

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **2021 - A year of shipping hopes dashed**
- **2021 - A year of no more lockdowns dashed**
- **2021 - A year of milk growth dashed**
- **2021 - A year of inflation only being “transitory” dashed**
- **2021 - You can join your mate 2020, 2022 what have you got for us?**

1. 2021, you started out with such promise. As we gladly saw out the annus horribilis of 2020, we eyed the new year with hope in our pandemic weary eyes of a new year where Vaccines would be rolled out and the world would get back to some form of normal. Unfortunately, that was not to be and as we looked on in disbelief as the Washington capital building was stormed by protestors in January, we also looked on incredulously as the shipping woes didn't get better as hoped for but instead got much, much worse. It seemed that every turn of events in the pandemic hit shipping. Well intentioned government support = everyone's got money and lots of time on their hands, increasing import demand by 15% and more / Let's open up the economy from lockdowns but anyone who is a close contact gets “pinged” by 2 weeks quarantine = ports running at ½ people power and less / Let's close the international borders so new waves of infections can't get in = vessel crews can't move around the world to re-man vessels... and the list continues. What we thought was bad at the beginning of 2021 (40 vessels of the coast of L.A.) now seems quaint as we now hit triple figures. As we hit the end of the year the issue isn't only the reliability of shipping but now the cost. As shipping lines renew their pricing, they are not playing nice and taking the opportunity to double, triple and in some cases quadruple their prices leading to the greatest bonanza in shipping profitability ever seen. Well, I guess it wasn't such a bad year for everybody.
2. Once the Vaccines were rolled out en masse, lockdowns were to be a thing of the past right? Well..... Melbourne Australia (our home) took the dubious honour of being the worlds most locked down city as the country's ineptitude of securing Vaccines was exposed and the waiting game dragged on. As the Delta variant marched around the world, those places that hadn't previously been touched like New Zealand couldn't escape anymore and their harsh lockdown watch began. Now we're at the end of 2021 and we're still talking about lockdowns in Europe and new variants. All of these have massive impacts on our dairy trade flows and demand patterns. At least this time round, there is a resigned acceptance that this isn't our first rodeo, and we know how this plays out.

3. At the beginning of 2021 we already had our concerns about milk growth in Oceania (Australia and New Zealand). NZ seems to have found its milk limit with future growth unlikely and Australia has been the disappointing child who refuses to grow milk despite all the incentives of better milk cheques and good weather conditions. But that was OK because we still had Europe and USA, they wouldn't let us down right?! Unfortunately, they did. EU milk growth was under a cloud for the majority of the year with many big producing regions going into reverse and the final hero of milk, the USA, now officially in decline in YoY milk production since September. South America joined in and we're faced with declining milk pools and ever firming prices as a results. See next point.
4. As the shipping issues joined the reduction in milk supply, we saw prices firm ever faster across 2021. But that was OK as the pricing inflation was only “transitory” and would soon moderate as the COVID pandemic moved into the rear view mirror, shipping normalised and milk returned to growth on the back of strong pricing for milk. Alas like pretty much every other commodity and product, the inflation pace continued and wasn't transitory at all. For now, it's here to stay and we eye the next 12 months with some trepidation as we all know how this song ends right?! It's just a matter of when.
5. 2021 you can join your mate 2020 in the past and we'll group you both together and your will forever be known as twins. Years of fear & frustration. 2022 you better be better!! Anyway, to all of you who take the time to read this we've made it through another year and I wanted to say that even though it's been tough we have learnt a lot and we're still swinging. Merry Christmas to you all and safe 2022. Chat again in the new year.

MATT COOPER – DIRECTOR



Ausfine Marketplace

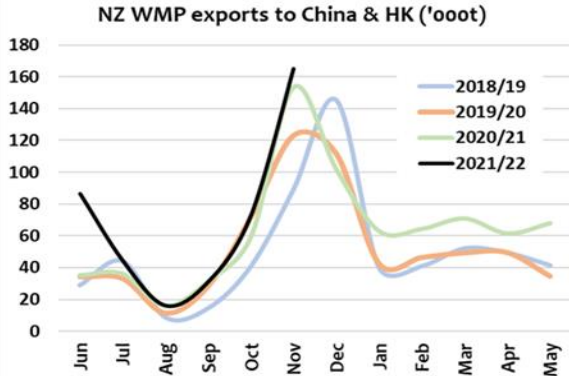
See more offers: <http://bitly.ws/foZe>

Cheddar Cheese Price: \$5130 per MT Volume: 80MT	CLOSES in 7 days
Whole Milk Powder Price: \$4385 per MT Volume: 225MT	CLOSES in 6 days
Unsalted Butter Price: \$7120 per MT Volume: 150MT	CLOSES in 5 days

NZ exports weaker in November

Exports of major dairy products were lower in November. WMP exports declined 1.9% YOY to 214,595t, the fourth consecutive monthly contraction. The overall decline in November WMP trade was despite stronger shipments to China & HK due to healthy off-GDT demand. Trade into this key region rose 7.4% YOY to 164,992t. SMP exports were 39,004t in November, down 13.7% YOY and followed six consecutive monthly increases. Season to date SMP exports were still 3% higher relative to the comparable.

