



Horizons.

Our insights
on Today's Global
Dairy Business

December 2022

#07

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Editorial Note.

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It's Beginning to Feel a lot like Christmas!

Enter the warm and fuzzy time of the year – where everything sparkles, smells of freshly cut fir trees and is simply, magical.

Join us on this December issue as we reflect on 2022 in our Dairy World (see “Deep Dive” section).

Our “Market Direction” section also discusses the Southern Hemisphere milk production.

We are also filled with pride and joy as Haverro Hoogwegt celebrates their 100th Year Anniversary this 27th of December (see “Hoogwegt Happenings” section).

Guest contributor Onno van Vliet shares his experience in Hoogwegt Milk and exciting opportunities he sees within the liquids space. Read his article in our “World Comment” section.

We also recorded our 12th episode of the Hoogwegt Dairy Spew – find out more in the “Hoogwegt Dairy Spew” section.
Here's wishing one and all a Merry Merry ChristMoos!

Sincerely,
Hoogwegt Horizons Editorial Team

Market Direction

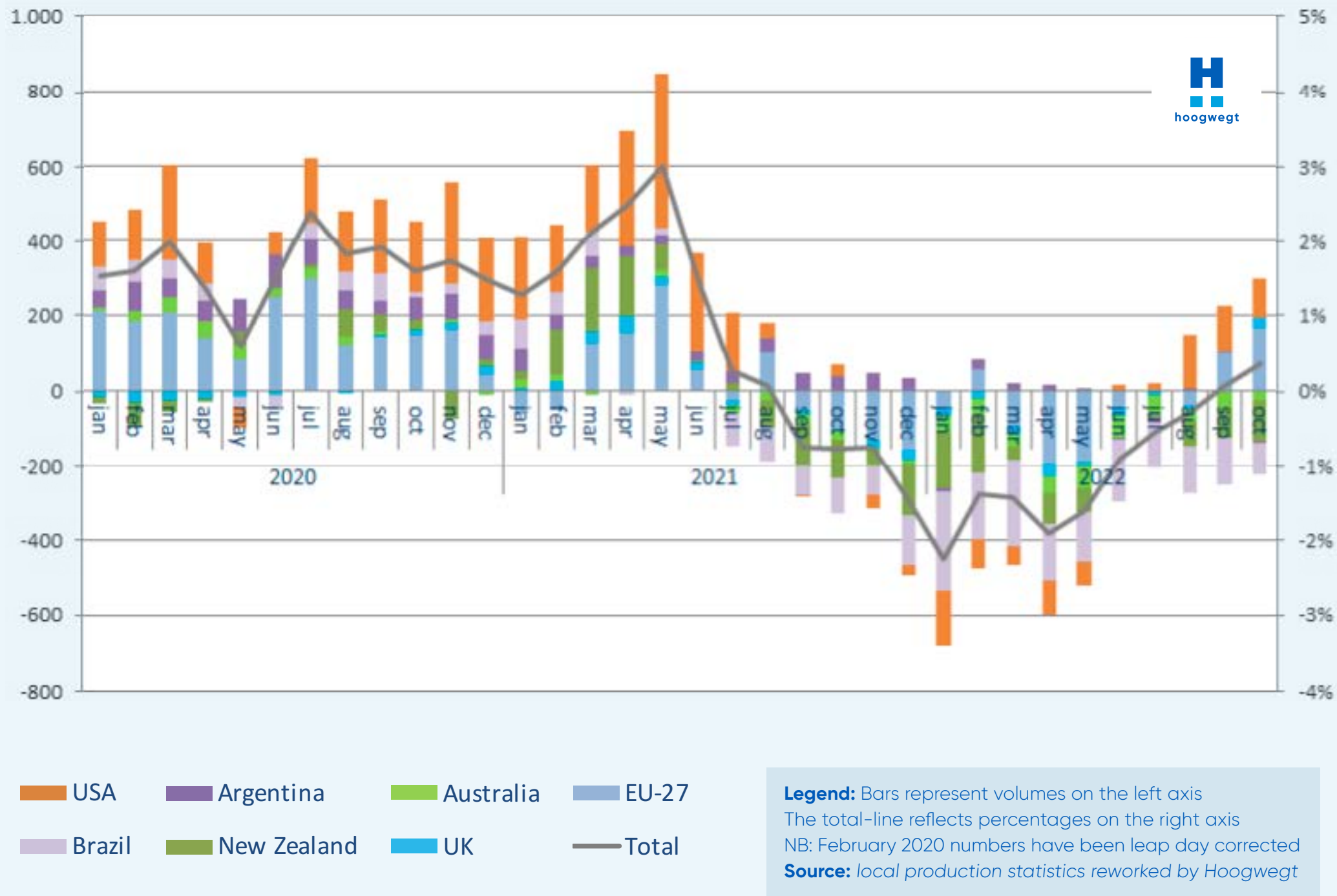
Southern Hemisphere Prevents Stronger Global Supply Growth.

