

FROM THE TRADING FLOOR KEY MARKET DRIVERS

- First edition of Dairy Planet of the year, we may need to keep our 2021 hard hats on!
- SMP is looking like it could head to the moon
- Omi-god now we've got Omicron surcharges!!
- Milk down everywhere, when did that last happen?

1. Welcome to the first edition of the Dairy Planet for 2022, we've got some great stuff planned for the DP this year which we're really excited about, further details to follow over the next few editions. Unfortunately, that's where the excitement for 2022 pretty much stops. I'm not sure any of us entered into 2022 with unbridled optimism but certainly, after a very draining 2021, there was some hope, from an Australian perspective anyway, that with Vaccine rates hitting very high levels (90%+) that we would enjoy an unhindered Christmas / New Year period and that January may see some normality return. What is it they say about Hope not being a strategy, well "they" were right, with the new Omicron variant now sweeping the world and playing havoc with supply chains, we're not really sure how much more strain that chain can take. Let's see what the next few months bring but so far so not so good!
2. All dairy prices have spiked of late, headlined by the Whey complex and Fats (particularly butter) but there may be a sleeping giant about to waken. Skim Milk Powder is the second most traded Dairy commodity globally (only slightly behind Cheese & discounting milk & cream). The last 12 months has seen 2.53million tonnes of SMP traded globally. Unlike New Zealand origin WMP to China, the SMP trade is a lot more diversified with most origins making significant volumes and exporting to many varied markets in the world. So it is with interest that we note the large pull back in SMP production in the EU and USA, with pricing now sitting over US4000/MT in both regions and at a premium over Oceania SMP which is quite unusual with the reverse being the norm. As we saw on gDT last night; NZ pricing went a long way to close the gap (+5%) but didn't get the whole way, so this begs the question, where to from here? Well not seeing a big rebound on SMP production, milk still down globally, continued shipping delays and China appears to be coming back to the market; we can only assume that the SMP firming could well continue. We all remember the days of SMP spiking above US5000/MT, could it happen again? In this world – you bet!!! (of course to cover my butt this could also not happen).
3. It is quite typical here in Australia to have a fuel surcharge on over the road freight movements; this stem back to the mid-2000s when the oil price jumped above US100 per barrel for the first time, creating a lot volatility in transport costs that was overcome with a variable "fuel surcharge" that is adjusted monthly. This is a legacy that continues. Well, now it seems we have talk of a new surcharge = Omicron Surcharge! Such is the

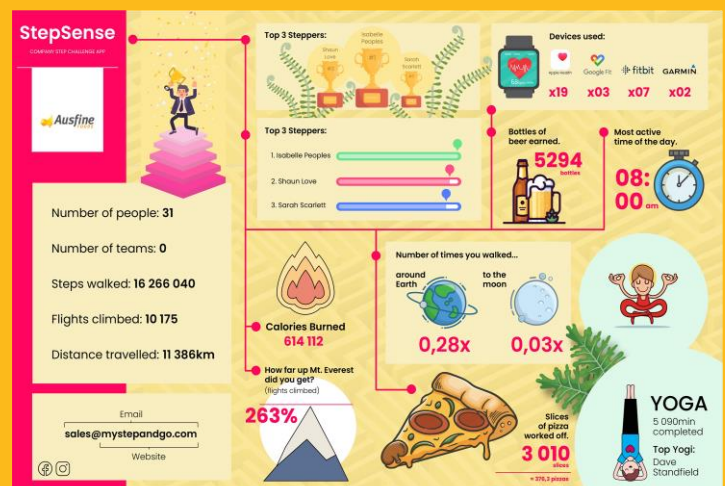
strain being put on our transport and warehouse providers and the resulting spike in costs to the suppliers that they are considering putting on a surcharge to help deal with added costs of keeping the doors open, presumably spearheaded by a spike in casual labour rates. This seems fair enough, but I don't doubt the Omicron is hitting 100% of businesses in the same manner so theoretically we should all be able to charge an Omicron surcharge... all leading to yet more inflation. This is getting scary!

4. Talking to a customer this morning and were discussing the falling milk production pretty much everywhere but headlined by Europe, USA and New Zealand and then asked the question "when have all 3 major producing areas all been in reverse at the same time"? It is extremely rare, particularly over the last 10 years, after milk quotas were removed from Europe and US expansion pretty much continued at the 1-2% rate across the last decade. New Zealand also rapidly increased milk at the same time as land was converted for dairying. Now, despite consistent high milk prices paid to farmers it seems all regions are facing the same challenges = high on farm costs (power / fertiliser etc.) / limited availability of workers / environmental constraints imposed by governments / aging demographic. Some of these factors could be temporary and some are more long-term barriers so will be interesting to see whether this current pull back on milk is short-term or more structural with falling production now baked in and firmer pricing here to stay.

MATT COOPER – DIRECTOR

HAPPY NEW YEAR 2022!

Everyone from Ausfine is feeling a whole lot fitter and healthier after completing our Q2 priority in December and heading into 2022. Looking at the team's overall performance, we managed to nail the objective and ended on 104% of the challenge being achieved. That is phenomenal and a massive congratulations is deserving to all involved!



