

Strong Milk Powder Values Lift Offer Volumes to Historic Highs to Begin 2020

Fonterra 12-month GDT volume forecast: **716,349MT**

UP 15,605MT (+2.2%) versus prior auction

UP 29,420MT (+4.2%) versus last year

Farm Debt Mediation Act Officially Passes

The Farm Debt Mediation Bill [passed](#) its final reading in New Zealand's Parliament on Tuesday night, facilitating mediation between bank lenders and their farmer borrowers in an effort to resolve issues before enforcement action may be taken by banks. NZ First's primary industries spokesman Mark Patterson [said](#) the Farm Debt Mediation Act has been 20 years in the making, during which time total farm debt has surged from \$11.7 billion to more than \$63 billion. In its recent Financial Stability [Report](#), NZ's Reserve Bank said the dairy farming sector has limited options to address its overhang of debt despite the fact that the current low interest rates should help many farmers to pay down debt; just under two-thirds of the agriculture sector's debt is held by the dairy sector (as of Sept 2019). The new legislation is scheduled to go live in June 2020 with the Ministry for Primary Industries putting the architecture for it in place. Parliament has also passed an improved National Animal Identification and Tracing bill, making a vital effort to track all animal movements on and off farm. The spread of Mycoplasma bovis propelled the decision, reminding New Zealand just how critical traceability is.

Volatile Weather

Road closures, volcano eruptions and tornadoes (or a strong gust of wind, they [are not sure](#)) have filled New Zealand weather headlines this month, with a majority of the issues deriving from the South Island. High winds are also being reported from the Waikato to Taranaki. According to a [newly released map by NIWA](#), recent deluges have caused parts of the South Island to receive "300% of normal" rainfall for the month already. NIWA states that the intense rainfall was caused by a westerly, which brought moist air across the southern oceans. Westerlies always favor high rainfall conditions in New Zealand, but conditions were exacerbated by unusually warm ocean temperatures. With NZ news sources highlighting that nearly 1,000 tourists remain stranded on the West Coast, it is highly likely that farmers are also being cut off from milk pickups in the region.

Fonterra GDT Offer Volumes Analysis

Fonterra added strong offer volumes to the 12-month forecast for the final auction of the calendar year, a jump that has not historically happened for the final auction of the year (data through 2013). The largest rise was on whole milk powder as historically strong prices this quarter encouraged production; the November settlement of \$3,253/MT is 13.5% higher than the prior three-year C2 WMP average (averaging \$2,864/MT ahead of Q4, Sep '16-Sep '19). While Fonterra added 1,000MT to volumes offered next week, they are still slightly below what was reported in the corresponding auction last year. Product on offer in January reaching 39,600MT and 35,440MT in February are more shocking figures, UP 14% and 52% respectively from prior year.

