

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **Trade gets nervous when prices start to get to these levels**
- **China gets curiouser and curiouser**
- **US butter and cheese behaviour shows not everyone believing the hype**
- **NZ is dry and the rains haven't come, more milk downgrades on the way?**

1. The common theme out in Dairy world is that prices are strong across the board and will continue to firm off these already high prices on the back of high demand, globally falling milk and continued shipping woes. For those that have been in the industry a while the conversation is then accompanied by a nervous reference to "being here before". It's not that the fundamentals aren't true, all the factors impacting pricing are very pronounced with any type of relief seemingly a long way away. It is the fact that the last time we were at these types of sustained pricing levels was 2013 and we were in a new world: a world where China could not get enough product and that this time it was different. Europe had even removed their milk quotas to satiate the China demand. Well, we all know how that worked out. 2014 saw a huge crash in dairy prices as it turned out China could in fact get enough product and over 300,000MT of European SMP started to flow into interventions stores at a 3rd of the price it was 12 months prior. Could that happen again? At the moment it seems unlikely in the near term as the supply side seems to be the issue this time with aforementioned falling milk and the bottlenecks of global supply, but I guess never say never in a pandemic world and for those that have lived through 2013/14, forgive them for that nervous shake they seem to be developing of late.
2. China has got too much product, they won't be turning up to this gDT event, and it's Chinese New Year to boot so buyers will be off welcoming in the year of the Tiger. Well, that was the view of many prior to Tuesday night and to be honest the stats around recent imports and reports of Chinese inventory holdings appear to back that view up. Combined with the financial issues facing the Chinese economy and threat of contagion from the real estate woes, there was a strong argument to mount that indeed Chinese participation would be down on this event and those to come. As we saw that was not the case and Chinese buying was strong. Over 60% of WMP and 48% of SMP is China bound with big buying also in butter and cheddar. So what's the true story? The truth remains that China is opaque and very difficult to get an idea of what is truly happening on the ground there. You can try to extrapolate trade figures but often that doesn't work as buying behaviour doesn't follow expectations and assumptions / estimation around Chinese milk production etc. can be a big miss. It's almost like that it is a deliberate ploy....
3. Many have been surprised with butter and cheese pricing on the U.S. CME spot market over recent weeks. Butter lost over

US\$1000/MT over a couple of trading days and block cheese down over US\$700/MT from mid-January. All this while pricing is booming everywhere else in the world. The general view was that the behaviour was an anomaly of the market and others thought it was a deliberate move by some to drive spot down to take advantage of higher futures and take advantage of the carry. Pricing has recovered over last few days but has certainly not gone crazy which gives a moment of pause, is it just an anomaly and US pricing will rebound or is the market reflecting lower US demand as stimulus comes out of the economy & talk of interest rates moving higher? Could this be the canary in the coal mine for the rest of the world?

4. One look at the climate maps of New Zealand <https://niwa.co.nz/climate/daily-climate-maps> and we see that it is indeed dry. There is a huge amount of rain due into the South Island this week (up to 700mm on the West Coast!!) but such is the volume predicted it is likely to do more harm than good. For the moment, the North Island remains parched but that could potentially turn next week with better rainfall, now it's a question of whether it's too late to make a difference. We saw that big fall in New Zealand December milk, down 5% which is a huge number for a month that produces A LOT of NZ milk, it's not like we're talking about June being down 5% (seasonal low). Therefore, it is entirely possible that NZ milk could finish materially down this season which when added to EU falls and US could exacerbate the current supply tightness.

MATT COOPER – DIRECTOR

HAPPY AUSTRALIA DAY 2022!



GLOBAL DAIRY MARKETS

Ausfine Marketplace

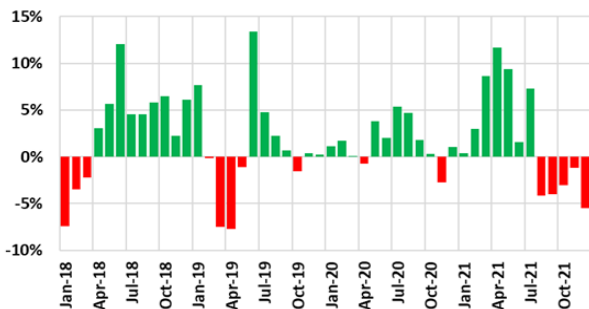
See more offers: <http://bitly.ws/foZe>

| | |
|--|---------------------|
| Skim Milk Powder Price: \$4330 per MT Volume: 100MT | CLOSES in 8 days |
| FCMP Price: \$4860 per mt Volume: 200mt | CLOSES in 7 days |
| Cream Cheese Price: \$4580 per MT Volume: 100MT | CLOSES in 7 days |

NZ milk plummets in December

New Zealand milk production was down 5.5% YOY in milksolids terms in December and 5.0% YOY on a volume basis according to DCANZ. December was the fifth consecutive month of YOY decline in milk output. On a milksolids basis, season to date (Jun – Dec) was 3.2% behind the prior season comparable, and 3.3% behind the five-year average. According to Fonterra's latest Global Dairy Update its New Zealand milk collections fell 5.3% YOY in December, season to date intake tracking 3.1% behind the season prior.

