

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **Where's the new milk gonna come from?**
- **China, can someone tell us what's going on?**
- **Australia – we've got water down here, lots and lots of it**
- **COVIDs ripple effect showing up in weird and not-so-wonderful ways (no cold storage in NZ/Pallets)**

1. You may recall a few editions ago that we had mentioned US milk was going to be the world's saving grace with regard to ever growing milk through the continued expansion of their concentrated corporate type dairy farming that would keep export markets, particularly in Asia, well supplied of dairy ingredients at competitive pricing. At that time, the US was the standout, growing milk supply by a surprising 1.5 – 2% per annum while EU, Oceania and South America all started to go backward in milk growth. Fast forward to now and a different story is developing; US milk has slowed considerably, now growing at an anaemic 0.2% in September (YoY) while New Zealand has had an almost non-peak through October & November on the back of extremely wet & wintery conditions and in the EU, the story is no better with their powerhouse production areas of Germany/France & Netherlands all going backward (down 2 – 4%), with Ireland being the only bright spot. Now with the US facing weather challenges and constraints on Methane emissions in the future; that outlook of ever-growing corporate farms may be looking a lot shakier than first thought, so where will the milk come from? The question to be asked of farmers is will higher milk cheques = a growing milk pool or does it mean same level of milk, just more expensive. The challenge is the average age of dairy farmers in many regions is nearing retirement and their children don't want to get up at 4am every day to milk the cows, so for many farmers it may be a case of no matter how high the milk cheque, there is no one left on the farm to milk.
2. In most cases, China is the export market that dictates global dairy demand and pricing; however, we're currently living an anomaly in that China is taking a backseat to other markets in Asia, Middle East and Africa. Although demand from those markets is a lot more finite than that of China, so we always keep an eye on the big dog. Chinese buying has still been there of course but in a more subdued capacity; they purchased approx. 50% on gDT last night, nothing to sneeze at but certainly not the 70% + that we say a few months back, so what is happening over there? Is it a case of the market still digesting the huge quantities already imported across 2021 and have adequate supply in lead up to the CNY in late Jan/early Feb? Or alternatively, have the various COVID outbreaks, power restrictions and wobbling real estate markets put a dint in demand? As is always the case with China, it is hard to get a clear understanding and actually in most cases that answer is Yes, to all, but No to all as well and while they are sometimes very co-ordinated in their demand, other times they are dealing with more localised factors. Overall, on current evidence it seems that demand is down in China, otherwise we would've seen a big jump on demand from China in the most recent gDT events coupled with big price jumps. That hasn't really happened so this would lead one to think those demand dampeners are real at the current time. Let's see what the next few months bring.
3. For those not familiar with Australian poetry (which is probably true of most Australians), there is a famous poem down here that speaks of Australia being the "land of drought and flooding rains" which is

extremely accurate, it seems we are either in the midst of Armageddon like bush fires caused by years of drought or alternatively rain that just won't stop. The latter is the case at the moment with a strong La Nina weather system already dropping huge amounts of precipitation across the nation but also looking to continue across what promises to be a mild and wet summer. The good news is that we should be set for adequate water across the next 3 years to support our livestock as long as we can find them in the flood waters!!

4. So, our old mate COVID has certainly sprung some surprises on us over the last 2 years but it's continued ripple effect across supply chains still gives us unexpected surprises. At the moment, two issues we're battling with is lack of cold storage space in New Zealand and in Australia, it's a lack of available pallets of all things!! The NZ situation has been caused by extended lockdowns hitting food service demand and customers wanting to hold higher inventories to offset the shipping issues. The acute pallet shortage has been caused by a lack of timber required to make new pallets to accommodate, once again, higher inventory holds and replace damaged pallet stock. Both issues seem to make sense when you look at the input factors but that's largely in hindsight, the more troubling aspect is what's next? What is the next thing that we're not paying attention to that makes perfect sense in retrospect?

MATT COOPER – DIRECTOR

#Ausfine Quarterly Priorities

In between running a Marathon (COVID), the Ausfine team thought it was important to take a break for mental, physical & emotional wellbeing.

The Q1 priority was to ensure the company had enough reserve capacity for everyone to take their leave and enjoy a recharge & every employee had a leave plan lodged for future holidays to have fun with family and friends when lockdown was over.

In addition, the operation and finance team completed 2 important bodies of work, great start to the 2022 financial year!

The reward, all staff received a pair of noise cancelling apple ear buds or Samsung galaxy earbud pros to enhance relaxation!



