

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **First material crack in gDT results (for quite sometime)**
- **It's hot in North America - drought talk picking up steam**
- **When will shipping issues ease? Let's look into the crystal ball**
- **Australia's milk still predicted to be flat for 21/22 – well that's disappointing!**

1. After a prolonged period of rising prices followed by stability (over 12month period), last night's global dairy trade auction saw the first material drop in pricing since early last year. The biggest falls were dominated by BMP, Cheddar and SMP. One could mount an argument that BMP is susceptible to big moves due to low volume (only 500MT across all contracts) but Cheddar actually had some material volume at the latest event: 1,000MT and SMP even more at 5000MT, so those results make you sit up and take notice. The other big point of note was that China once again dominated proceedings in WMP (80% buy) and SMP (73% buy) and South East Asia also did its part in those two categories but everywhere else pretty much disappeared, particularly the Middle East for WMP. The results saw Cheddar move closer to the pricing we're seeing out of the USA (now a big discount to EU and other Oceania pricing) and the SMP finally coming down to prices more competitive against product out of the USA and Europe. The question now is whether this slide will continue or the drop is a one off and prices to stabilise at these levels. Our view is; look at China, if their demand holds then all is fine, if there was to be a stumble...look out.
2. Our poor friends located in Calgary, Canada were sweltering last week in consistent 38degree heat, unheard of temps in an area more prone to having a negative in front of that number. They're not built for that heat and neither are their homes or infrastructure. It speaks volumes of the "heat dome" that settled over Canada and northern USA last week but also the prolonged hot and dry conditions hitting many parts of Western USA. For a dairy perspective, particularly hard-hit areas are California, Oregon, Washington, and Idaho. For the farmers in California, they are somewhat accustomed to hot and dry but not so for the guys further north. Watch this space for milk production in those areas as supplementary feed costs also are looking to remain firm.
3. For all in the dairy trading world, the continued shipping issues certainly have not missed any of us. The incessant delays / re-scheduling of shipments, fears of running customers out of stock, fear of running out ourselves has created immeasurable stress along with increased workloads as we've all had to touch the same order too many times to count. So, when will it ease, I hear you ask? Well, the consensus seems to be that with a looming festive / Christmas shipping period already starting /

continued inventory builds (to offset the delays) it is unlikely that we are going to see any relief this side of the new year. Most pundits are predicting that we will be well in 2022 before we note a material change. This is not great news for many but forewarned is forearmed..... I guess 😞.

4. We enjoyed the update from Dairy Australia last week that highlighted increased dairy farm profitability and farmer confidence for the first time in many, many years. What was more worrying was the forecast that we won't see any material rebound in the national milk flow as a result. One would assume that with excellent conditions likely going into the Spring period, coupled with extremely strong milk pricing that we would see a recovery, but it seems Australia is not like USA or Europe where we see that almost immediate response to pricing signals. Down here the cycles seem to take a lot longer; we are still in the herd re-building phase and it will take more time before we see a serious lift in milk. After years of low milk prices and industry exits, it will take more than just one good period to rebuild the farmer confidence.

MATT COOPER – DIRECTOR

Helen Feng 10 years at Ausfine Foods

Helen joined Ausfine in 2011 as a meat trader. After two years in full-time trading with the Meat Division, she was invited to be part of our Dairy Division to help coordinate and oversee the rapidly growing dairy business. With her extensive knowledge and experience in international trade, regulations and logistics, Helen excelled in her new role and became a trusted conduit between the Sales team and other divisions of the company as well as helping establish and support our offshore offices in the Philippines, China & Indonesia. Helen's role spans sales, trader supports, problem solving, business development, cost management, risk mitigation, as well as excellent customer service to our key accounts. In addition, Helen was appointed as the Commercial and Executive Assistant to MD Chris Scarlett and has been assisting Chris in managing the sophisticated and complex business project with our biggest supplier from deal confirmation to seamless execution. She has also been assisting the Management with the successful and on-going scaling up process at Ausfine, helping in overall implementation and improvement of systems and processes in line with Ausfine objectives and contributing to important strategic decisions via her unique role across all facets of company. Helen is nicknamed the "glue" in the team that binds everyone together. Absolutely fantastic to see Helen achieve her 10 years milestone at Ausfine and look forward to many more years together.



Ausfine Marketplace

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

CHEDDAR Price: \$4100 per MT Volume: 150MT	CLOSES in 7 days
Cream Cheese Price: \$4100 per MT Volume: 100MT	CLOSES in 8 days
UNSALTED BUTTER Price: \$4790 per MT Volume: 100MT	CLOSES in 8 days

US cheese, NFDM output surges

US cheese production rose 5% YOY in May according to the USDA. American cheese output increased 7.2% YOY (with an 8.7% YOY increase for cheddar) while “other cheese” (including mozzarella) fell 0.7% YOY for the month.

