

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

- Bit of a miss there on NZX WMP futures
- Australia, would you like drought or floods? No Goldilocks, there is no in-between
- Europe yet to make up their minds on whether they're bulls or bears
- NZ milk... we're pretty much tapped out here

1. We often look toward the world dairy exchanges to get an understanding of what the "market" believes will happen to pricing for a commodity. In Oceania, that exchange is the NZX, and the most liquid market is NZ whole milk powder (WMP). Well, the exchange appeared to be in agreement with many in the industry in that WMP pricing, in particular, was due to start moderating back down. For the settlement month of April (June ship), the prediction was a 5% fall and further out the predictions were even steeper at 12% for the June future (August ship). As we know, the fall didn't happen, with WMP largely unchanged. This resulted in the April future missing by US170/MT and the June future a whopping US445/MT! They're pretty big misses, which means the "market" may not be across what is really driving this strength just yet or could suggest there is more speculation in the physical bid. Really, the only future that matters is that April future which is now half priced. Those shorting the June future will live to fight another day as we're a couple of months off pricing that month, but they may've received some nasty margin calls this morning.
2. Sometimes in Australia, it feels like we can't take a trick with this weather as we live up to our reputation of the land of drought and flooding rain. That is especially true for the majority of the Australian Eastern Seaboard which has suffered through 3-4 years of severe drought conditions only to now be counting the costs of a months' worth of rain being dumped over a few days. The floods cut off many communities and the all-important rail line that links Melbourne, Sydney and Brisbane in the lead up to Easter. From a dairy perspective, the number of farms affected is relatively few in the lens of the total Australian milking herd, but those that were hit had some heartbreaking stories of losing entire herds. We once again start the clean-up and hope for more moderate weather patterns going forward, please... just for once!
3. It feels like a bit of yo-yo with European pricing at the moment. One week prices are going to the moon with not a piece of cheese or butter to be had, only for the following week to have good availability and downward pressure on prices, and then next week once again heading northward. We can only assume the main culprit is COVID with sporadic lockdowns being re-introduced / extended in some areas and others re-opening; coupled with sputtering vaccine roll-out and benign milk growth. We should be getting close to peak milk collections

in many areas, so the next few weeks are crucial in the final direction of the markets and whether the overall firming trend continues or reverses. Our view is that while COVID is around and the shipping issues remain, prices will remain firm as customers take the better safe than sorry approach to bigger inventories.

4. For many years, the New Zealand dairy industry was the darling of the world for milk growth as its milking herd and farm numbers grew almost exponentially on the back of insatiable demand from China in the 2000-2012 period. NZ remains one of the big dogs in global dairy as the world's biggest exporter, but it seems the milk growth has stopped. What we have now appears to be what we can expect to have for quite a few years to come. NZ has flatlined at approx. 21-22billion litres of milk now for the past 8 years. Each year, we see very low percentage moves in either direction only to settle on about where it was last year. The main explanations for little growth are environmental (massive pressure on a progressive NZ government to reduce the impact from dairy on the environment) / economic (the cost to dairy in NZ, primarily cost of good land is prohibitively expensive) & land availability (land that is good for dairy is at capacity for pasture-based farming and that land that can be converted across has been converted). So, any material milk growth for the world is very unlikely to come from NZ any time soon.

MATT COOPER – DIRECTOR

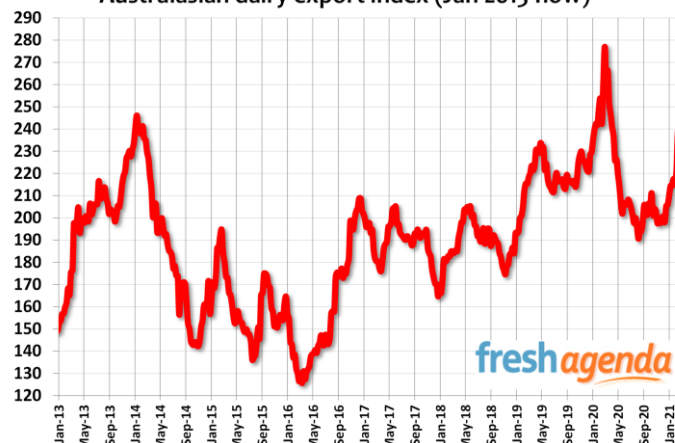
DAIRY EXPORT INDEX

Index edges up – The Australian dairy export index rose marginally this week on a steady A\$ and stable commodity values.

Spot quotes from Australasian exporters were unchanged from the week prior. SMP averaged US\$3,400/t, butter remained at US\$5,680/t. WMP sat at US\$4,050/t, while cheddar averaged US\$4,500/t.

The A\$ fell to **US\$0.7610**, lifting the index **0.3 of a point to 238.3**. The spot commodity milk value rose **2c to A\$7.04 kgMS**.