October supply growth will finally yield a positive number for all key export regions combined. However it is only a modest 0.3% despite the weak comparable number in October 2021.

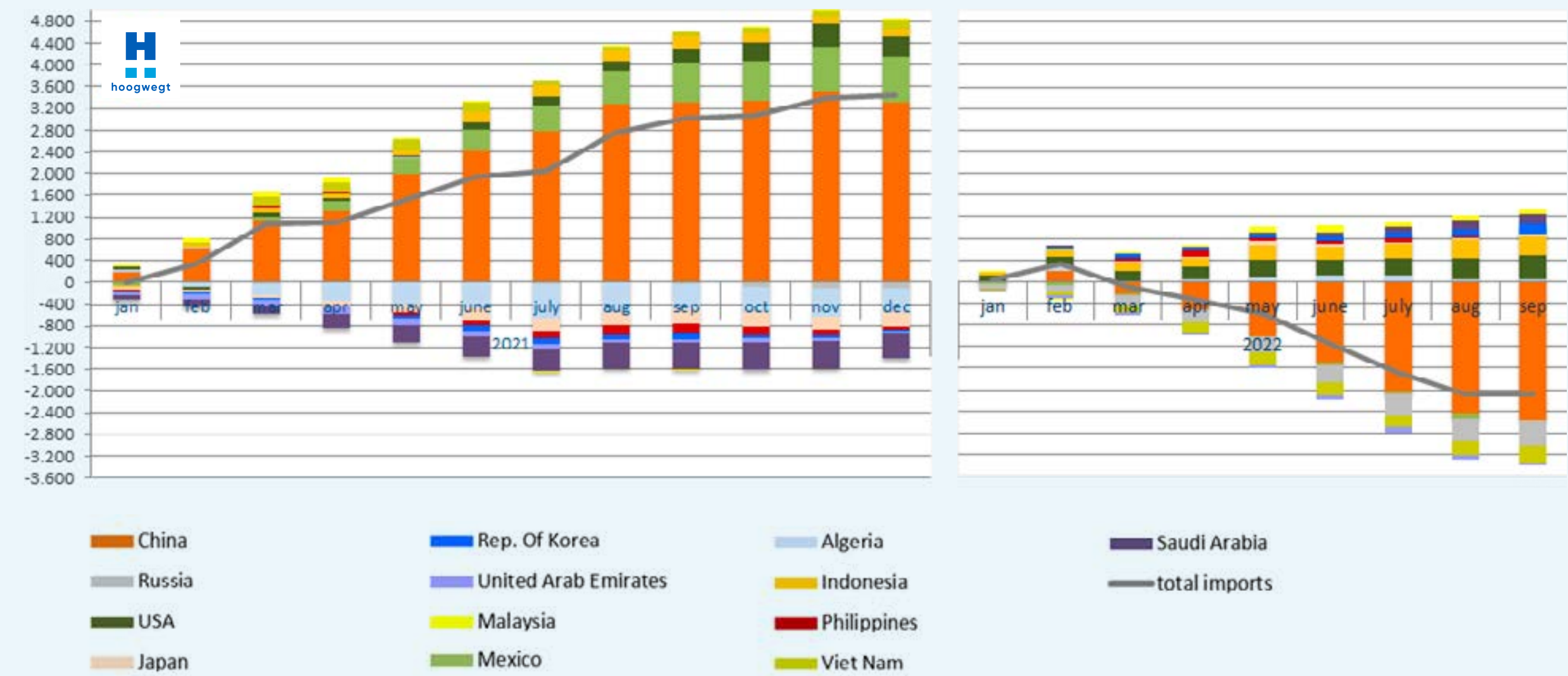
The short term supply situation remains relatively fragile for as long as the Southern hemisphere puts the brakes on global milk output. All of the Southern hemisphere exporters are going backwards but the -3.5% for New Zealand during the peak month of October takes a lot of milk out of the global market balance. In the EU and the UK milk production growth is gaining pace. Milk production in the Netherlands in October resulted in +4.5%, the UK is also cruising at +4% and Germany is about 2% above last year since mid-October. The Northern hemisphere is still in down season but EU processors in particular are getting worried that dairy farmers will be given the wrong signal at the start of the new season in 2023. Dairy commodity prices have already lost quite a bit of ground but retail contracts will probably continue to support milk prices until early Q2 of 2023. This makes it quite likely that we will see more milk coming to the market in the EU once we get beyond the down season. With the US consistently growing at 1-1.5% since September, it seems like the Northern hemisphere is on its way to a strong recovery in H1 2023.