YOY growth, NZ milk collections (kgMS)



EU November milk down 1.1%

Eurostat and AGEA (Italy) data indicate EU-27 raw milk supplies fell 1.1% YOY in November. Among major producing countries, supply in Germany and Netherlands was down 2.9% YOY and 4.1% YOY respectively. Production in France was also down 2.7% YOY.

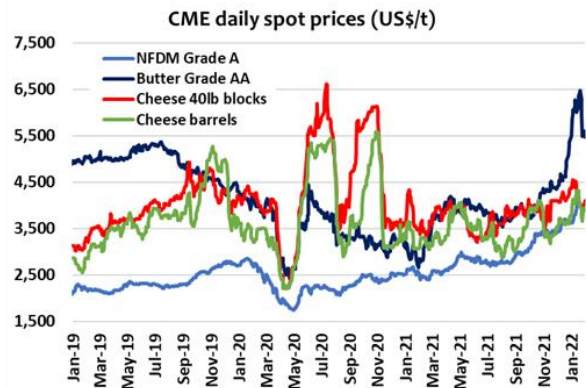
The Netherlands is the only major producing country that has reported December data. Supplies declined 4.2% YOY in December – the fourth consecutive month in which production contracted more than 4% YOY.

US CME prices retreat

Butter prices crashed last week, as local demand (particularly through the foodservice channel) was under pressure due to a large increase in US COVID cases. This, along with cancelled export shipments, caused CME prices to retreat to US\$5,473/t, almost US\$1,000/t lower than the peak reached on the 21st of January.

Cheese block cheddar prices also weakened last week to near US\$3,800/t after blocks went higher than US\$4,500/t 3 weeks ago. CME spot blocks prices rebounded this week to near US\$4,100 while barrels lifted back to US\$3,957/t and US\$3,842/t respectively.

NFDM CME prices now seem range bound, hovering just below the US\$4,000/t mark.

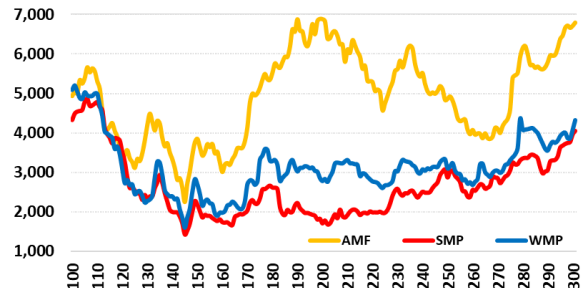


Another strong GDT result

The GDT index rose 4.1% at Event 301, with gains across all commodities.

WMP jumped 5.9% to average US\$4,324/t with strong prices across all contracts. SMP rose 2.2%, averaging US\$4,051/t with minor lifts in the short term. Butter gained 3.3% to average US\$6,359/t while AMF rose 1.2% to average US\$6,800/t. Cheddar rose 2.5% to average US\$5,684/t, with mixed prices for contracts.

GDT weighted average auction prices by event, US\$/t



DAIRY FUTURES

Powders mostly up – NZX powders gained while CME NDM was flat. Fats were mixed; NZX AMF trending up. All prices quoted in US\$/t.

| | SMP | NDM | WMP | Cheese | AMF | Butter |
|-------------|-------|-------|--------|--------|-------|--------|
| 2-Feb | | | | | | |
| Exchange | NZX | CME | NZX | CME | NZX | CME |
| Mar-22 | 4,310 | 3,924 | 4,570 | 4,262 | 6,975 | 5,451 |
| Apr-22 | 4,290 | 3,902 | 4,580 | 4,328 | 6,850 | 5,302 |
| May-22 | 4,250 | 3,862 | 4,600 | 4,321 | 6,800 | 5,225 |
| Jun-22 | 4,225 | 3,814 | 4,625 | 4,330 | 6,750 | 5,239 |
| Jul-22 | 4,080 | 3,751 | 5,550 | 4,367 | 6,700 | 5,290 |
| Aug-22 | 3,975 | 3,664 | 4,425 | 4,378 | 6,600 | 5,258 |
| Change | 2% | 0% | 3% | 0% | 2% | 0% |
| Op interest | 6,875 | 5,879 | 21,057 | 11,472 | 1,455 | 6,721 |

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