



The Greenmark GDT heads-up, event 280

The markets have strongly responded to the 15% increase in the GDT index of two weeks ago. Especially Butter, WMP and Cheese saw significant upside while also other commodities such as SMP and Whey have benefited.

Interesting in tomorrow's event is the strong increase of offered volumes of WMP. In tomorrow's event, an incremental volume of 3,500mt is offered which is a **27 %** increase against the previous event. See further the Fonterra announcement below. It is hard to tell the reasoning behind this but it seems clear that sales opportunities *on* GDT are better than *off*-GDT. Strategically, if sales opportunities outside the GDT event were equally good, it would seem more prudent to keep volumes offered on GDT restricted/ unchanged.

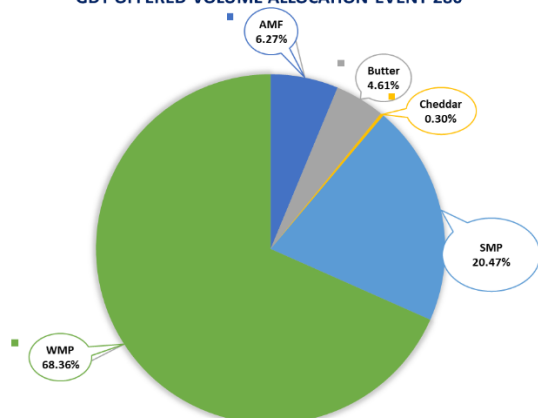
In the last GDT, we have seen strong buying interest from China. Although, according to preliminary reports Chinese milk production has increased by 7.5% in 2020, farm gate prices have moved up too. According to sources on the ground, prices for pre-contracted milk are around 0.50 cents/kg while uncontracted milk goes for as much as 0.75 cents/kg and up. Imported products are cheaper than domestic.

In that light, we *may* see further increased buying interest from China. With Chinese buying representing about 25% of total buying, this *may* ignite further fireworks. Historically, however, double-digit gains on GDT have been followed by decreases in subsequent events.

On offer at Event 280:

GDT event 280						
Sales Group Maximum Supply (MT)	Contract 1 (April 20)	Contract 2 (May 21)	Contract 3 (June 21)	Contract 4 (July 21)	Contract 5 (Aug 21)	Contract 6 (Sept 21)
Anhydrous Milk Fat	125	600	450	200	255	55
Butter Milk Powder	-	-	-	-	-	-
Butter	125	495	300	150	115	55
Cheddar	-	-	-	-	-	80
Skim Milk Powder	375	2,295	1,235	965	435	200
Whole Milk Powder	3,000	8,500	4,375	1,500	510	500

GDT OFFERED VOLUME ALLOCATION EVENT 280



The total offered volume is 26,895 mt, an increase of 2,465mt or +10% up vs event 279. The increased volume is caused by the increased offering in WMP and SMP minus the absent offers for BMP and decreased AMF offerings.

Product	event 279 mt	event 280 mt	change	change %
AMF	2,030	1,685	-345	-17.00%
Butter Milk Powder	580	0	-	-
Butter	1,240	1,240	0	0.00%
Cheddar	390	80	-	-
SMP	5,305	5,505	200	3.77%
WMP	14,885	18,385	3,500	23.51%
Total	24,430	26,895	2,465	10.09%

Following the material price changes observed in Trading Event 279, Fonterra has amended its planned production over the remainder of the current season in response to market price relativities.

In line with these changes Fonterra is adjusting its GDT offer quantities for Whole Milk Powder, Skim Milk Powder, Anhydrous Milk Fat and Cheddar Cheese. These changes have been further supported by recent milk collections continuing to track in line with forecast volumes which has allowed a reduction of production plan risk settings.

The offer quantity for Whole Milk Powder has increased by 3,500 metric tonnes in the current event and by 11,500 metric tonnes for the next 12 months with offers increasing by 7,000 metric tonnes in April and May while decreasing by 2,500 metric tonnes July to September. In addition, the contract quantities for Whole Milk Powder in November 2021 have been changed with 3,600 metric tonnes moved from contract periods 4 and 5 to contract periods 2 and 3. This is to better meet market demand.

The offer quantity for Skim Milk Powder has increased by 200 metric tonnes in the current event with the addition of 200 metric tonnes in contract period 6. Similarly, the next four events have also increased by 200 metric tonnes with the addition of a contract period 6 offer. The 12 months forecast offer quantity for Skim Milk Powder remains unchanged.

The offer quantity for Anhydrous Milk Fat in the current event has been reduced by 350 metric tonnes while the following month of April has decreased by 650 metric tonnes. This reduces the forecast total offer quantity for the next 12 months by 650 metric tonnes.

The offer quantity for Cheddar Cheese in the current event has been reduced by 310 metric tonnes. The 12 months forecast offer quantity for Cheddar has reduced by 820 metric tonnes with reductions across April to August.

