

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- **China still playing hardball on Aussie Ag – Ausfine Learning Lunch**
- **China birth rate plummets, due to the pandemic or here to stay?**
- **West Coast USA shipping is bad / NZ is worse**
- **Futures predict gDT jump last night, a little off the mark again**

1. Ausfine is hosting its inaugural “Learning Lunch” tomorrow where we are going to enjoy some great food and listen to our guest speaker, Professor Hugh White, talk about the very pertinent topic of China, its place in the changing world order and, more specifically for us, its relationship with Australia and its impact on trade between the two nations. Further to that point, we saw some further measures taken by China last week against Australian meat exporters. For background, there had been a previous declaration that China no longer recognised a product description of beef “trimming” and mandated a change to beef “pieces”, but had given a grace period for exporters to make the necessary change to labelling etc. The grace period was due to expire in July, however last week they changed that date to be enforced *immediately*, meaning anything on the water could no longer be imported to China. In the broad scheme of things, this is relatively minor, but highlights the on-going trade issues between the two nations. To date, dairy has escaped similar retributions but we are all very mindful of the possibility.
2. Whilst we’re talking about all things China, the very interesting stats around the birth rate in China have been highlighted by a number of people we talk to. In short, there has been a dramatic decline in total births over the last 5 years. To put it into perspective, the birth rate in China in 2017 was 17.23 million, that has fallen to 10million last year, a fall of 42%. Obviously, a pandemic year would’ve played a big part in that fall, but it is a continuation of a trending decline, as an example, there was 11.8m births in 2019. For us in the dairy industry, it’s an important stat as infant formula to China has been the cornerstone for many dairy processors pivoting toward the booming demand for imported formulas from Chinese mothers, and of course, the very attractive margins. That demand is now under pressure due to this significant decline in the birth rate, but also a move toward Chinese made formulas because of the absence of the Daigou trade lane and the drive by the Chinese government to support local production. So, for those infant formula makers, it promises to be a more challenging space to be in going forward.
3. We asked our logistics partners to help us keep on top of the various shipping issues around the world by summarising the

expected delays in each port or trade lane in which we operate. We were expecting the news out of the West Coast USA ports to be the worst (as seen here in this great vid: <https://www.youtube.com/watch?v=NgIZbRg1vOc>), but that actually wasn’t the case. The worst performing ports (at least from the list we were discussing) were in New Zealand. It seems the straining NZ port infrastructure and availability of equipment is hitting hard, particularly in Auckland. We are seeing this firsthand with big delays on both the import and export front. It seems no port / country is immune to these ongoing shipping issues.

4. Just a quick observation to finish. Interesting move in WMP futures on the NZX yesterday prior to the gDT. The result saw a very mild firming in the WMP pricing, but for some reason the market was bid up hard as it ran into the close prior to the event. All contracts were bid up, some by US130/MT. The event prior saw a sell side move only to then see the market hold. It seems the futures as a predictive model is struggling to find its mojo.

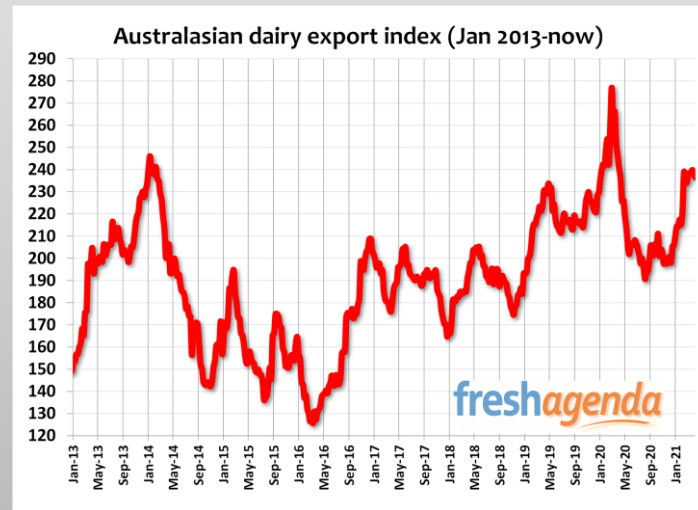
MATT COOPER – DIRECTOR

DAIRY EXPORT INDEX

Index retreats – The Australian dairy export index slid further this week as commodity values declined.

SMP was steady, averaging US\$3,400/t while butter fell US\$70/t, averaging US\$5,680/t. WMP fell US\$70/t to average US\$4,050/t, and cheddar averaged US\$4,550/t, down US\$30/t.

The A\$ was steady at **US\$0.7716**, sending the index down **1.1 points** to **236.4**. As a result, the **spot commodity milk value** fell 4c to **A\$6.95 kgMS**.



