

FROM THE TRADING FLOOR

KEY MARKET DRIVERS

The Coronavirus editions

- Coronavirus effect on CNY
- Coronavirus ripple effect through the world
- Coronavirus effect on global freight
- Coronavirus effect on latest gDT result

- As you may've guessed this edition of the DairyPlanet Trading Floor is all about the Coronavirus outbreak in China and its effect on the global trade and in particular our world of Dairy trade. Firstly, the growing crisis really picked-up steam across the all-important Chinese New Year (CNY) period. The importance of the CNY period can't be understated as it represents that largest annual migration of people on the planet as workers head home to spend time with their families. In many instances CNY represents the only meaningful holiday for many Chinese workers for which they save all year to enable them to afford the travel and entertainment costs. One could argue that there is actually overconsumption during this period as people like to show their prosperity by over-ordering, particularly food (which anyone who has been at a Chinese banquet dinner could attest to). Because of this, Chinese businesses gear up for this annual celebration in an anticipation of huge demand pull through. So with the travel bans and cancellation of public celebrations including in Shanghai and Beijing, the notable lack of expected demand through the CNY period will have an affect beyond that immediate timeframe as businesses deal with likely heavy inventories.
- Such is the reliance on China as the biggest importer of many goods, notably Dairy products, any hiccup in demand will have far reaching and profound effects on product availability and pricing. To date we are still in a wait and see pattern as the preceding 12 months was notable in the slowing of global milk and rising prices and therefore any fall in Chinese demand may not be immediately felt. However, as the Northern hemisphere enter into spring, rest assured that if this Coronavirus issue continues and spreads into Asia in particular then the effect will be profound.
- The biggest immediate issue we have seen here at Ausfine this week as a result of the Coronavirus is the impact on freight movements. We have seen quite a few of our shipping lines advise that they are omitting many Chinese ports as there are not resources or space to service inbound ships. In the instance of reefer cargo, many lines will no longer discharge reefer containers in Shanghai & Xingang as there are not enough reefer plugs to keep the containers on power, instead they are being moved to the Korean port of Busan. Obviously, the impact here, if these moves last for too long, are huge and long-lasting as global freight lines will need time to recover.
- Well the majority opinion at Ausfine prior to this week's gDT was a large, double-digit drop in pricing because of the impact on reduced Chinese buying. It's not typical that a 6% drop would be seen as a positive, but it was on Tuesday night with SMP and WMP prices largely holding up. It was also interesting to see that Chinese buying in those two categories were largely unchanged from the previous event. There are a bunch of theories (some conspiracy theories) as to how that would happen. maybe it was evidence

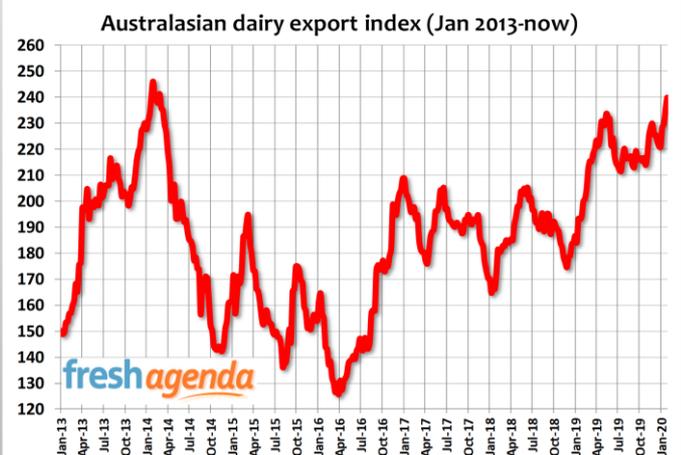
that people still need to eat and demand remains strong globally or it may be just delaying the inevitable. Time will tell.

Matt Cooper, Director Ausfine

DAIRY EXPORT INDEX

Index jumps again – The Australian dairy export index rose to its highest since Feb 2014 as the A\$ dropped to the lowest since 2009 while commodity values were steady. Butter prices remained at US\$4,280/t while SMP averaged US\$3,060/t, both unchanged from the week prior. WMP and cheddar averaged US\$3,250/t and US\$4,180/t, also unchanged.

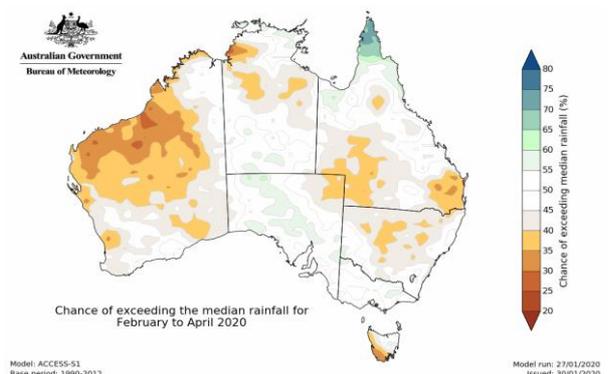
The A\$ dropped to **US\$0.6693**, lifting the index by **4.7 points** to **239.9**. The spot commodity milk value lifted **20c** to **A\$7.23kgMS**



AUSTRALIAN INDUSTRY NEWS

Average weather outlook for Aus

The Bureau of Meteorology's (BoM) latest 3-month outlook is for roughly equal chances of wetter or drier conditions for most of the country. The northern parts of the Murray Darling Basin have a slightly increased chance of being drier than average. While most climate influences are neutral, a long-term warming trend coupled with warm and dry soils are keeping temperature outlooks higher than average.