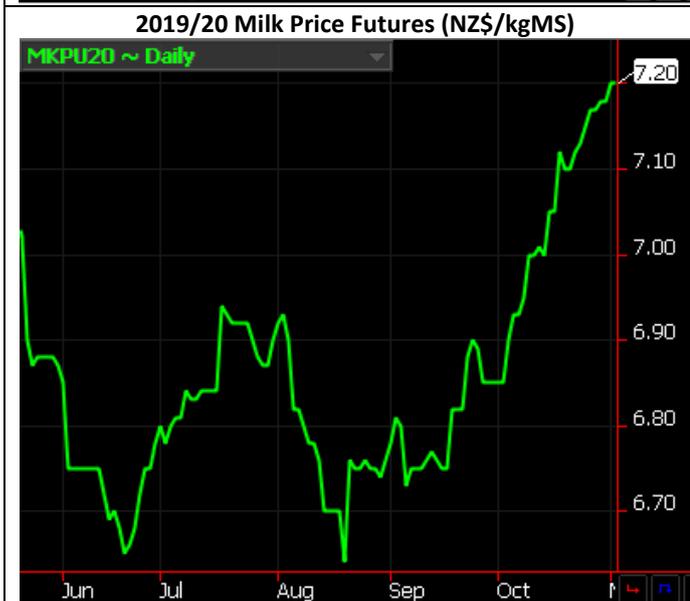
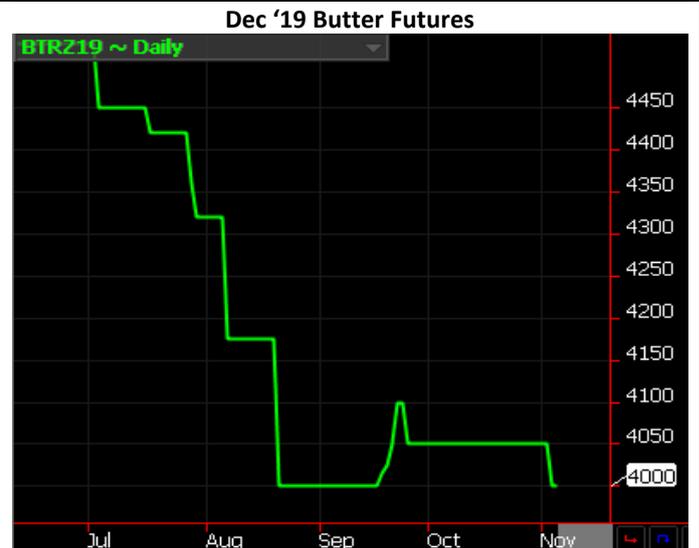
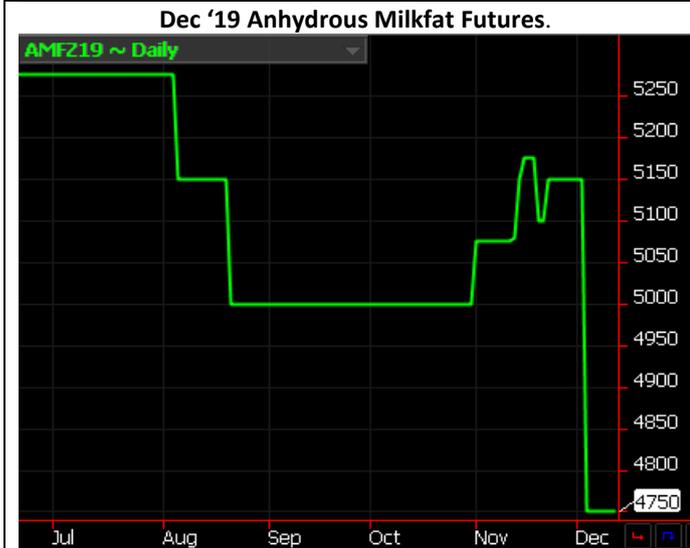
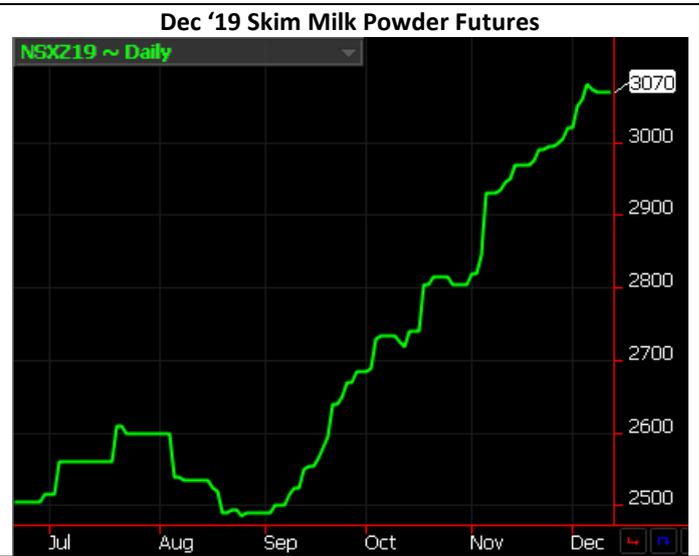
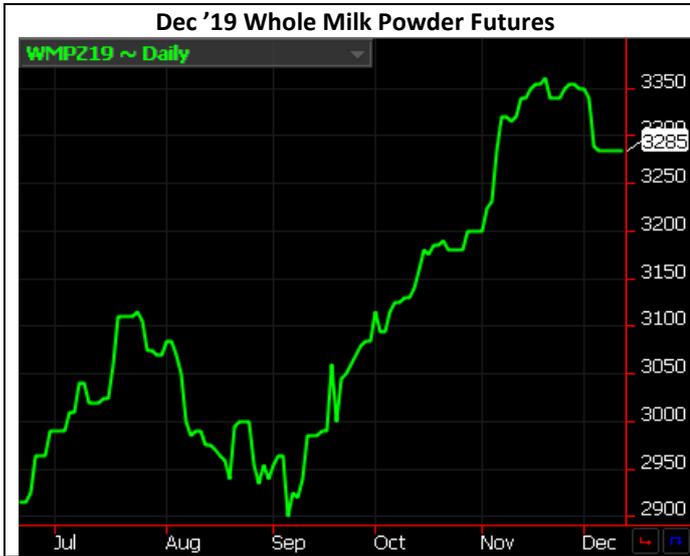
Increased availability to begin 2020 will result in a price correction at the next event as buyers will lack urgency to procure WMP volumes. Additional skim milk powder should not be a surprise to the market as global protein prices outperform fat values and motivate cooperatives to build inventories. SMP has been performing so well that even if C2 medium heat fell its maximum permitted decline at auction (-15%), December would still settle at the highest level in six years. While HighGround does not expect a steep decline, a healthy pullback on milk powders should be anticipated. In addition, butter and AMF demand is not expected to return to strength until the first half of 2020, limiting a recovery next week.

