

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **“Every other commodity is going up, why would Dairy be any different?”**
- **Exporters / Importers on watch out for unethical behaviour from shipping lines**
- **Those beach muscles are going to become a lot more expensive**
- **“Near Sourcing” now definitely a thing, but more so out of necessity than ethical concerns**

1. We had an interesting conversation with the procurement group from one of our confectionary customers late last week, where a throwaway line caught our interest, “Every other commodity is going up in price, why would Dairy be any different?”. In their world of Cocoa, Sugar, packaging and a myriad of other non-dairy buying they were seeing stark price inflation across the board. From our perspective, we had built up a view that Dairy pricing was potentially under pressure in light of the Delta wave causing carnage to many economies, combined with an expected strong Spring from New Zealand, US milk still growing and the fact that many customers had managed to build a more comfortable level of inventory which could see a moderation of demand. However, recent signals, including last night’s reversal of pricing fortunes on gDT, may indeed see Dairy prices continue to firm over the next 6-12 months. Of course, this inflation across the board may be due to the amount of cheap money floating through the world, so what happens when the tap gets turned off?
2. As we all know the Shipping Hunger Games is not abating and, as we look down the barrel of Christmas shipping period, we may see it get even worse before it gets better. With that backdrop, we are hearing some anecdotal reports of some less than ethical behaviour from some shipping lines. Let me stress that is not the case for all shipping lines, some of the lines we deal with have gone above and beyond to help us out, but this type of environment provides the perfect conditions for those able to take advantage. An example that we’ve heard is equipment not being available for contracted rates but if the customer was to agree to a spot rate then perhaps the equipment is available after all. There are also reports of some crazy rate increases for urgent shipments - \$20,000 per container is not unheard of. The best we can do is plan ahead and deal with the most ethical of lines available and continue to support them when conditions normalise, the aim is to have a long memory.
3. Due to the time lag of long dated contracts, it can take a while before a massive jump in pricing is really felt by consumers. That is certainly the case in the world of Sports Nutrition. Over the last 12 months we’ve seen astronomical price increases for both whey protein concentrate and isolate (key ingredients in sports nutrition), prices have doubled and in some cases tripled

over that period, but it is also typical to see 6 months and potentially even 12 month supply contracts in that world, so the breathtaking increases are really only now being passed on to consumers and margins eroded for the muscle powder brands. The next 6 months will be interesting to see whether the market will take the increases or push back. Just how much are those rippling biceps worth to you Steve?

4. The “Near Sourcing” phenomenon started on the back of environmental concerns and in some cases animal welfare. Just how many miles, and therefore carbon emissions, have gone into that burger? Some companies have been pushing to limit their carbon footprint and looking at food miles of their inputs was low hanging fruit with a push to find an alternate closer to home. With supply chains stretched to breaking point, that drive is not just ethical but economic also. Relying on an input coming from across town is currently a lot more attractive than waiting on a boat that may turn up sometime in 2022. We’ve certainly seen this shift from some of the big food companies who have pivoted their sourcing strategies to a lot closer to home. Is this a long-term trend? It may just be that while saving some \$\$ we also help save the planet!

MATT COOPER – DIRECTOR

AUSFINE ACADEMY

The Ausfine Academy has been developed by our own Kate Wardle, (Ausfine Logistics and Compliance manager) as a way for Ausfine Foods to further invest in our most important asset – our People!

The aim of the Academy is to increase the skillset within the business by helping develop our people through a continuous learning mindset

The Ausfine Academy is an internal platform that initially helps onboard new employees through the induction process by covering off policies and systems training materials along with an introduction to the Ausfine way - our values and norms. It then expands into new learning opportunities via platforms such as LinkedIn learning and others with new content being added every day. A fantastic initiative and a big thanks to Kate for bringing the Academy to life.



