

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **Australian Dairy processors pay top dollar to secure milk – now can we see some growth...**
- **BREXIT – 6 months on / UK AUST FTA is here!**
- **Shipping – you're not imagining it, it's as bad as it has ever been**
- **US consumers double down; yes, we'll eat out AND at home**

1. In a game of tit-for-tat, the majority of Australian dairy processors have now pretty much matched each other in their opening milk prices for the 2021/22 season. It has been a case of come to the party or lose milk. Under the new code of conduct for the Australian dairy industry, each processor must openly publish their price in advance of the season with farmers able to switch between suitors freely. With Australia's dwindling milk pool this has meant competition is fierce and the dairy guys have pretty much had to open at what we can only assume is the very top of the range of where they thought milk pricing would settle this year. It's a great result for those dairy farmers who have been smashed by rising costs and environmental impacts (droughts / bushfires etc.), but it seems that now all the pricing risk, once borne by the farmer, has now moved to the dairy companies as one of the major cornerstones of that code of conduct is that there can be no step downs in milk price through the year. Australia is now the only market I am aware of that does not have the ability to adjust milk prices down should the dairy markets turn badly throughout the year. What is needed now is the ability for those processors to offset their risk via a futures milk contract or something similar - without it the current situation will lead to tears at some point. The flip side to this question is whether, after years of decline, we may finally see some material growth again in Australian milk.
2. Cast your minds back to late 2020 (past the 4pm lockdown beers/wines & chocolate) and we were discussing the impending doom of a no deal BREXIT, and in particular, how trade would work between Europe and the UK – in particular, that Irish border with the UK. The uneasiness was leading to a lot of stock building, particularly Irish dairy products within the UK borders as no one seemed to know what was going to transpire. Well 6 months later and it seems that there has been a material decline in trade both ways, UK imports of cheese and butter down materially (18% and 15% respectively). Regulatory hurdles and freight costs have ballooned. This may help explain why the Brits are on the drive to find new friends outside their neighbourhood as evidenced by the new UK / Australia FTA that was signed earlier this week. The headline act in dairy world is access to the UK cheese markets (once very attractive to Australia) and likewise the access to Australia for UK cheese. Whether or not one of our last remaining tariffs on dairy products would be removed for UK cheeses, we are still waiting for clarification, but early indications are that it may

not have the big impact expected with costs to move cheese around the world skyrocketing and prices largely on par in the two markets in question.

3. Nope, you're not imagining it; shipping reliability and cost inflation is as bad as it has ever been. Global shipping reliability was at a record low of 35% in Jan/Feb of this year and only slightly improved to 39% in April. Freight costs charged by shipping lines for some of the world's most important trade lanes have increased dramatically, a composite index is showing an increase of over 300% in freight costs (as of May 2021). The reasons for this are many and varied including: a huge uptick in overall freight movements +20% / Shipping lines unprepared for the jump in demand with capacity being withdrawn for both ships and containers / unable to crew successfully due to travel restrictions / equipment imbalances (containers not where they are needed) / Oil prices surging / Port issues due to volumes and operating understaffed due to covid impacts / weather events and, yes, even a ship stuck in the Suez blocking Asia/Europe trade!! It's been a hell of year so far, but it feels like it's still got a lot to run.
4. So, the assumption is that retail jumped last year when foodservice shut down due to the pandemic, and that equally retail demand would fall once restaurants / hotels / bars etc. re-opened. Well, a quick observation out of the US is showing that foodservice demand is rebounding and now sits above pre-pandemic levels as measured by dollars spent but, surprisingly, the retail spend has not yet subsided; that too is showing strong numbers with no evidence of a decline. As this is measured in spend, the increasing cost of food will explain some of the phenomenon, but not all. Perhaps people are taking the attitude that, yes, we will go out while we can but best also to stock up for home as you never know what's around the corner!

MATT COOPER – DIRECTOR

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WMP

Price: \$4290 per MT Volume: 175MT

CLOSES
in 2 days

CHEDDAR

Price: \$4200 per MT Volume: 120MT

CLOSES
in 2 days

Lactose

Price: \$1340 per MT Volume: 200MT

CLOSES
in 5 days

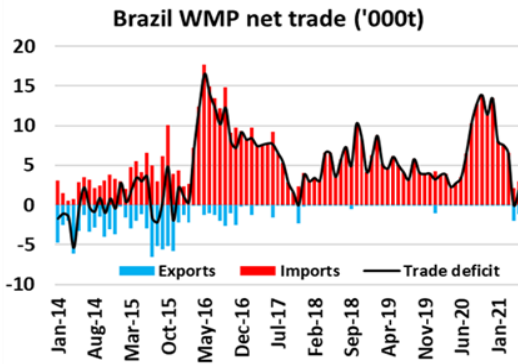
Weather highlights

- In Australia, troughs over southern and the south-east are triggering storms and showers.
- In NZ, showers in the west and south of the North Island, scattered rain in the South Island.
- In the US, temperatures are hitting records as a heat wave moves across the country.
- Sunny, cloudy with chance of thunderstorms in Argentina, sunny and warm in Brazil.
- Dry and warm across central Europe, mixed weather in Ireland.