Combined NFDM & SMP output rose 12.7% YOY in May, reflecting a 30.6% YOY rise in NFDM production while SMP output declined 37% YOY. Butter production also rose in April, up 7.6% YOY, in line with higher NFDM output.

Dry whey production fell 7.6% YOY for the month, following a 1.5% YOY contraction in April. May WPC production was up 8.2%, reflecting a continued recovery in output of WPC 50-89.9 products which were 11.9% up YOY.

Lactose production increased 4% in May and has significantly improved since December last year. MPC production increased 42.1% YOY which followed an 8.5% YOY contraction in April. Output of WPIs has surged over the five months to April but fell 4.9% YOY in May.

EU-27 milk to grow 0.8% in 2021

The European Commission’s Summer 2021 Short-term outlook projects EU-27 milk deliveries to increase 0.8% YOY this year to 146.6bn kg, the result of a 1.6% YOY increase in average yield per cow and despite a 0.9% YOY contraction in cow numbers with expectations of stronger culling at the end of the year. Should it be realised the expansion would be despite lower collections in the spring due to cold weather which blunted the seasonal peak.

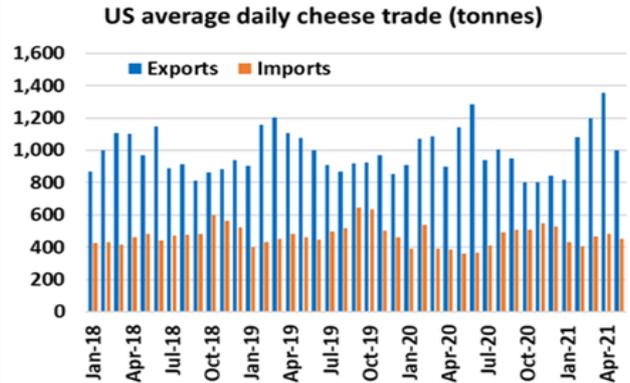
SMP/butter output could recover later in the year after a drop in early 2021 when cheese was the focus (along with whey for which export demand remains strong).

US cheese exports slow in May

US cheese exports declined in May, with volume down 13% YOY or 4,471t reflecting weaker sales into the key Asia-Pacific region. Cheese shipments to South Korea and Japan fell by 36% YOY in May (a difference of 3,403t and 1,949t respectively) while exports to Australia contracted by 51% YOY.

In contrast, strong ingredient exports drove US shipments to near record highs again in May. SMP/NFDM shipments into

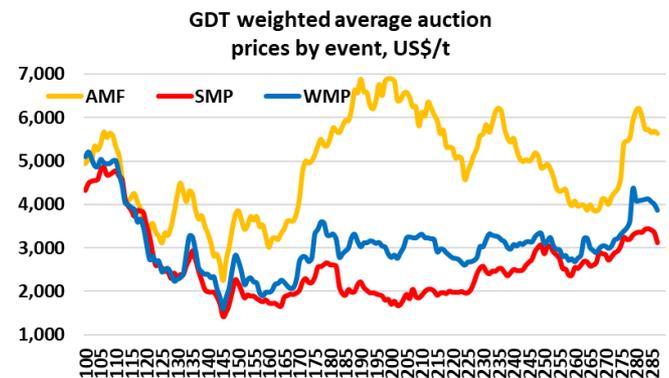
Mexico and MENA were particularly strong, as well as dry whey exports to China. Compared to the same month of 2020, MSE volumes rose 13%, with value 18% higher. According to USDEC, port issues continue to impact US-origin supplies in May, but exporters are managing the delays at port and address rising freight and trucking rates.



GDT drops again

The overall GDT index dropped 3.6% at event 287 with declines across all products.

SMP averaged US\$3,126/t, recording a drop of 6.9% as contracts plummeted. WMP fell 3.3% averaging US\$3,864/t with falls across all contracts, bar C1. Butter dropped 3.3% to average US\$4,458/t and AMF fell 1.0%, averaging US\$5,632/t. Cheddar dropped 8.8%, averaging US\$3,949/t with heavy falls for C3, C4.



DAIRY FUTURES

Mixed futures – CME futures fell, the most significant drop recorded for CME NDM, while NZX powders gained. All prices quoted in US\$/t.

7-Jul	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Aug-21	3,250	2,705	3,900	3,633	5,550	3,815
Sept-21	3,240	2,739	3,840	3,772	5,500	3,836
Oct-21	3,220	2,783	3,765	3,979	5,350	3,924
Nov-21	3,220	2,811	3,750	4,006	5,250	3,968
Dec-21	3,210	2,833	3,715	3,966	5,260	4,012
Jan-21	3,250	2,852	3,670	3,933	5,270	4,050
Change	1%	-3%	2%	-1%	0%	-2%
Op interest	6,591	4,189	18,148	16,835	445	6,148

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