

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **USA food-box, the great distorter, is dead**
- **African Swine Fever is back in China**
- **Early jostling for dwindling milk supply in Aus**
- **Feed costs blow out in US, milk price needs to stay firm or tap turns off**

1. In the US, it appears the Biden administration is doing away with anything that may have a lingering Trump smell to it, even if that program has a politically left leaning slant to it. In our dairy world, that Trump initiative was the "Farmers to Families Food-Box Program", which was a federally funded program to deliver a box of food staples to those in need as a direct result of the COVID pandemic. The idea was to support both farmers and people in need. A big portion of the food box budget was directed to dairy and to say it distorted the market a little was an understatement. The first few rounds of the initiative saw cheese pricing jump from approx. US\$3750/MT to well over US\$6000/MT in a relatively short period. Every time a new round of buying was announced, or even rumoured, the market would tear away again. The distortion to the market was immense and the volatility made life very difficult for those trying to sell / buy / export outside of the food box program. Well, it was announced last week that the food box program is over, so we may see markets return to some kind of normality over the coming months... of course there is no volatility and unexpected shocks in the market without the government, right?!?!?
2. Just like another virus, we could mention that the African Swine Fever Virus (ASF) is back. As a quick recap, ASF wreaked havoc on the pig population in China across 2018/19 with a huge percentage of the domestic herd having to be euthanised, upward of 30-50% (although figures out of China are always a little opaque). In that instance, we saw a big pull back in demand for imported milk / whey permeates as the need to feed piglets plummeted (with the breeding herd pretty much wiped out) only to then rebound as the industry recovered and demand for the piglet feed came roaring back as the restocking program kicked in. Well, unfortunately recent reports are that ASF is back and has wiped out 20% of the breeding herd in northern China. The most noticeable effect at the moment is the jump in Chinese pork imports and the crazy pricing in North America for pork; but if the outbreak is not controlled quickly, we may again see that same knock on roller coaster impact on dairy demand, particularly the permeates and lactose.
3. As we've mentioned (lamented) many times here at the Dairy Planet, Australian milk production is under pressure. Falling from fairly consistent 9 to 9.3 billion litres per annum for many years to drop to a concerning 8.5 billion with only a very anaemic recovery this year. The fight for that dwindling milk pool amongst processors is now fierce with previous gentlemen's agreements on each processor's geographic

boundaries, etc. now largely ignored. Also, in an effort to get ahead of the competition and secure supply, processors are coming out earlier and earlier with their opening milk price for the new season. We have seen some manufacturers come out last week (mid-April) with their new pricing which is earlier than ever. This would typically be a May or June discussion. Of course, in the volatile dairy world, no one wants to overpay on milk as once you open on a price you can no longer "step down", so the tightrope being walked is extremely high pressure.

4. Moving our focus back to the US, we note with interest that corn pricing has jumped considerably over the last 6 months. Spot prices have jumped by 40% Dec '20 – April '21. The primary driver appears to be less than forecasted yield in the US, extremely high export demand, particularly from China, and restrictions on exports in other markets such as South America. With the US dairy system largely dependent on feed inputs, particularly corn, this puts increasing price pressures on many US dairy farmers, which means they will need high milk prices to compensate or will quickly look to cull their herds to keep costs down. At the moment, it appears the rising markets will keep the milk tap flowing for now but if there was a pricing pull back and corn prices remain firm then we could expect that milk tap to start being turned clockwise quickly.

MATT COOPER – DIRECTOR

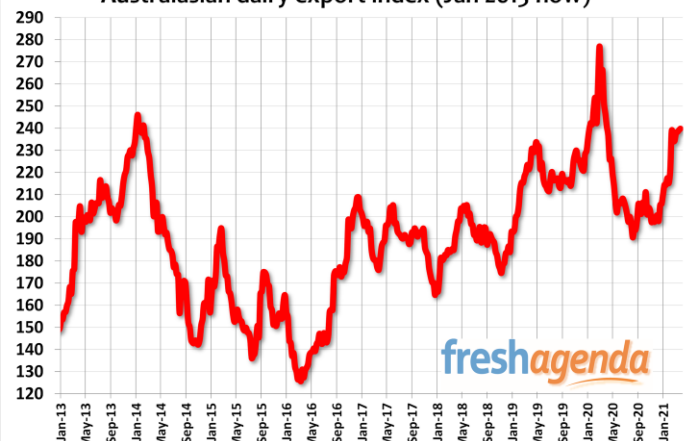
DAIRY EXPORT INDEX

Index rise – The Australian dairy export index continues to edge up this week as cheese values increase.

Spot quotes from Australasian exporters were mixed. SMP was unchanged from the week prior at US\$3,410/t and butter also remained unchanged at US\$5,790/t. WMP rose US\$20/t, averaging US\$4,120/t, while cheddar jumped US\$150/t to average US\$4,650/t.

The A\$ rose over **1c** to **US\$0.7739**, lifting the index **0.7 of a point** to **239.8**. The **spot commodity milk value** rose **1c** to **A\$7.08 kgMS**.