GLOBAL DAIRY MARKETS

Ausfine Marketplace

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

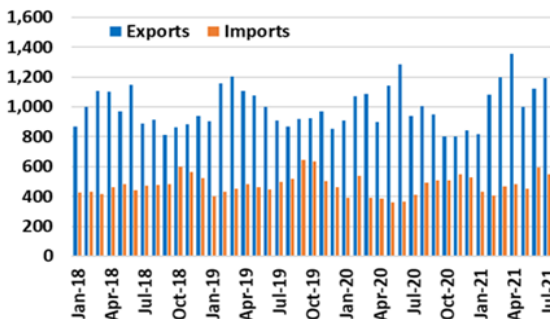
SMP MH Price: \$3580 per MT Volume: 200MT	CLOSES in 6 days
WMP Price: \$3960 per MT Volume: 100MT	CLOSES in 7 days
CHEDDAR Price: \$4410 per MT Volume: 100MT	CLOSES in 8 days

US cheese, whey exports strong in July

Despite port congestion slowing SMP/NFDM shipments, the US exported 17.7% of its July milk production. In MSE terms, July dairy exports were up 7% YOY - the sixth consecutive monthly expansion, driven by stronger sales into China and Mexico and despite weaker shipments to SE Asia. Cheese exports rose 26.8% YOY to 36,804t (a July record) - on a daily average basis, that was a 3-month high, reflecting stronger shipments to Mexico, Central and South America.

Whey product exports rose 17.8% YOY to 53,384t in July - dry whey and WPC80 were up by 17.1% YOY and 23.7% YOY respectively. SMP/NFDM exports fell 3.1% YOY to 72,990t, despite a 14% YOY increase in sales to Mexico and increased shipments to China, offset by weaker sales into SE Asia.

US average daily cheese trade (tonnes)



US: NFDM prices at a 4-month high

With tighter milk supplies in the US and constrained dairy product manufacturing, CME NFDM prices reached a multi-year high at US\$2,998/t (highest mark since 20 October 2014). Local contacts say there is increasing talk in the industry of farms being in financial stress due to low margins. Ongoing trends in dairy farm sector consolidation and cow culling have surged in latest available weekly data.

With high temperatures affecting milk output in the key Western regions, latest CME butter quotes stood at US\$3,941/t - this was despite estimated July commercial disappearance increasing 18% YOY. For the time being, cheese remains stable with total commercial disappearance of American cheese in July marginally higher - latest CME

blocks and barrels prices are reported at US\$3,825/t and US\$3,153/t respectively.

EU milk growth slows

Estimated output for July rose just 0.5% YOY, the slowest expansion since March.

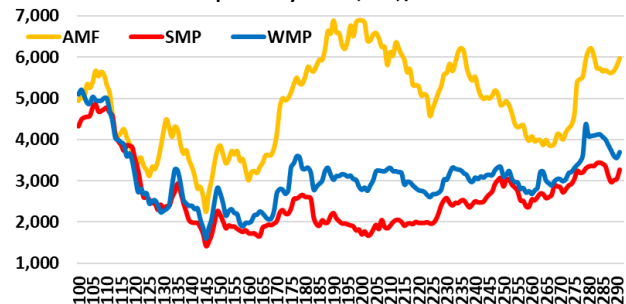
Supplies in the Netherlands continued to track lower - down 3.1% YOY, following a 2.3% YOY contraction in June. In neighbouring Belgium, July milk production also fell, down 4.2% YOY. Irish output rose 3.3% YOY in July however, a similar expansion to June. According to the most recent data, French milk production fell 1.1% YOY in week 34 (ending 9 August 2021) as the prior year comparables are becoming easier to beat. German supply fell 0.5% YOY in week 33. AHDB reports UK production fell 0.2% in the first 28 days of July after a 1.1% contraction in June.

GDT edges up

The GDT index rose 4.0% at GDT Event 291, increasing for the second event in a row.

WMP made a return to growth, up 3.9% to average US\$3,691/t, with increases across all contracts. SMP jumped 7.3% to average US\$3,274/t with major gains for all contracts. Fats continues to improve; butter averaged US\$4,948/t, up 3.7% with major gains across contracts with long-term delivery. AMF rose 3.1% to average US\$5,970/t with mixed contracts. Cheddar gained 3.4% to average US\$4,328/t with strong gains in contracts with short-term delivery.

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



DAIRY FUTURES

Futures looking up - Powders trended up. CME butter gained, while NZX AMF was flat. All prices quoted in US\$/t.

8-Sept	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Oct-21	3,175	2,943	3,655	3,845	5,800	3,902
Nov-21	3,220	2,982	3,660	3,880	5,775	3,941
Dec-21	3,180	3,020	3,665	3,926	5,750	3,968
Jan-22	3,210	3,031	3,665	3,865	5,700	3,990
Feb-22	3,220	3,050	3,670	3,882	5,600	3,968
Mar-22	3,225	3,023	3,670	3,902	5,550	4,001
Change	2%	3%	3%	1%	0%	1%
Op interest	6,966	4,482	15,628	13,539	1,968	5,264

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