

## FROM THE TRADING FLOOR

It's a China Focus in this DP edition

### KEY MARKET DRIVERS

- Are the first cracks of relief starting to show in shipping?
- What's the real story on China demand?
- Another Aussie meat packer banned into China
- A watch-out to export markets when it's easier to just sell the product at home

1. Are we seeing the first signs of potential relief in the shipping saga? Although not yet flowing through to better service or cheaper rates just yet (for other trade lanes) we are hearing reports that the demand for the China to USA route has fallen dramatically over recent weeks and the rates being charged have followed. There are some reports circulating that spot rates for 40' dry's ex China to L.A. have fallen from a high of US\$17,500 in September down to US\$8,500 this month and some longer-term rates dropping below US\$5,000. If sustained, this could be very big news indeed. Without that huge China-USA premium, shipping lines are a lot more likely to normalise their service level to other trade lanes and there would be a lower motivation to move those empties back to China at breakneck speed; instead leaving them in the US to give exporters a fighting chance to fill them. The reason for the fall in shipping demand? It seems the biggest driver are those power outages we're hearing about in China and the resulting drop in factory production destined for the US. The question is whether it can last. On that front the answer may be in the timing. If the power situation was to correct quickly then it would be back to those crippling rates and ripple effect to other areas. However, if the issue was to persist into early 2022 then we would largely be through the big demand period of Christmas as well as life trending back to "normal" post pandemic and a potential re-alignment on those demand trends that was driving a lot of the shipping issues in the first place; like the sitting at home under lockdown finding something else to buy online.
2. Whilst we're talking about China, we've been hearing general reports that the market is currently heavy with inventory of all dairy products but particularly SMP & WMP. Like other industries, the food and beverage manufacturers have also been hit with the rolling power outages and have had to cut production resulting in lower demand for ingredients. Coupled with lower levels of internal movement of people within China and other headwinds such as the real estate troubles, the demand picture may not be overly rosy either. Having said that the China buying on gDT last night was back to approx... 50% (WMP) up from 32% the event prior so the situation may not be as bad as reported, and that is the difficulty with China; getting a clear picture of what is happening, instead relying on patchy data and anecdotal reports. What we do know is that any demand slack is currently being picked up by other markets such as South East Asia and the Middle East as those markets continue to emerge from COVID lockdowns.
3. The final point on China is that after a lengthy period of apparent calm on the trade front between China and Australia, we saw

another Australian meat packer lose their China license early this week. There was the feeling / hope that trade tensions between the two countries were finally starting to ease and some type of equilibrium was being found, alas no, and with this most recent announcement all exporters to China from Australia (but perhaps everywhere) were reminded that access to the lucrative China market can be taken away in a heart-beat, keeping everyone very much on their toes.

4. With the shipping issues currently at extreme levels out of the West Coast ports of the USA; many manufacturers are currently seeing only 50-60% of their export orders being shipped in a month (for some it may be even lower) thereby leaving 40-50% of export bound orders remaining in inventory incurring additional costs, unhappy customers and hit to cash-flow. That problem is then compounding month on month as those percentages are not improving. At some point, the attraction of pivoting away from export markets and just selling domestically with vastly improved cash flow much be very attractive to a lot of US manufacturers. If that is to happen in a material way, those export markets that rely heavily on imported dairy products will be left with the difficult situation of reduced availability and much higher prices. Whilst the US is at the epicentre of this; the Europeans have a similar situation of keeping up with internal EU demand, once again leaving less available for exports.

**MATT COOPER – DIRECTOR**

## AUSFINE INDONESIA

The Ausfine Indonesia team are working hard during the current pandemic. They have had to deal with lockdowns, port closures and still they work to grow our business. We thank them for all their hard work and showing the true values of Ausfine!



## Ausfine Marketplace

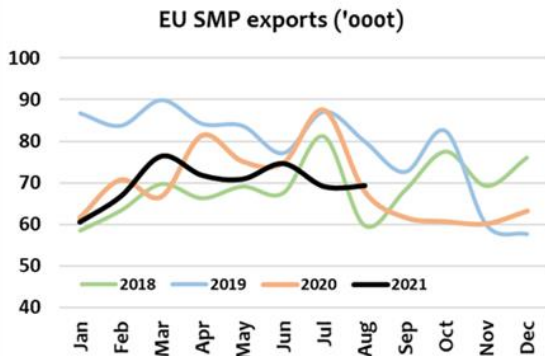
See more offers: <http://bitly.ws/foZe>

<b>Skim Milk Powder</b> Price: \$3775 per MT Volume: 300MT	CLOSES in 7 days
<b>Whey Protein Isolate</b> Price: \$15890 per MT Volume: 35MT	CLOSES in 7 days
<b>Cheddar</b> Price: \$4390 per MT Volume: 100MT	CLOSES in 6 days