Brazil WMP imports remain low

At 2,980t, WMP imports in May were marginally higher in YOY terms but remain sharply lower when compared to shipments observed in H2-2020 and the first quarter of 2021. Year to date imports were still 60% ahead of the prior year comparable.

Brazil's net WMP imports were 95,814t over the 12 months to May, as exports for the month rose YOY to 1,150t, with most of the product headed to Algeria.



US cheese demand surges

Domestic commercial cheese disappearance rose 20% in April, with a 23.1% YOY increase for American varieties, reflecting a particularly weak prior year comparable. American cheese days-in-stock fell 3.9% month-on-month to 52.1 days at the end of April. Disappearance of "other cheese" varieties (including mozzarella) rose 17.8% YOY in April.

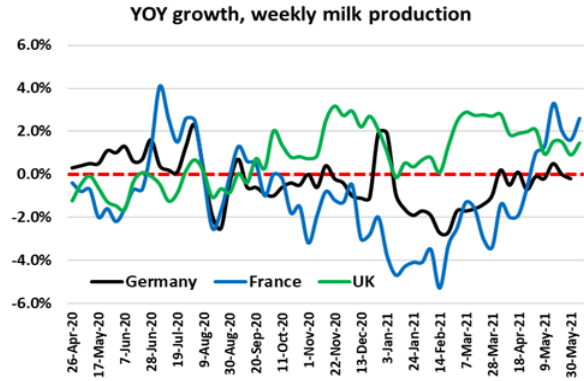
Domestic butter disappearance declined 7.2% YOY in April after increasing for five consecutive months and was up 3% in the six months to April. NFDMSMP domestic disappearance rose 26.5% YOY in April and has generally trended much higher since September last year. Dry whey domestic sales were 12.9% lower YOY in April, generally trending weaker since February 2020.

EU April milk improving

EU-27 supplies rose 0.7% YOY in April, based on 25 reporting countries accounting for 98% of average output (still excluding Austria and Luxembourg). Ireland accounted for 67% of the total reported growth in the month, having increased 6.1% relative to April 2020. France and Poland

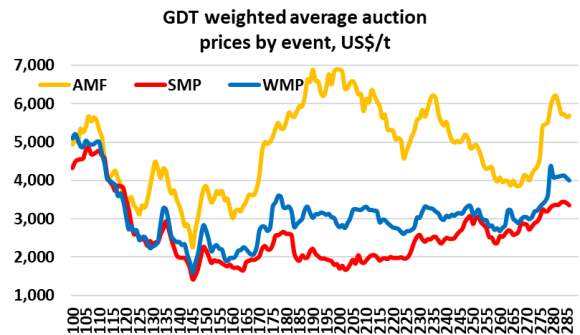
milk also rose – up 0.7% YOY and 1.9% YOY respectively. German and Dutch supply continued to decline however, down 0.7% YOY and 0.8% YOY respectively.

According to the most recent data, French milk production rose 2.6% YOY in week 22 (ending 6 June 2021). That expansion was a 3-week high. German supply fell 0.2% YOY in week 21 – on average, supply has been near flat since the start of April. AHDB reports UK production rose 1.8% YOY in the first 5 days of June after increasing 1.4% YOY in May.



GDT slips further

The overall GDT index fell 1.3% at event 286 with declines recorded across most contracts. SMP averaged US\$3,356/t, losing 1.7% with losses recorded across all contract bar October delivery. WMP fell 1.6% averaging US\$3,997/t with falls across all contracts. Fats were mixed; butter fell 1.7% to average US\$4,612/t and AMF lifted 0.6%, averaging US\$5,687/t. Cheddar edged up 0.1%, averaging US\$4,328/t.



DAIRY FUTURES

A mixed bag – NZX powders were flat, while CME NDM and Cheese trended down. Fats rose. All prices quoted in US\$/t.

	16-Jun	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange		NZX	CME	NZX	CME	NZX	CME
Jul-21	3,455	2,822	4,050	3,653	5,700	4,034	
Aug-21	3,440	2,847	3,940	3,871	5,550	4,095	
Sept-21	3,400	2,907	3,825	3,997	5,450	4,145	
Oct-21	3,380	2,954	3,750	4,079	5,300	4,167	
Nov-21	3,350	2,965	3,735	4,103	5,250	4,189	
Dec-21	3,350	2,967	3,700	4,041	5,260	4,211	
Change	0%	-4%	0%	-1%	1%	1%	
Op interest	8,559	4,895	18,558	16,920	331	6,666	

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