	\$3,865	5.5%
Feb-20	\$3,685	\$3,775	2.4%
Mar-20	\$3,670	\$3,735	1.8%
Apr-20	\$3,905	\$3,830	-1.9%

### About HighGround Dairy

HighGround Dairy launched in 2012 by industry veteran, Eric Meyer. Affiliated with HighGround Trading LLC, HighGround Dairy 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.

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HighGround Dairy – 425 S. Financial Place, Suite 2301 - Chicago, IL 60605 USA - Direct: +1 312 604 3080 – Mobile: +1 312 953 3078  
 Contact: Eric Meyer Email: [info@highgrounddairy.com](mailto:info@highgrounddairy.com) - [www.highgrounddairy.com](http://www.highgrounddairy.com)