Ausfine Marketplace

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

Whole Milk Powder Price: \$4440 per MT Volume: 250MT	CLOSES in 7 days
Cheddar Cheese Price: \$5180 per MT Volume: 50MT	CLOSES in 6 days
Sweet Cream Butter Price: \$7260 per MT Volume: 100MT	CLOSES in 6 days

Fonterra milk forecast update

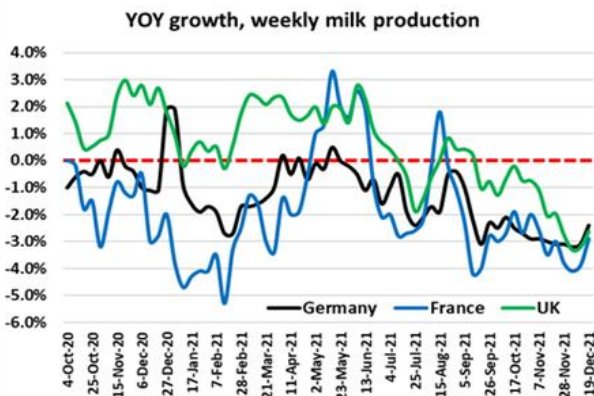
Fonterra has revised its 2021/22 forecast New Zealand milk collections to 1,500m kgMS, down from its opening forecast of 1,525m kgMS. Varied weather and challenging growing conditions in parts of the country early in the season saw milk output dip year on year. Conditions did not improve over Christmas and New Year, forcing Fonterra to revise its forecast down by 1.6%. Fonterra's forecast intake is 2.5% down compared to the 2020/21 season.

Meanwhile, DCANZ reports New Zealand milk production was down 1.2% YOY in milksolids terms in November and 1.5% on a volume basis. November marks the fourth consecutive month of year on year falls in milk production, with season to date milksolids output down 2.6% YOY.

EU milk growth remains low

Based on data for 15 member countries which jointly account for 62% of EU-27 raw milk supplies on average, output fell 0.7% YOY in November. Among major producing countries, supply in Germany and Netherlands was down 2.9% YOY and 4.1% YOY respectively. Production in Belgium also declined – down 4.2% YOY.

UK milk production was down 3.6% YOY in December 2021, according to the latest data from AHDB. Milk production totalled 1,014m litres in December 2021 and while production was down YOY, December output lifted 3.8% from the month before.



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US cheese demand up in Nov

Commercial American cheese disappearance rose 3.5% YOY between January and November. That compares to a 2.9% lift in commercial disappearance of other cheese varieties (including mozzarella) over the same 11-month period. Overall domestic cheese demand rose 3.5% YOY to 502,630t in November.

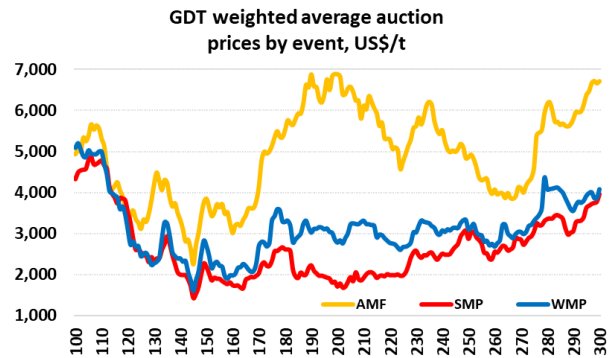
In terms of stocks-to-use at the end of November, American cheese stood at 55.7, up 1.9% from the prior month and 8.7% up YOY. Butter was at 27.4 at the end of the month, down 29.9% from October and 18.7% YOY.

Cheese production rose 1.6% YOY in November according to the USDA. American cheese output declined 2.7% YOY for the month (with a 4.4% YOY fall for cheddar on a strong comparable) while “other cheese” (including mozzarella) lifted 4.5% YOY. Growth in output in the central region where new capacity has been added and milk continues to grow, dominated the monthly changes.

GDT index rise on powder, butter gain

The GDT index rose 4.6% at Event 300, with gains across commodities.

WMP jumped 5.6% to average US\$4,082/t with significant lifts across all contracts. SMP rose 5.0%, averaging US\$3,963/t gains recorded for all contracts. Fats were positive; butter jumped 4.9% to average US\$6,158/t while AMF was more reserved, rising 0.8% to average US\$6,720/t. Cheddar rose 1.1% to average US\$5,546/t, with more significant gains in contracts with short-term delivery.



DAIRY FUTURES

Futures mixed – Powders trended up this week, with CME NDM hitting a high note. All prices quoted in US\$/t.

	19-Jan	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME	
Feb-22	4,000	3,883	4,175	4,451	6,800	5,542	
Mar-22	4,060	4,012	4,410	4,627	6,875	5,372	
Apr-22	4,060	4,008	4,425	4,566	6,725	5,269	
May-22	4,025	3,971	4,435	4,475	6,750	5,181	
Jun-22	3,950	3,894	4,435	4,447	6,680	5,055	
Jul-22	3,950	3,818	4,300	4,515	6,530	5,140	
Change	4%	7%	4%	0%	0%	-3%	
Op interest	7,924	5,960	26,708	11,125	1,418	6,525	