

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **USA is the future of global milk growth**
- **Fonterra removed nearly 20,000MT of WMP from the gDT Auction, but it still went down**
- **Just when you thought it was safe to go back to restaurants, COVID's back & it's bought a friend**
- **Are shipping delays driving global inflation?**

1. I'm not sure if many outside of US dairy noticed but total USA milk production grew by 4.6% in May on YoY comparison. This was driven by continued growth in cow numbers, up 145,000 head to a total national herd of 9.505million. We could expect milk to moderate through June due to those dry conditions we mentioned in the last DP (particularly in the West) but equally that could be offset by very strong production in the Midwest. This at a time when the New Zealand dairy industry is lamenting that they have reached "peak milk" and it is downhill from here due to the increased environmental constraints being imposed on farmers in NZ. Seems that the Americans have cracked the code for successful large scale corporate type farming with mega farms (5,000+ cows and more) now common in most parts of the US coupled with more favourable government support for business and farmers, large parts of the county suitable for farming, a relatively flat milk curve (compared to volatile seasonal farming) and processors that demand to be at 100% production capacity all of the time – all of which is a recipe for continued milk growth. Over the last 15 years we have seen US dairy grow from a domestic focused industry into an exporting powerhouse. At a time when most other milk producing regions show minimal growth it looks like that will only increase in the future.
2. Last Thursday, we saw the surprise announcement that Fonterra had removed 19,500MT of WMP from the gDT auction platform for the events between August and November. The fact that they were moving volumes around or even removing volume was not a surprise, they do that all the time, the surprise was the quantum of product removed and also the period from which it was removed. The volume taken off the platform represented close to a 15% reduction. Why? I hear you ask, are they facing a drop in milk across Spring? Not that we can see; conditions look good for a lead into Spring and coupled with a strong milk price we would think milk availability would be robust. No, the explanation given was that demand was so strong off the platform from certain Asian markets, that they sold the volume independently of the gDT and therefore had to reduce quantity as a result. The only problem was that even with the lower quantity available, last night's gDT saw WMP fall by 3.8% with Chinese participation falling quite dramatically. So perhaps either it is a market

misread or alternatively it was a very accurate read and Fonterra are simply doing a good job of managing a falling commodity. The next few months will tell the tale.

3. Just when we all thought it was safe to head back to our favourite restaurant / bar / cinema / gym / nightclub our old mate COVID has decided to ruin the party once again, only this time it bought a friend, the Delta variant. So contagious is the delta strain that infections are happening where previously they weren't. The effect on Asia has been pronounced with most countries now back in one form of lockdown or another, but of particular interest is those countries that have high vaccine rates such as the US and parts of the EU now also dealing with Delta outbreaks and reimposing some restrictions. This has caused another hit to the food service sector that was recently gearing up to open back up in a big way across northern hemisphere summer. Seems COVID is not done with us just yet and as a result we're seeing dairy prices soften.
4. We've long contended that a driver on price increases for most items recently has been the shipping delays. Many customers have doubled & tripled their ordering quantities along with ordering earlier to try to offset out of stock positions by increasing their inventory holds. Obviously when everyone does the same thing at the same time this exacerbates the issue in shipping, then driving further demand and so the cycle goes. This has been evident in Dairy but also many other industries. Anyone tried to buy timber recently?! At some point that demand will ease as either the shipping situation improves, or those big shipments finally arrive and inventories recover. Even though shipping reliability has not improved perhaps we are starting to see the first glimpses of those delayed shipments finally arriving in a meaningful way and now as customers appear to be taking a breather in some of their buying.

MATT COOPER – DIRECTOR

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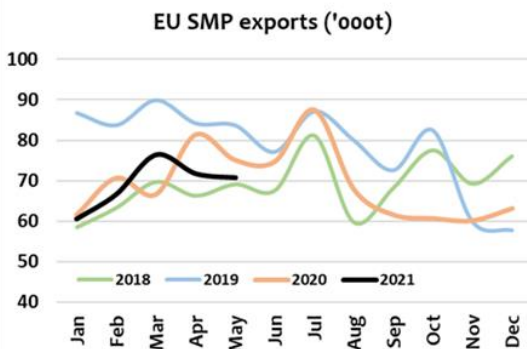
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IWPC 80 Price: \$11200 per MT Volume: 40MT CLOSSES in 2 days
Mozzarella Price: \$4590 per MT Volume: 100MT CLOSSES in 2 days
WMP Price: \$4050 per MT Volume: 300MT CLOSSES in 7 days

EU-27 exports weak in May

EU-27 dairy exports were lower in May across all product categories tracked, except for MPCs. At 70,788t, SMP exports were 6% weaker YOY, with sharp falls in shipments to MENA (particularly North Africa) and despite positive trends in China & HK and SE Asia. With lower local manufacture, the stock situation is tight, particularly considering the slow milk growth at the start of the year.