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Milk supply growth in key exporting regions (Y-o-Y change, 1000t)



Imports by the big-13 importing countries
(cumulative change compared to previous year, total imports in 1000t of MEQ)



NB: The graph displays monthly cumulative changes in import volumes compared to last year for each single country. The grey line is the total cumulative change compared to last year for all 13 countries combined
Source: Dairyintel trade data, reworked by Hoogwegt

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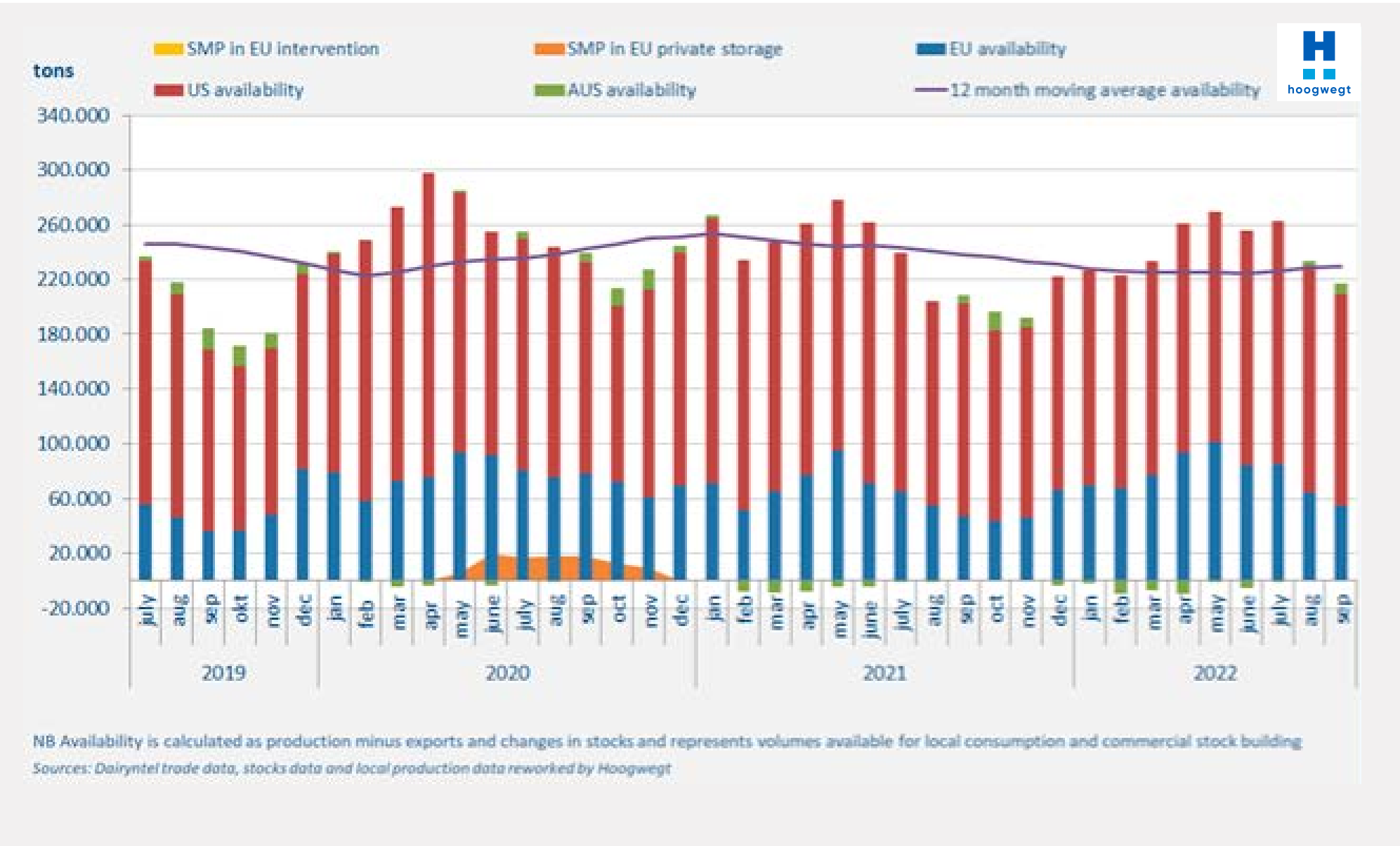
Based on their average level of affluence, most of the top-13 key importers monitored for this report should be more sensitive to price inflation than the Western markets. However, imports have not really suffered for 12 of the 13 importers. If we take out the massive impact of China, then imports have even increased up to September. So, despite commodity prices being quite elevated for most of these months, import numbers provide little evidence for all of the comments about demand fall out. The cause of Russia's weak imports in 2022 is obvious but China's weak import performance still remains a bit of a mystery. The destructive impact of the lockdowns – both directly and indirectly through its impact on the economy – in combination with strong local milk production and high stocks at the start of the year are probably some of the key elements. Next year will be different in most of these aspects for China.