Weather highlights

- In Australia, a high-pressure system is keeping VIC, TAS and SA dry and clear.
- In NZ, patchy cooler conditions across the North Island. Rain spreading in the north of the South Island.
- Cooler air is sweeping across the US, bringing lower temperatures and thunderstorms to the northeast.
- Occasional rain and thunderstorms in Brazil. Warm, humid and chance of showers in Argentina.
- Heavy rain and strong winds across the UK, while snow in central Europe.

Fonterra NZ intake down 0.6% in Dec

Fonterra's milk intake fell 0.6% YOY to 184.0m kg of milksolids in December. North Island output dropped 2.5% YOY, taking season-to-date collections 0.4% below the comparable as dry conditions in the Waikato and Bay of Plenty hampered milk production. In the South Island, excellent conditions in December boosted milk collections 2.2% YOY, however, season-to-date output is still 0.6% behind the year ago comparable.

Meanwhile, heavy rain has lashed the South Island in the past week, while dry conditions are expected to persist for at least the rest of the month

EU milk growth facing headwinds

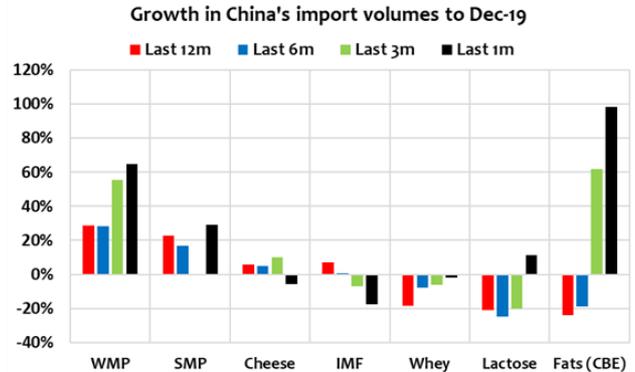
According to Eurostat, Irish milk production fell 4.7% YOY in December. It was the third consecutive monthly fall to end the 2019 calendar year 5.4% ahead of the prior year comparable. With only 42% of average milk production reported, December 2019 EU-28 milk production rose 1.3% with positive trends in the Netherlands (3.7%), Poland (1.8%) and Belgium (1%).

French production rose 1% YOY in the week ending 19 January 2020, a 3-week low. In the same week, Germany supply was flat— growth has weakened in recent weeks after picking-up at the end of December. According to daily AHDB, UK output fell 1.4% in the first 25 days of January after a 1.5% decline in December.

China's imports mixed

China dairy imports were again mixed in December. There was continued healthy YOY growth for WMP - up 64.9% in December and SMP (up 29.1% YOY). Imports of lactose and fats also improved, up 11.5% and 98.4% respectively. All other categories were weaker. There has been a timing change for WMP imports this year as a result of the early Chinese New Year –we expect this to impact shipments in early 2020. The expansion in SMP resumed after weaker trade in October and November – overall growth has persisted for a year since EU-sourced bargains were plentiful. Reported average CIF import prices for fats have generally trended lower in recent months, but average butter value still rose between November and December to US\$5,181/t.

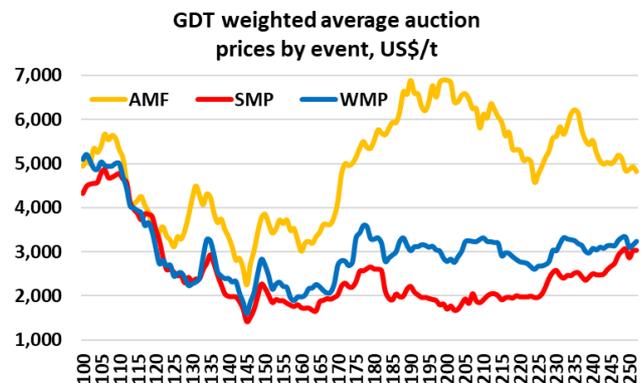
Cheese imports slipped 5.5% behind the comparative in December, with patchy growth in recent months. IMF trade also slowed in December, slipping 17.5% YOY, but still ahead below 1% for H2-19. Whey imports have declined for 14 consecutive months – or by 107,865t in this period - reflecting the impact of the ASF on feed demand.



GDT catches the virus

GDT event #253 was affected by coronavirus fears as the index shed 4.7%.

SMP prices took a moderate hit, losing US\$129/t or 4.2% to US\$2,907/t, with similar losses across C2 to C5. WMP suffered an average fall of 6% or US\$194/t to US\$3,039/t. Butter posted a minor US\$8/t or 0.2% gain, while AMF lost 4% or US\$195/t to average US\$4,626/t – its worst result in 29 events. Cheddar defied expectations, posting a solid gain of 6.3% or US\$254/t on average to US\$4,302/t.



DAIRY FUTURES

Futures trending down – Powders all lost ground – NZX WMP taking the biggest hit. Butter was flat. All prices quoted in US\$/t.

	5-Feb	SMP	NDM	WMP	Cheese	AMF	Butter
Exchange		NZX	CME	NZX	CME	NZX	CME
Mar-20		2,780	2,668	2,970	3,982	4,850	4,409
Apr-20		2,860	2,676	2,975	3,951	5,025	4,497
May-20		2,825	2,700	2,985	3,904	5,035	4,565
Jun-20		2,825	2,734	3,000	3,922	5,045	4,608
Jul-20		2,835	2,766	2,990	3,973	5,050	4,669
Aug-20		2,850	2,772	2,975	3,968	4,715	5,093
Change		-6%	-5%	-8%	-2%	-1%	0%
Op interest		5,288	5,395	10,200	9,753	324	6,608

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