| Fonterra GDT Event Volume Forecast | | | | | | |
|---|-----------------|----------------|-----------------|----------------|-----------------|----------------------|
| As reported on Thursday, 12 December 2019 | | | | | | |
| Commodity | TE250 17-Dec | TE251 7-Jan | TE252 21-Jan | TE253 4-Feb | TE254 18-Feb | 12 month Forecast |
| WMP | 22,052 | 19,800 | 19,800 | 17,720 | 17,720 | 411,979 |
| vs. LE | 1,000 | 1,500 | 1,500 | 2,300 | N/A | 13,000 |
| % vs. LE | 4.8% | 8.2% | 8.2% | 14.9% | N/A | 3.3% |
| SMP (NZ) | 7,200 | 6,890 | 6,890 | 5,675 | 5,675 | 153,980 |
| vs. LE | 340 | 550 | 550 | 550 | N/A | 4,560 |
| % vs. LE | 5.0% | 8.7% | 8.7% | 10.7% | N/A | 3.1% |
| Milkfat | 5,545 | 5,545 | 4,905 | 4,905 | 3,930 | 100,405 |
| vs. LE | 0 | 640 | 0 | 975 | N/A | -3,600 |
| % vs. LE | 0.0% | 13.0% | 0.0% | 24.8% | N/A | -3.5% |
| AMF | 4,095 | 3,350 | 3,350 | 2,850 | 2,850 | 71,300 |
| vs. LE | 495 | 0 | 0 | 0 | N/A | -495 |
| % vs. LE | 13.8% | 0.0% | 0.0% | 0.0% | N/A | -0.7% |
| Butter | 3,460 | 1,875 | 1,875 | 1,300 | 1,300 | 39,550 |
| vs. LE | 1,110 | 0 | 0 | 0 | N/A | -1,110 |
| % vs. LE | 47.2% | 0.0% | 0.0% | 0.0% | N/A | -2.7% |
| Cheddar | 900 | 900 | 900 | 900 | 900 | 23,330 |
| vs. LE | 0 | 0 | 0 | 0 | N/A | 0 |
| % vs. LE | 0.0% | 0.0% | 0.0% | 0.0% | N/A | 0.0% |
| Casein | 250 | 200 | 200 | 250 | 250 | 9,240 |
| vs. LE | 0 | 0 | 0 | -100 | N/A | -350 |
| % vs. LE | 0.0% | 0.0% | 0.0% | -28.6% | N/A | -3.6% |

Source: Fonterra, NZX Volumes Quoted in Metric Tons (MT)
Legend: TE = Trading Event LE = Last Estimate

NZX Dairy Futures Charts

Source: NZX, QST Settlements from 12 Dec 2019



| Fonterra TE 250 GDT Starting Prices | | | | | | |
|-------------------------------------|--------------|-----------|-----------|-----------|-----------|-----------|
| | | C1 Jan | C2 Feb | C3 Mar | C4 Apr | C5 May |
| WMP | starting bid | \$ 2,805 | \$ 2,790 | \$2,795 | \$2,825 | \$2,880 |
| | prior settle | \$ 3,300 | \$ 3,285 | \$ 3,290 | \$ 3,325 | \$ 3,390 |
| SMP-NZ | starting bid | \$ 2,630 | \$ 2,585 | \$2,665 | \$2,665 | \$2,675 |
| | prior settle | \$ 3,095 | \$ 3,040 | \$ 3,135 | \$ 3,135 | \$ 3,145 |
| AMF | starting bid | \$ 4,245 | \$ 3,975 | \$4,040 | \$3,810 | \$4,185 |
| | prior settle | \$ 4,995 | \$ 4,675 | \$ 4,750 | \$ 4,480 | \$ 4,925 |
| Butter | starting bid | \$ 3,420 | \$ 3,390 | \$3,415 | \$3,370 | \$3,380 |
| | prior settle | \$ 4,025 | \$ 3,990 | \$ 3,975 | \$ 3,965 | \$ 3,975 |
| Cheddar | starting bid | \$ 3,285 | \$ 3,210 | \$3,175 | \$3,255 | \$3,330 |
| | prior settle | \$ 3,865 | \$ 3,775 | \$ 3,735 | \$ 3,830 | \$ 3,920 |
| Rennet | starting bid | \$ 3,770 | \$ 6,790 | \$6,950 | \$6,990 | \$ - |
| Casein | prior settle | \$ 7,965 | \$ 7,990 | \$ 8,215 | \$ 8,225 | \$ - |
| | | | | | | |
| BMP | starting bid | \$ - | \$ - | \$ - | \$ - | \$ - |
| | prior settle | \$ 2,995 | \$ 2,845 | \$ 2,980 | \$ 2,880 | \$ 2,945 |

*WMP, AMF Regular; SMP Med Heat; Butter Unsalted
Cheddar Young; RenCas 90# 25kg; BMP UHT

Those interested in learning more about trading or hedging using NZX derivatives, please visit our website at www.highgrounddairy.com or contact us at info@highgrounddairy.com or +1 312 604 3080.

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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