

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **Did China buyers forget gDT was on last night?**
- **Australia managing to annoy a lot of people, what does it mean for trade?**
- **Forget about my kingdom for a horse....in the US, a truck will do.**
- **EU milk flat / US milk growing but at a slower pace**

1. The headline numbers from gDT last night were not really that noteworthy. Overall, the complex was up a benign 1%, reflecting similar numbers in most product categories being either up or down 1% (WMP was the exception showing a stronger 2.2%). But dig a little deeper and there are certainly some very interesting points of note, namely which region bought what. Of most interest was China, traditionally the biggest and most consistent buyer on the gDT platform across all products. Last night China purchased just 33.6% of the WMP on offer, the lowest % level since gDT began. To put that into perspective, China's buying of WMP in July was sitting closer to 80%. Seems the slack was definitely picked up by South East Asia and the Middle East which probably speaks to the re-opening of those regions. We have been hearing of heavy inventories in China both from strong import buying and domestic milk being up in a meaningful way. So where to from here on pricing? We know that SEA and MENA regions don't have the capacity to keep buying these types of volumes so what happens when their bellies get full? By that time China may've worked their way through the inventories and find their buying mood again? If that happens then the timing for NZ will be nigh on perfect and prices will stay firm. However, if this demand picture from China continues for a prolonged period.... We could be in for a bumpy ride.
2. To be honest it's feeling a little biblical down here in Melbourne at the moment, we've got plague / riots in the streets and believe it or not we just today experienced a decent sized earthquake!! Crazy times. On top of all that, our federal politicians seem to be doing their best to alienate us from a big chunk of the globe. After ensuring that we're persona non grata with China (our biggest trade partner), we have now managed to disappoint France enough, by cancelling a contract to build submarines, that they have recalled their ambassador from Australia. Now Europe have understandably come down on the side of France and discontinued any discussions with us Aussies, not great timing when you're 11 rounds into an FTA negotiation. Fair to say we don't think the Europeans are going to be sitting down to too many Australian lamb dinners anytime soon. From a dairy perspective, some local cheese manufacturers would be breathing a sigh of relief, after all a lot of European cheese comes into Australia currently and that's with a big duty. Still, suspension of trade talks is never a good thing.
3. For most of the trading world, the biggest hurdle around the logistic chain remains squarely on international sea freight, lack of vessel & equipment availability and ever rising costs. But for the Americans there is another layer, internal freight movements. Truck drivers and equipment are both in very short supply and as a result getting product moved around the country is extremely

challenging and increasingly expensive. Trucking companies have seen their wage bills explode as drivers demand higher salaries and some trucking companies are offering sign-on bonuses for new drivers. These costs will continue to flow through to the industry, making long haul moves increasingly expensive. We won't even bother with predictions on when this situation may ease as no one really knows but it's with us now and we have to deal with it.

4. EU milk growth seems to have stalled over recent months with many countries now going backward on milk production compared to same time last year. Germany & France are the most notable being the largest milk producers and both in negative territory but also joined by Netherlands and Poland. Ireland continues to buck the trend and post positive numbers which helps offset some of the losses but not all, EU milk production is down 0.5% for July (YoY). Meanwhile across the Atlantic, the US milk growth has slowed to 1.1%, after consistently being above 2% for the last 14 months. High feed costs, drought conditions on the West, lower milk returns and good prices for beef have all lead to lower milk. This all leads to support for current pricing levels.

MATT COOPER – DIRECTOR

Meet our Executive Team

Today we are excited to introduce our MD Chris Scarlett.

Chris started at Ausfine foods in 1999, coming to work with his father Don Scarlett who was a founder of the business. Chris joined Ausfine with a qualification in Food Science / Dairy Technology from University of Melbourne and several years hands on experience in dairy processing and cheese sales. Over Chris's 22 years at Ausfine he became largest single shareholder and has lead the business as Managing Director through a significant scaling up journey. Chris has a passion for constant learning and improvement, and has built a strong company around this, most recently completing OPM at Harvard Business School. He applies his learnings, strengthening the platform for continued scaling of Ausfine Foods.

"The Ausfine team are a big family, we care for and support one another, we've got each other's back. The people at Ausfine are the most important part of our success, they constantly provide win-win outcomes for all our customers and suppliers, the opportunities for us flow from this simple formula".

👉 In his private life Chris loves Surfing, playing the guitar and slow cooking a brisket with his family on a Saturday afternoon.
#meettheteam #executiveleadership #ceosights.