Ausfine Marketplace

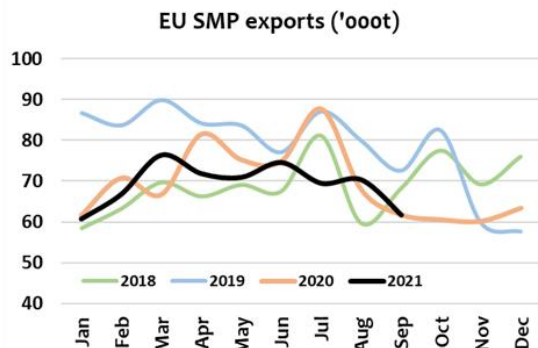
See more offers: <http://bitly.ws/foZe>

WMP Price: \$4340 per MT Volume: 250MT	CLOSES in 6 days
Cheddar Cheese Price: \$4670 per MT Volume: 120MT	CLOSES in 5 days
SMP Price: \$3830 per MT Volume: 100MT	CLOSES in 5 days

EU-27 exports mixed in September

EU-27 dairy exports were mixed in September across product categories we track. At 61,619t, SMP exports were flat YOY, with growth into Northern Africa but less product into China & HK. The current and projected EU-27 SMP stock situation is tight, particularly considering the slow milk growth in key producing countries such as Germany and France.

WMP exports continued to track lower YOY, falling 14.8% YOY in September and down 16.9% for the corresponding quarter. Fat exports were also lower in September. Butter and AMF were down 4.2% YOY and 14.7% YOY respectively for the month.



US cheese prices rebound

With great volatility in the logistics environment and weaker demand, cheese prices remain volatile. After tanking the week prior, CME blocks rebounded to US\$3,990/t, and this week slumped to US\$3,660/t. The blocks-to-barrels spread closed a little to US\$440/t, up more than US\$600/t since 2 November. The volatility is driven by occasionally cancelled orders, trucking issues and variations in inventories. The retail sector is reportedly ordering early this year, but domestic demand for dairy remains lacklustre overall with high-concentration whey products the only exception. With relatively low September exports, and reduced domestic commercial disappearance, CME NFDM prices met resistance and have weakened to US\$3,406/t, remaining at a discount to EU and NZ. Butter has also stabilized with high

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fat values in competing regions, hovering near \$US4,300/t mark after previously increasing roughly US\$500/t since the start of October.

USDA: EU milk near flat, Aus milk up

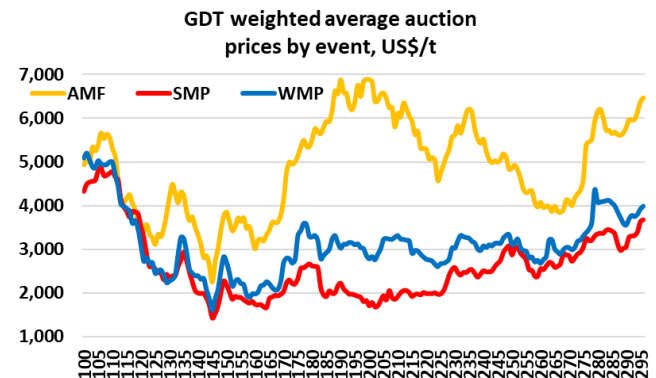
USDA GAIN reports are projecting EU-27 milk production to increase by 0.2% YOY in both 2021 and 2022. The small projected gains in supplies are due to improved average yields as cow numbers are expected to continue to decline – down 1% this year with an additional fall of 0.8% in 2022.

Meanwhile, in Australia USDA expects milk production to increase 1.1% YOY in 2022 to 9.1bn kg, the result of a 0.7% expansion in cow numbers and a 0.4% lift in average yields per cow. This would follow a 1.1% decline in 2021 affected by wet winter conditions and labour shortages due to COVID lockdowns in major dairy states, in addition to international border closures as some farmers made the transition to a less labour-intensive beef cattle production.

GDT index continues upwards

The GDT index rose 1.9% at Event 296, with gains across commodities.

WMP added 1.7% to average US\$3,987/t with increases across all contracts. SMP rose 1.4% to average US\$3,676/t. AMF averaged US\$6,472/t, up 1.4% while butter lifted 3.4% to average US\$5,534/t with significant lifts for contracts with short-term delivery. Cheddar rose 2.1% to average US\$5,162/t with C1 jumping 11.5% while C6 was down 0.5%.



DAIRY FUTURES

Futures mixed – Powders were mixed, NZX SMP trended up while CME NDM lost ground. All prices quoted in US\$/t.

17-Nov	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Dec-21	3,775	3,332	4,160	3,655	6,400	4,307
Jan-22	3,775	3,311	4,225	3,779	6,400	4,268
Feb-22	3,790	3,307	4,200	3,889	6,400	4,288
Mar-22	3,790	3,274	4,215	3,957	6,225	4,376
Apr-22	3,790	3,254	4,115	3,979	6,200	4,392
May-22	3,790	3,259	4,105	4,001	6,100	4,431
Change	3%	-2%	2%	-2%	2%	1%
Op interest	8,553	5,999	18,820	11,961	1,574	5,035