

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **Ausfine Learning Lunch – what did we learn?**
- **US shipping issues – like COVID-19, its spreading**
- **Demand drifts back to food service, slowly**
- **Countries that were front of the class are now at the back**

1. As mentioned in our last Dairy Planet, Ausfine hosted its inaugural “Learning Lunch” on the Thursday before last. It was held in a Melbourne restaurant and well attended by many in the Australian Dairy and Meat industries. It was somewhat of a coming out celebration as we all got together, mask-less, for the first time in well over year. The speaker was Professor Hugh White (professor of strategic studies at the Strategic and Defence Studies Centre, ANU), who gave us some amazing insights into the historical relationship between Australia, the Western Powers (lead by the US) and China, the current state of play and, more worryingly, where we could be headed. Hugh was a wonderful speaker, but to hear what he had to say was extremely sobering. In summary, his view is that if the rhetoric doesn’t start to moderate, we (USA & Allies) are currently on track for some type of conflict with China, probably centred on Taiwan. This is not news to many but seemed to be more potent when delivered by someone who has been within the walls of power (from an Australian perspective anyway). Of course, it doesn’t have to end up in such a serious outcome, the one hope that Professor White floated was a compromise between the powers, a potential sharing of regional power in the north Asian Pacific and a de-escalation of tensions. For the time being the conflict is centred on trade sanctions / restrictions and, whilst that is causing some heartache to many industries, it’s not war and may be looked upon as a small price to pay as the alternative is pretty grim. Hors d’oeuvre anyone??
2. We’ve spoken about the global shipping issues many times, but it is having such a profound effect on international business at the current time that we felt the need to have a regular check-in on that front. The latest update is PRICE – we have seen shipping lines dramatically increasing spot shipping rates on some lanes. As an example, one line announced an immediate increase of US1000 per dry and US2000 per reefer when shipping out of New Zealand, this would represent close to doubling of the rate. On another front, the US West Coast seems to be going from bad to worse. Previously, the main problem had been with the port of Los Angeles with its neighbour port Oakland (well a distant neighbour anyway) still operating at a level of some reliability - but now all that has changed. The port of Oakland is now the epicentre of US shipping problems. Delays are extreme, we are currently seeing at least 6-8 weeks just to get a booking and then that may roll. Can we get off this ride now? We’re feeling sick!!
3. Some pleasing reports out of the US that demand for cheese is starting to materiallv shift back toward food service as

restaurants begin to re-open their doors in a more typical / normal / non-covid fashion, just in time for Spring / Summer. The latest stats out of the US are showing that retail demand is finally starting to moderate / decline and dine-out options are now back on the menu. It will be interesting to see how that impacts on product mix for many manufacturers as demand shifts back to the bigger formats.

4. This time last year the likes of Taiwan & Singapore were sitting at the front of the global class with satisfaction that they had got on top of the COVID outbreaks with hard & fast lockdowns which enabled them both to come out quickly and enjoy a “COVID normal” life with schools, restaurants and gyms mostly open. Fast forward to now and they face breakouts from locally transmitted cases leading to both countries facing renewed and extremely hard regional lockdowns. This is a wider issue throughout Asia with many countries still battling COVID outbreaks and we are seeing it in subdued demand for dairy, just when we thought the roll-out of the vaccines were the end of the COVID problem, seems it will last for a bit longer. This is particularly worrying for Australia as our roll-out of vaccines and the uptake has been less than great, and we’re heading back to winter. Perhaps we need to start eyeing off a seat at the back of the class ourselves.

MATT COOPER – DIRECTOR

DAIRY EXPORT INDEX

Index rise – The Australian dairy export index rose this week due to a weaker A\$ against the US\$ and steady commodity values.

SMP averaged US\$3,500/t while butter averaged US\$5,150/t, after a major correction last week sent the average price down US\$530/t. WMP averaged US\$4,200/t, and cheddar averaged US\$4,450/t.

The A\$ gained around **0.5c to US\$0.7775**, lifting the index by **2.0 points to 231.4**. As a result, the **spot commodity milk value** lifted 9c to **A\$6.70 kgMS**.

Australasian dairy export index (Jan 2013-now)



Weather highlights

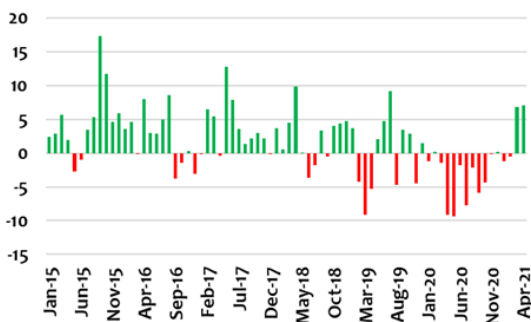
- In Australia, onshore winds are directing showers to western Tasmania, northern NSW. Sunny and cool in southeast Australia.
- In NZ, showers in the west and north of the North Island, possible heavy rain in the west of the South Island.
- In the US, heavy rainfall brings risk of flooding across the central and southern Plains.
- Hot and sunny in Brazil; Argentina is sunny & warm with chance of showers.
- A band of rain is moving across France, Germany. Showers across Ireland.