Cheese exports fell 1% YOY to 113,639t – a 3-month low, reflecting weaker shipments into the UK, Japan and the Middle East. The expansion in dry whey shipments into China & HK halted in May with a 4% YOY fall. For the year to date, EU27 dry whey shipments to this key market expanded by 25,110t while overall exports rose by 8%. Fat exports continued to track lower YOY in May, with butter and AMF falling by 38% and 32% respectively. WMP exports fell 20% YOY in May and were down 14% in the corresponding quarter.



EU May milk improving

EU-27 supplies rose 2.3% YOY in May, based on 25 reporting countries accounting for 98% of average output (excluding Sweden and Luxemburg). Italy accounted for 37% of the total reported growth in May, having increased 10.6% YOY but on a low comparable. Ireland and France milk also rose

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– up 6.1% YOY and 2.6% YOY respectively. June German and Dutch supplies were both flat in YOY terms.

Output has since slowed. According to the most recent data, French milk production fell 2.8% YOY in week 27 (ending 11 July 2021), the fourth consecutive weekly contraction. German supply fell 1% YOY in week 26 – in both Germany and France, trends in supply have worsened since late June. AHDB reports UK production fell 0.7% YOY in the first 10 days of July after increasing 1.1% YOY in June.

Mexico June SMP imports hits high

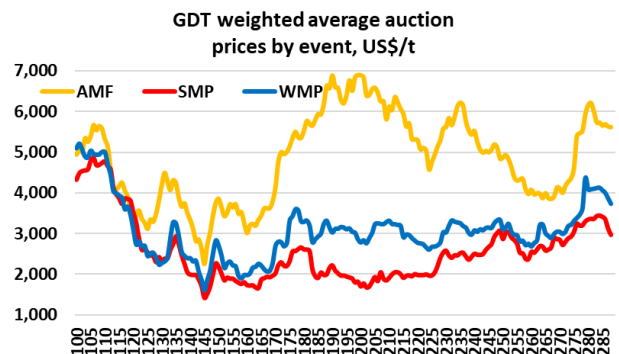
Mexican SMP imports rose 17.5% YOY in June to 34,592t, bringing year to date shipments 14% above the comparable – a difference of 20,698t. The US had a 99% share of the Mexican SMP market between January and June, with shipments 20.5% higher than in the same period in 2020.

Meanwhile, June milk production was up 3.6% YOY, following a 1.3% YOY expansion in May. The June result is at odds with the extreme drought locally, with some reporting that this is not an accurate picture of what is actually going on. Milk supply (per the official data) has now increased YOY in every month since August 2013.

GDT slide continues

The overall GDT index fell a further 2.9% at event 288 – the 7th consecutive fall since the first event in April.

SMP suffered another moderate fall with the pressure of weaker US and EU markets dropping 5.0% on average to US\$2,971/t. WMP lost 3.5% on average to US\$3,730/t, with consistent losses across C2 to C5. Butter lost 0.9% to average US\$4,419/t, with inconsistent losses across contracts. AMF lost 0.3% on average to US\$5,615/t, which was weighed down by losses in C4 and C5. Cheddar made a small gain on average, up 1.8% to \$4,022/t.



DAIRY FUTURES

Futures mixed – A major correction for CME Cheese. NZX powders trended up. All prices quoted in US\$/t.

21-Jul	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Aug-21	3,100	2,734	3,800	3,574	5,485	3,814
Sept-21	3,110	2,723	3,750	3,726	5,385	3,816
Oct-21	3,100	2,756	3,655	3,935	5,350	3,875
Nov-21	3,100	2,778	3,630	3,995	5,250	3,921
Dec-21	3,110	2,811	3,620	3,984	5,260	3,935
Jan-21	3,120	2,833	3,620	3,929	5,270	3,968
Change	1%	-2%	2%	-5%	0%	-1%
Op interest	7,096	4,779	27,711	17,769	535	6,579