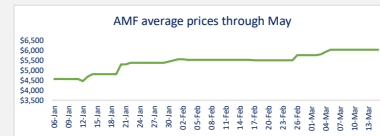
The 12 months forecast offer quantity for Butter remains unchanged.

Since the GDT event of two weeks ago, futures prices have changed as follows:

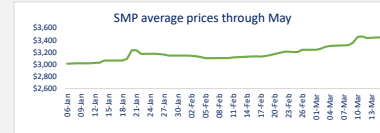
NZX Futures changes since last GDT						
		settlements 1/3	settlements 15/3	Δ	Δ%	
Amf	C1	March	\$5,780	\$6,000	\$220	3.81%
	C2	April	\$5,755	\$6,080	\$325	5.65%
	C3	May	\$5,740	\$6,000	\$260	4.53%
	C4	June	\$5,450	\$5,900	\$450	8.26%
	C5	July	\$5,400	\$5,900	\$500	9.26%
	C6	Aug	\$5,310	\$5,800	\$490	9.23%
	Average		\$5,573	\$5,947	\$374	6.71%
SMP	C1	March	\$3,260	\$3,445	\$185	5.67%
	C2	April	\$3,240	\$3,450	\$210	6.48%
	C3	May	\$3,220	\$3,450	\$230	7.14%
	C4	June	\$3,200	\$3,430	\$230	7.19%
	C5	July	\$3,150	\$3,390	\$240	7.62%
	C6	Aug	\$3,120	\$3,260	\$140	4.49%
	Average		\$3,198	\$3,404	\$206	6.44%
Butter	C1	March	\$5,200	\$5,800	\$600	11.54%
	C2	April	\$5,125	\$5,550	\$425	8.29%
	C3	May	\$5,050	\$5,450	\$400	7.92%
	C4	June	\$4,950	\$5,700	\$750	15.15%
	C5	July	\$4,800	\$5,500	\$700	14.58%
	C6	Aug	\$4,500	\$5,300	\$800	17.78%
	Average		\$4,938	\$5,550	\$613	12.41%
WMP	C1	March	\$3,780	\$4,285	\$505	13.36%
	C2	April	\$3,750	\$4,140	\$390	10.40%
	C3	May	\$3,780	\$4,100	\$320	8.47%
	C4	June	\$3,700	\$3,980	\$280	7.57%
	C5	July	\$3,630	\$3,895	\$265	7.30%
	C6	Aug	\$3,550	\$3,780	\$230	6.48%
	Average		\$3,698	\$4,030	\$333	8.97%

Overall, we have seen strong gains in the past two weeks:

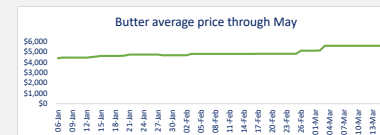
AMF saw strong increases in all contracts, with the biggest increases in the deferred contracts.



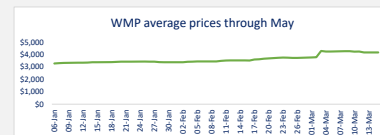
SMP saw solid upward movement in all contracts:



Butter moved up strongly with double-digit gains in the front and deferred contracts:



WMP moved up, on average by 4.65%, with the biggest gains in the front contracts:



- On a calculated basis of NZX futures vs settlement prices in the previous GDT event, movements on the NZX *point* towards a decrease in the GDT index of about **-3%**, caused in the main by a lower price expectation for WMP. On average, NZX WMP futures currently trade **-7.9%** below the AWP in event 279. Unfortunately, NZX indications only go so far in predicting the GDT outcomes and we would not be surprised by further continued buying interest from China.
- Although statistics are being held back, preliminary reports paint a weaker picture for China: There are indications that the number of births decreased strongly in 2020. Some sources indicate **-15%**. The government has postponed the publication of statistics about this. January import stats will be combined with those of February and implicitly delayed by a month.
- NBS China published milk production has risen by **7.5%** in 2020 and reached 34.4 billion kgs.
- The implication of increased imports and increased milk production would be (if we do not take on board stocks) that Chinese consumption must have risen by **8.5%** in 2020 in terms of LME. This is historically one of the biggest jumps while the population saw one of its lowest increases in recent history. Given high domestic pricing for milk, we cannot exclude the possibility that stocks are building in China of the domestic product as processors are likely to favor imported products.
- The excessive stock building has the major reason for the market crash in H2 2014. In March 2014, the AWP for WMP was \$4,505/mt. In March 2015 it was \$ 3,018 and in August 2015 it went down as low as \$ 1,623/mt.
- In comparison to the EU and the USA, NZ is the least competitive origin in terms of prices for all dairy commodities.

In the **Greenmark Dairy Report** of this coming Wednesday, we will report with an in-depth analysis of the outcome of event 280. As usual, along with Global export, import, price, production, consumption & stock data. As always, we will comment on any other matters that may have an impact on dairy price developments.

For further information or a subscription to The Greenmark Dairy Report email us at r.schorsij@greenmarkdairy.com