Mexican SMP imports recovering

Mexican SMP imports rose 34.5% YOY in April to 27,424t, bringing year to date shipments 13% above the comparable – a difference of 12,224t. Between January and April, the US had a 99% share of the Mexican SMP market, with shipments 22.8% higher than in the same period in 2020.

Meanwhile, March milk production was up 2.2% YOY in April, following a 2.8% YOY expansion in March. Milk supply has now increased YOY in every month since August 2013 and rose 2.3% over the last 12 months.

Mexico SMP imports, YOY growth ('oo0t)



US butter demand continues surge

Domestic commercial cheese disappearance rose 3.3% in March, with a 3.9% YOY increase for American varieties. American cheese days-in-stock fell 8.4% month-on-month to 53.5 days at the end of March. Disappearance of “other cheese” varieties (including mozzarella) rose 2.9% YOY.

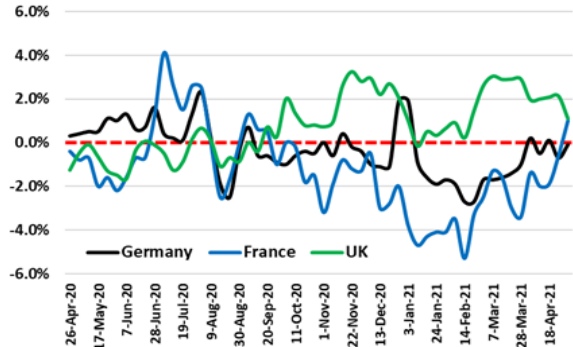
Domestic butter disappearance rose 4.2% YOY in March and has now increased in five consecutive months and increased 3% in the six months to March. Butter days-in-stock declined to 50.9 days by month-end, down 20.1% from February and 7% higher in YOY terms.

EU March milk up 0.4%

EU-27 supplies rose 0.4% YOY in March, based on 24 reporting countries accounting for 94% of average output. The improved result relative to February was driven by an 13.5% YOY increase in Ireland and 1.7% YOY rise in Poland, offsetting declines in Germany and France of 1.1% YOY and 1.4% YOY respectively. In the Netherlands, production fell 0.8% YOY in April, the only country to publish April data.

According to most recent data, French milk production rose 1% YOY in week 17 (ending 2 May 2021), German supply fell 0.1% YOY in week 17 – on average, supply has been near flat since the start of April. AHDB reports UK production rose 1.1% YOY in the first 8 days of May after increasing 2.2% YOY in April.

YOY growth, weekly milk production

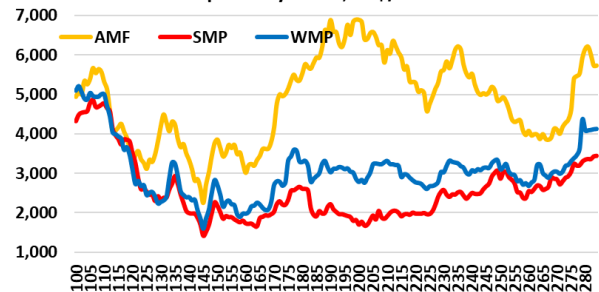


GDT fats a little weaker

The overall GDT index lost 0.2% at event 284 in what was a quiet event with a slightly smaller offering of 21,040t.

SMP averaged US\$3,447/t, up 0.4% with small changes across contracts. WMP inched higher by 0.2% averaging US\$4,123/t with small changes and the highest gain in C4. Fat posted smaller losses than expected, butter lost 2.1%, averaging US\$4,929/t and AMF was flat, averaging US\$5,730/t. Cheddar gained 1.1%, averaging US\$4,321/t, with product available for C4 to C6.

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



DAIRY FUTURES

A mixed bag – Futures were all over the shop this week. CME cheese trended down, while fats were mixed. All prices quoted in US\$/t.

19-May	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Jun-21	3,450	2,932	4,290	3,860	5,675	4,076
Jul-21	3,450	3,003	4,210	4,023	5,700	4,125
Aug-21	3,430	3,064	4,080	4,083	5,500	4,200
Sept-21	3,370	3,086	3,975	4,134	5,350	4,238
Oct-21	3,375	3,091	3,930	4,160	5,300	4,271
Nov-21	3,380	3,091	3,820	4,134	5,250	4,266
Change	0%	2%	0%	-3%	0%	2%
Op interest	7,319	4,347	10,296	15,809	280	6,500

www.ausfine.com.au

Ausfine Foods International Pty Ltd ■ ABN 12 006 926 129

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