Australasian dairy export index (Jan 2013-now)



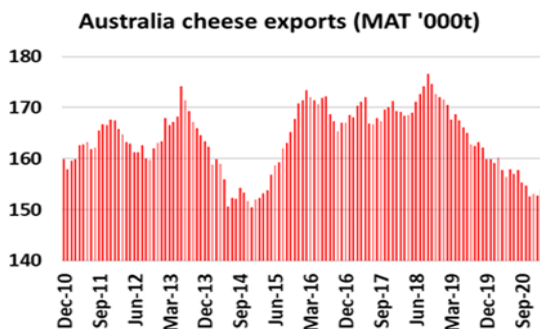
Weather highlights

- In Australia, a trough and low pressure brings heavy rain to northeast NSW, onshore winds directing showers to eastern NSW.
- In NZ, showers in north and west of the Nth Island, heavy falls in the west and north of the Sth Island.
- In the US, severe thunderstorm warnings are in effect for the northern Plains and upper Midwest.
- Showers, thunderstorms in Argentina, very warm and sunny in Brazil.
- Arctic winds are blowing across northern parts of Europe, bringing snow and sleet.

Australian exports mixed

Australian cheese exports fell 3.9% to 98,861t in the eight months to February, including a reduction of 10,198t in sales to Japan. Butter and AMF exports rose 134% and 50.7% respectively. Combined fat exports (on a commercial butter equivalent basis) were up 103% for the period relative to the comparable at 15,644t.

SMP exports increased 24.1% in the eight months to February, with a 13,938t increase in shipments into China & HK as well as higher sales into SE Asia (+4,649t). Whey product exports for the period rose 39.1% to 23,814t, reflecting growth into SE Asia (+5,256t) and China & HK (+2,678t). For the season to date, infant formula and FFMP & Mixtures exports declined by 50.7% and 23.4% respectively. WMP exports have picked up since November, with season to date shipments 3.8% higher relative to the comparable 8-month period.



US cheese output surged in February

Cheese leap-year adjusted production rose 4.7% YOY in February according to the USDA. That was the fastest monthly growth in more than two years and reflects the impact of the new cheese plant in Michigan. American cheese output increased 5.3% YOY (with a 3.3% YOY increase for cheddar) while "other cheese" (including mozzarella) rose 1.9% YOY for the month.

Combined NFD & SMP output rose 13.2% YOY in February, reflecting a 21.2% YOY rise in NFD production while SMP output declined 20.3% YOY. Meanwhile, NFD stocks rose in February to 156,766t, a 9-month high and an 8.6% increase in YOY, reflecting higher production and delays in shipping from West coast ports.

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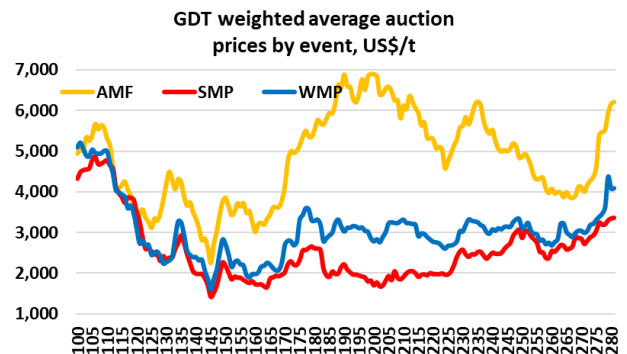
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EU-27 milk to grow 1% in 2021

The European Commission's (EC) Spring 2021 Short-term outlook projects EU-27 milk deliveries to increase 1% YOY this year to 146.8bn kg, the result of a 2% YOY increase in average yield per cow and despite a 0.9% YOY contraction in dairy cow numbers. The growth in supplies should continue after the likely contraction during Q1-21, with current concerns of high feed prices offset by favourable spring weather conditions to produce home-grown feed. The expansion in milk production this year is expected to be driven by Ireland, Poland, Italy and the Netherlands. Manufacture of all major commodity products is expected to increase this year, with the cheese stream to absorb 21% of the extra milk produced in 2021.

GDT a game of inches

The overall GDT index edged up 0.3% at event 281. SMP inched higher by 0.5% to average US\$3,367/t, with the biggest gains in later contracts C4 and C5. Not much happened with WMP which gained US\$2/t to average US\$4,085/t, with the most action in later contracts with prices changing in different directions under US\$100/t for C4 and C5. Fats prices went higher. Butter did better and gained 2.1% to average US\$5,776/t. AMF prices added 0.9% to average US\$6,209/t, also with inconsistent gains across contracts. There was only 157t of cheddar sold for C5 and C6 at this event which achieved an average of US\$4,393/t. Lactose came off its highest and lost US\$85/t to finish at US\$1,307/t.



DAIRY FUTURES

Futures mixed – CME Cheese and butter rose. NZX powders were mixed as SMP trended down. All prices quoted in US\$/t.

7-Apr	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange	NZX	CME	NZX	CME	NZX	CME
May-21	3,280	2,597	3,835	3,971	6,000	4,037
Jun-21	3,260	2,658	3,770	4,050	5,900	4,123
Jul-21	3,200	2,716	3,650	4,070	5,900	4,145
Aug-21	3,150	2,780	3,570	4,098	5,700	4,211
Sept-21	3,155	2,821	3,520	4,101	5,575	4,254
Oct-21	3,180	2,855	3,505	4,101	5,450	4,287
Change	-1%	0%	0%	3%	0%	1%
Op interest	5,303	3,702	13,002	14,036	232	6,097