Cheese exports fell 6.1% YOY to 32,357t in November. Butter and AMF exports fell for the 3rd consecutive month, down 10% and 28% YOY respectively.



US milk down 0.4% in November

Milk production in the US declined 0.4% YOY in November according to the USDA. The contraction was the first since May 2020 and followed a revised 0.1% YOY growth for October. The overall decline in November was a result of a 0.2% YOY rise in average yields per cow and a 0.5% drop in the national dairy herd.

Among major producing states, November milk production in Wisconsin and California rose by 2.2% YOY and 1% YOY respectively. Supplies in South Dakota and Texas also continued to improve at impressive rates, up 16.7% YOY and 2.8% YOY respectively. This was more than offset by weaker trends in New Mexico (-13.2% YOY) and Washington (-6.7% YOY), while Pennsylvania also declined (-3.5% YOY).

China imports mixed in November

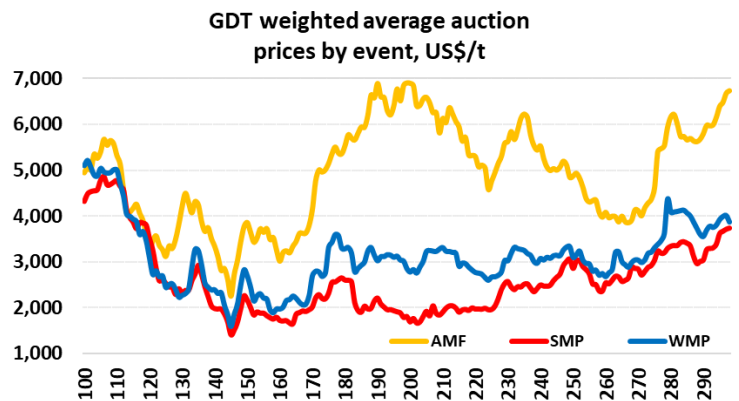
Chinese WMP imports rose 39.6% YOY for the month to 64,619t putting them 38.1% ahead of 2020 for the year to date. Local WMP stocks-to-use ratio is seasonally down in Q4, below the 2020 October comparable but above 2019 and 2018. November cheese imports were up 37.2% YOY to 16,035t, a 6-month high as average shipped prices retreated to US\$4,648/t. Cheese imports were 38.1% ahead year to date. November whey imports fell 20.1% YOY while infant formula and AMF were down 14.9% and 18.4% respectively.

Imports of SMP rose 5.4% YOY to 31,018t with CIF import prices rising to US\$3,437/t. Between January and November, SMP imports were 31% ahead of the prior year comparable, with local inventories historically high for October.

GDT index falls in last event of 2021

The GDT index was down 1.5% at Event #298, recording the first fall since the first event of August.

SMP gained just 0.6% on average to US\$3,745/t the 10th average price gain in this rally. Weaker demand from outside Chinese caused WMP to lose 3.5% on average to US\$3,867/t, with consistent losses across contracts. There were small increases in fat prices as butter added 1.0% on average to US\$5,851/t, with consistent gains across all contracts. AMF gains were similar, adding 0.8% on average to US\$6,724/t, posting inconsistent changes. Cheddar results were again mixed with a US\$21/t gain to average US\$5,241/t.



DAIRY FUTURES

Futures mixed – Fats were mixed with gains for CME butter. NZX powders were flat and cheese lost ground. All prices quoted in US\$/t.

22-Dec	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Jan-22	3,825	3,543	4,100	4,030	6,900	4,564
Feb-22	3,880	3,571	4,210	4,127	6,875	4,586
Mar-22	3,870	3,560	4,220	4,125	6,875	4,641
Apr-22	3,870	3,549	4,210	4,147	6,850	4,685
May-22	3,850	3,537	4,210	4,189	6,825	4,707
Jun-22	3,840	3,537	4,150	4,211	6,650	4,679
Change	0%	1%	0%	-1%	2%	0%
Op interest	8,529	6,191	24,272	12,096	1,471	5,846

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