Ausfine Marketplace

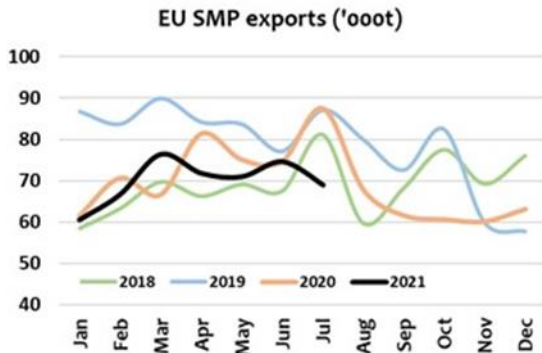
See more offers: <http://bitly.ws/foZe>

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|--|----------------------------|
| Lactose Price: \$1385 per MT Volume: 200MT | CLOSES in 6 days |
| BMP Price: \$3180 per MT Volume: 200MT | CLOSES in 6 days |
| Unsalted Sweet Cream Butter Price: \$5490 per MT Volume: 100MT | CLOSES in 7 days |

EU-27 exports weak in July

EU-27 dairy exports were lower in July across all product categories we track. At 68,977t, SMP exports were 21.3% down YOY, with sharp falls in shipments to MENA (particularly Northern Africa) and SE Asia, and despite positive trends in sales to China & HK. With less local manufacturing, 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.

Cheese exports fell 8% YOY to 116,148t, reflecting weaker shipments into the UK and North America. Fat exports continued to track lower YOY in July, with butter and AMF falling by 16% and 46% respectively. WMP exports fell 28% YOY in July and were down 22% in the corresponding quarter.



US restaurant sales continue to surge

The Census Bureau reported a 17.3% YOY increase in “limited service eating places” sales for July, following a nearly equivalent expansion in June. For 2020, sales in this category were 4.1% lower than the prior year comparable, reflecting the impact of COVID-19 lockdowns and outlet closures on revenue.

Full-service restaurants are also making a comeback, increasing YOY in every month since March, but on particularly low COVID-impacted 2020 comparables. Full-service restaurant sales were 64.3% ahead YOY in July. After falling YOY in the March-May period, grocery store sales increased in both June and July – up 3.4% and 2.2%

respectively. Advance estimates for August 2021 suggest foodservice and drinking place sales were ahead 32% relative to the 2020 comparable

China’s imports continue to surge

Chinese dairy imports were again exceptionally strong in August. WMP volumes rose 142.8% YOY in August and 40.9% for the year to date, despite increasing average shipped prices for NZ-origin product to US\$4,094/t.

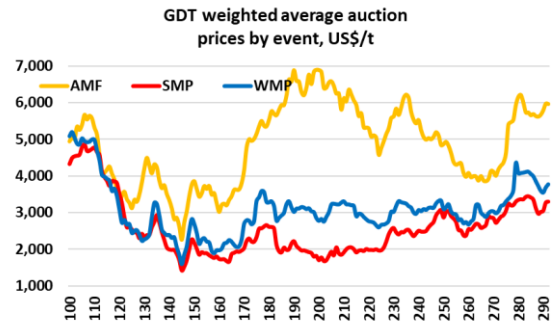
SMP imports have tracked generally higher since September last year, increasing 22.8% YOY in August and 41.8% between January and August.

Infant formula was again one of the exceptions to the positive trends, with shipments having fallen YOY in every single month since February. China was rebuilding its local pig herd, and strong imports of whey powder ended in May – imports have been weaker since (but still positive growth in July and August) on some large 2020 comparables which will remain in place for the rest of the year.

GDT continues to rise

The GDT index rose 1.0% at GDT Event 292, the third consecutive rise on product sales of 24,476t.

WMP continues its upward trajectory, rising 2.2% to average US\$3,777/t, with increases across all contracts. SMP rose 0.9% to average US\$3,302/t with gains recorded across most contracts. Fats lost ground with; butter lost 1.8% to average US\$4,857/t, falls recorded across all contracts. AMF edged down 0.1% to average US\$5,962/t with mixed contracts. Cheddar fell 1.2% to average US\$4,274/t.



DAIRY FUTURES

Mixed futures – Powders were mixed; NZX WMP trended down, while SMP was flat. All prices quoted in US\$/t.

| 22-Sept | SMP | NDM | WMP | Cheese | AMF | Butter |
|-------------|-------|-------|--------|--------|-------|--------|
| Exchange | NZX | CME | NZX | CME | NZX | CME |
| Oct-21 | 3,330 | 2,940 | 3,710 | 3,823 | 5,935 | 3,963 |
| Nov-21 | 3,325 | 2,995 | 3,700 | 3,796 | 5,925 | 3,963 |
| Dec-21 | 3,325 | 3,013 | 3,685 | 3,860 | 5,900 | 3,952 |
| Jan-22 | 3,335 | 3,013 | 3,650 | 3,865 | 5,850 | 3,930 |
| Feb-22 | 3,335 | 3,009 | 3,650 | 3,887 | 5,720 | 3,925 |
| Mar-22 | 3,335 | 3,012 | 3,650 | 3,924 | 5,720 | 4,079 |
| Change | 0% | 2% | -2% | 0% | 0% | -2% |
| Op interest | 7,094 | 5,048 | 21,464 | 14,586 | 1,817 | 5,455 |

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