Australasian dairy export index (Jan 2013-now)



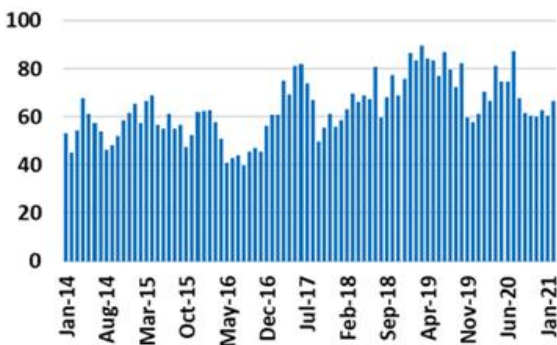
Weather highlights

- In Australia, a cold front is generating rain and showers in Tasmania, VIC & southeast SA.
- In NZ, rain is spreading across the Nth Island, rain and showers in western parts of the Sth Island.
- In the US, a cold front is bringing snow across the central Plains into the Northeast.
- Warm, thunderstorms across Argentina, thunderstorms forecast for Brazil.
- Warmer temperatures are moving across Europe, warm and sunny in France, some showers in Ireland.

EU-27 SMP exports weaker

SMP exports fell 5.3% YOY in February to 66,809t, which was a six-month high. This followed a 1.3% YOY decline in January. There were mixed trends across major destinations in February, with a 2.8% YOY increase in sales to SE Asia not enough to offset falls in North Africa and China & HK. Cheese exports fell 0.5% YOY in February to 100,578t, despite an 18% YOY fall in shipments to the UK with the largest growth in exports to China & HK and non-EU European markets. Butter exports fell 30% YOY in February to 15,482t, but exports to China continued to increase, up 128% YOY. WMP exports rose 1.3% to 21,689t in February, driven by a 22% YOY increase in exports to Sub-Saharan Africa and an 80% YOY rise in sales to Central America.

EU-27 monthly SMP exports ('000t)



US exports stronger in Feb

US dairy exports were surprisingly high in February, accounting for 17.5% of national milk, which was a 9-month high. This was despite issues with logistics and shipping delays. Dairy export value rose 7% YOY to US\$565.5m while in MSE terms volume increased 15%.

Milk powder shipments were also at a 4-month high, reflecting stronger sales into SE Asia and Mexico. USDA earlier reported higher stocks, suggesting lower domestic commercial disappearance. Cheese exports were at a 6-month high, led by a 70% YOY gain in shipments to MENA, with stronger exports also to Japan, Korea, Oceania, China and Central America. Dry whey exports were at a 4-month high, with shipments to China more than doubling. Butter exports were at their highest level since August 2014, reflecting stronger exports into the Middle East.

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EU-27 February milk down 0.2%

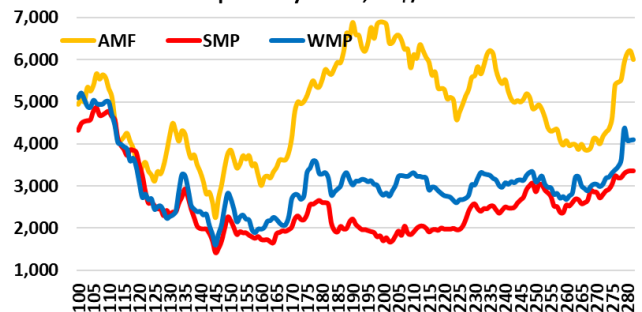
EU-27 supplies fell 0.2% YOY leap-year adjusted in February, based on 25 member countries having reported milk production data to Eurostat (Sweden and Luxembourg not included). The near flat result was driven by an 8.1% YOY increase in Ireland and 6.3% YOY rise in Italy, offsetting a 2.4% YOY fall in Germany while France was down 2.6%, Netherlands and Poland output fell 1.9 and 0.3% respectively. Netherlands is the only country having reported March data on Eurostat – output was down 0.7% YOY, the fourth consecutive monthly fall.

According to the most recent data, French milk production fell 2% YOY in week 14 (ending 11 April 2021). That was the 27th consecutive weekly contraction. German supply rose 0.4% YOY in week 13, but on a relatively weak prior year comparable and negative trends in supply are expected to continue. AHDB reports UK production rose 1.4% YOY in the first 10 days of April after increasing 2.7% YOY in March.

GDT index slips

The overall GDT index lost 0.1% at event 282. SMP averaged US\$3,365/t, down 0.1% with both big price falls and lifts recorded across contracts. WMP edged up 0.3% averaging US\$4,097/t with gains in later contracts. Fats weakened as butter lost 0.7% to average US\$4,097/t and AMF was down 3.3%, averaging US\$6,003/t. Only two contracts were up for grabs for cheddar which averaged US\$4,436/t, up 1%. Lactose lost 3.6%, averaging US\$1,260/t.

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



DAIRY FUTURES

Futures mixed – CME butter plummeted. NZX powders were mixed – SMP was flat while WMP edged up. All prices quoted in US\$/t.

	21-Apr	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange		NZX	CME	NZX	CME	NZX	CME
May-21		3,390	2,712	4,150	4,054	6,200	3,990
Jun-21		3,340	2,778	4,170	4,070	5,900	4,057
Jul-21		3,300	2,826	3,970	4,120	5,900	4,095
Aug-21		3,275	2,852	3,840	4,129	5,700	4,145
Sept-21		3,255	2,872	3,780	4,131	5,600	4,178
Oct-21		3,245	2,883	3,660	4,127	5,500	4,221
Change		0%	3%	1%	-2%	1%	-5%
Op interest		6,515	4,393	15,990	15,449	242	5,256