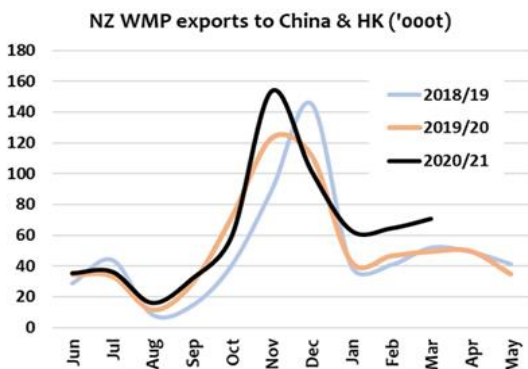
Weather highlights

- In Australia, a deep trough and low are causing blustery winds, rain and thunderstorms in NSW & VIC.
- In NZ, isolated showers in the northern Nth Island, mostly fine in the Sth Island, apart from rain on the west coast.
- In the US, cooler air is sweeping through the Midwest, into the Southeast states and parts of Florida.
- Warm and sunny in Brazil, mixed weather in Argentina, hot with chance of thunderstorms.
- Rain is moving across central Europe, clearing later in the week. The rain continues in Ireland.

NZ WMP exports still rising

New Zealand WMP shipments rose 24% YOY in March to 164,603t, following a 4% YOY rise in February. WMP shipments to China & HK rose 43% YOY, bringing season to date shipments 8% ahead of the prior season. In the same period, WMP exports to SE Asia were up 4.3%, while shipments to the Middle East were 0.6% higher.

SMP exports weakened in recent months and fell 5% YOY in March to 31,553t. Season to date SMP shipments were down 11.6% - with weaker shipments to SE Asia and MENA in the face of cheaper competition. Cheese exports improved again in March, up 30% YOY to 37,040t which was driven by stronger shipments to China & HK, SE Asia and MENA. Season to date cheese exports were up 5.1%, with China & HK accounting for most of the growth.



US March exports at an all-time high

In March 2021, US exporters shipped the equivalent of 18.6% of national milk supplies – that was the second highest volume of all time. March export value was the highest since 2014 at US\$688m, a record of 215,557t of product shipped in US milk solids equivalent (USMSE).

Both NFDM/SMP and dry whey posted all-time highs in March of 86,532t and 57,181t, respectively. Cheese had its second-best month ever at 36,919t – that was in addition to solid gains for lactose (36,173t) and butterfat (4,551t).

Across major destination markets, NFDM/SMP exports to Mexico rose 29% YOY to 26,760t. Cheese exports to Mexico were also strong, up 11% YOY to 9,687t which was the highest monthly volume since June 2018 and the first YOY

expansion in eight months, reflecting reopening of the foodservice sector.

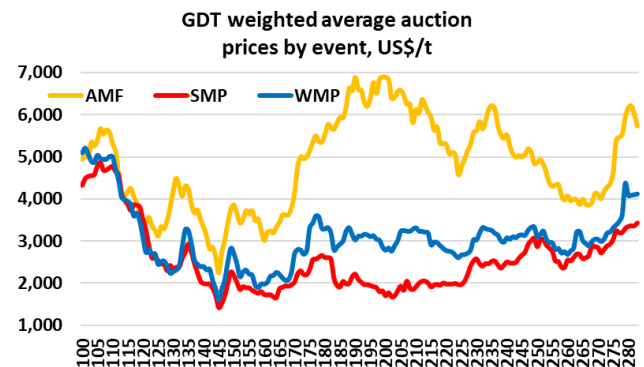
Irish milk up 13.5% in March

EU-27 member countries are reporting mixed milk production trends with March Eurostat data only partially available. Irish supplies were better-than-expected, up 13.5% YOY to 848m kg. Polish output was also stronger relative to the same month of 2020, up 1.7% YOY. Among other relatively large milk producing countries, Dutch supply was down 0.7% YOY – that was the fourth consecutive monthly contraction. March output in Belgium and the Czech Republic was down 1.3% YOY and 2.9% YOY respectively.

According to the most recent data, French milk production fell 1.9% YOY in week 15 (ending 18 April 2021). That was the 28th consecutive weekly contraction. German supply rose 0.1% YOY in week 15, with estimated intake also near-flat during the month-to-date. AHDB reports UK production rose 1.2% YOY in the first 24 days of April after increasing 2.7% YOY in March.

GDT index slips

The overall GDT index lost 0.7% at event 283. SMP averaged US\$3,433/t, up 2.0% with lifts recorded across all contracts, although minor in the long-term. WMP edged up 0.4% averaging US\$4,115/t with moderate gains in near-term contracts. Fat values dropped significantly; butter recorded heavy falls across contracts, averaging US\$5,035/t, down 12.2%. AMF fell 4.5% to average US\$5,730/t and cheddar dropped 3.7%, averaging US\$4,274.



DAIRY FUTURES

Fats lose ground – Futures trended up this week, bar CME Butter and NZX AMF which were lower. All prices quoted in US\$/t.

5-May	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
Jun-21	3,430	2,972	4,230	4,151	5,850	3,902
Jul-21	3,400	3,019	4,080	4,187	5,700	3,961
Aug-21	3,400	3,041	4,015	4,209	5,500	4,001
Sept-21	3,360	3,047	3,930	4,213	5,350	4,041
Oct-21	3,340	3,064	3,805	4,239	5,400	4,057
Nov-21	3,380	3,075	3,725	4,182	5,300	4,088
Change	2%	1%	3%	2%	-3%	-3%
Op interest	6,643	4,146	13,669	16,253	260	6,588

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