## EU-27 exports mixed in August

EU-27 dairy exports were mixed in August across product categories we track. At 69,300t, SMP exports were 2.1% higher in YOY terms, mostly reflecting growth in Northern Africa, Sub-Saharan Africa and China & HK and despite weaker shipments into SE Asia, the Middle East (just 5,000t for the month) and Central America. With less local manufacturing until August, the current and projected EU-27 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 13% YOY in August and down 19.1% for the corresponding quarter. Fat exports rebounded in August however, after tracking lower in every month since July last year – butter and AMF rose by 11.8% YOY and 14.1% YOY in August respectively. Overall EU-27 cheese exports were 5% up YOY in August.



## US cheese disappearance lifts

Between January and August, commercial American cheese disappearance rose 6.2% over the 2020 comparable. That compares to a 2.9% lift in commercial disappearance of other cheese varieties (including mozzarella) over the same 8-month period.

In terms of stocks-to-use at the end of August, American cheese stood at 55.2, up 3.7% from the prior month and 2.8% from the same month last year. Butter was at 58.2 at the end of the month, down 13.4% from July and 16.8% from the 2020 comparable.

Butter commercial disappearance rose by 2.9% for the year to August, despite a weak April-June period - this mostly reflected strong prior-year comparables.

## EU August milk up 0.8%

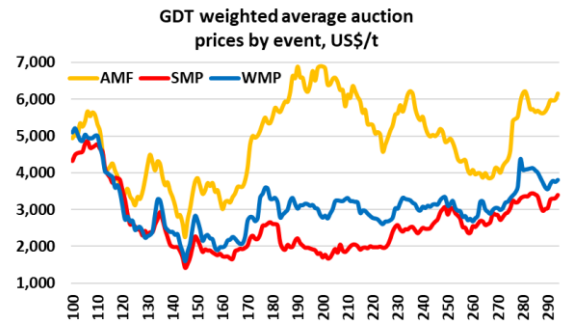
EU-27 supplies rose 0.8% YOY in August, based on our analysis of data reported by Eurostat and AGEA. The overall YOY increase was driven by a 5.4% expansion in Ireland, while France was up 1.1%. Spain output rose 3.1%YOY, with Poland and Italy up 0.9% and 3.6% %respectively. This was more than enough to offset a 0.7% decline in Germany while milk in the Netherlands was down 1.5%.

The positive French trend was a surprise to the market, particularly given how weekly data was tracking during August. According to the most recent data, French milk production fell 2.7% YOY in week 40 (ending 10 October 2021), the eight consecutive weekly contraction. German milk fell 2.6% YOY in week 39, the 19th consecutive weekly decline. AHDB reports UK output declined 0.8% YOY in the first 10 days of October after falling 0.4% YOY in September.

## GDT index lifts on higher values

The GDT index rose 2.2% at Event 294, as all commodities recorded increases.

Average prices were positive; WMP lifted 1.4% to average US\$3,803/t with higher increases recorded for contracts in the medium term. SMP rose 2.6%, averaging US\$3,401/t recording increases across all contracts. AMF averaged US\$6,151/t, up 2.8% while butter lifted 4.8% to average US\$5,111/t – all contracts lifting significantly. Cheddar was up 3%, averaging US\$4,426/t.



## DAIRY FUTURES

**Futures rise** – NZX SMP and CME NDM rose significantly, followed by NZX AMF. All prices quoted in US\$/t.

20-Oct	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Nov-21	3,545	3,219	3,885	4,154	5,980	4,009
Dec-21	3,555	3,307	3,885	4,065	6,005	3,94
Jan-22	3,565	3,291	3,885	3,926	6,010	3,925
Feb-22	3,565	3,271	3,885	3,898	6,020	3,925
Mar-22	3,565	3,247	3,875	3,904	5,910	4,045
Apr-22	3,575	3,211	3,860	3,915	5,900	4,112
Change	3%	3%	1%	1%	2%	1%
Op interest	8,432	5,507	23,480	12,086	1,875	5,001

[www.ausfine.com.au](http://www.ausfine.com.au)

Ausfine Foods International Pty Ltd ■ ABN 12 006 926 129

2 T +61 3 9583 3588 ■ F +61 3 9583 4344 ■ E sales@ausfine.com.au

Suite 10, Level 4, 205 – 211 Forster Road, Mount Waverley VIC 3149 Melbourne, Australia