SMP: Prices fall towards 2020-levels

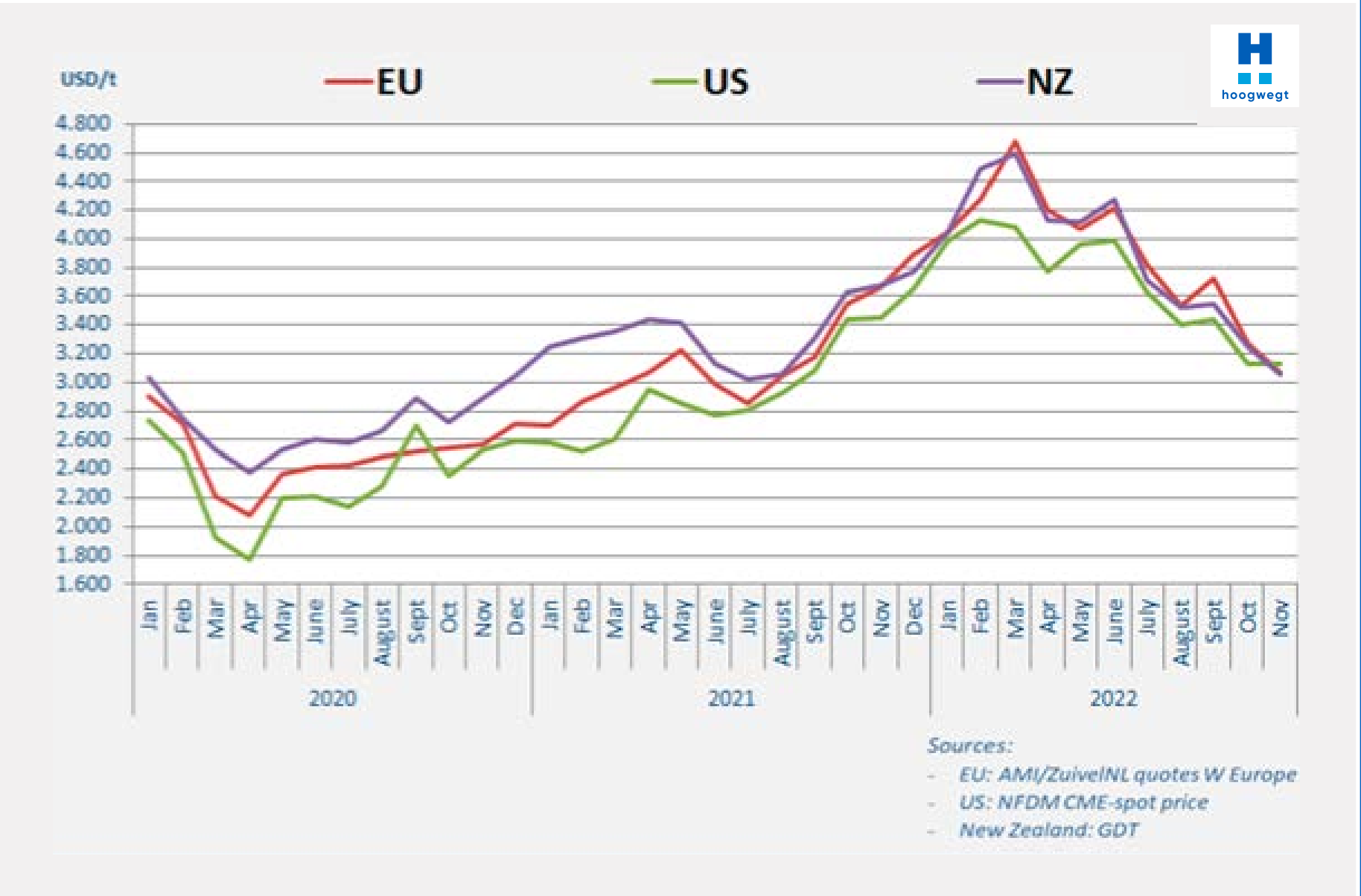
SMP/NFDM prices appear to be on their way towards levels below USD 3000/t. One can't help but wonder whether there is anything that could break the fall on the way down. Joint exports by the EU, US, Australia and New Zealand have been some 150.000t below last years volumes in the January-September period. This may indicate a certain degree of unfulfilled demand that is still out there in the global market, unless 2021 volumes were somewhat inflated. Which could be the case for China at least. Anyway, buyers seem to have no reason to step in at this point in time. Prices continue to drop and

with the prospect of a strong upcoming Northern hemisphere season on the horizon, the buy-side has every reason to adopt a wait and see approach. The graph below suggests that availability is not too spectacular yet due to disappointing Southern hemisphere peak production volumes, but it is still better than last year due to the aforementioned weak exports in 2022 until September.

Production, exports and availability of SMP in EU, US and Australia¹⁾



Monthly SMP prices in the main export markets

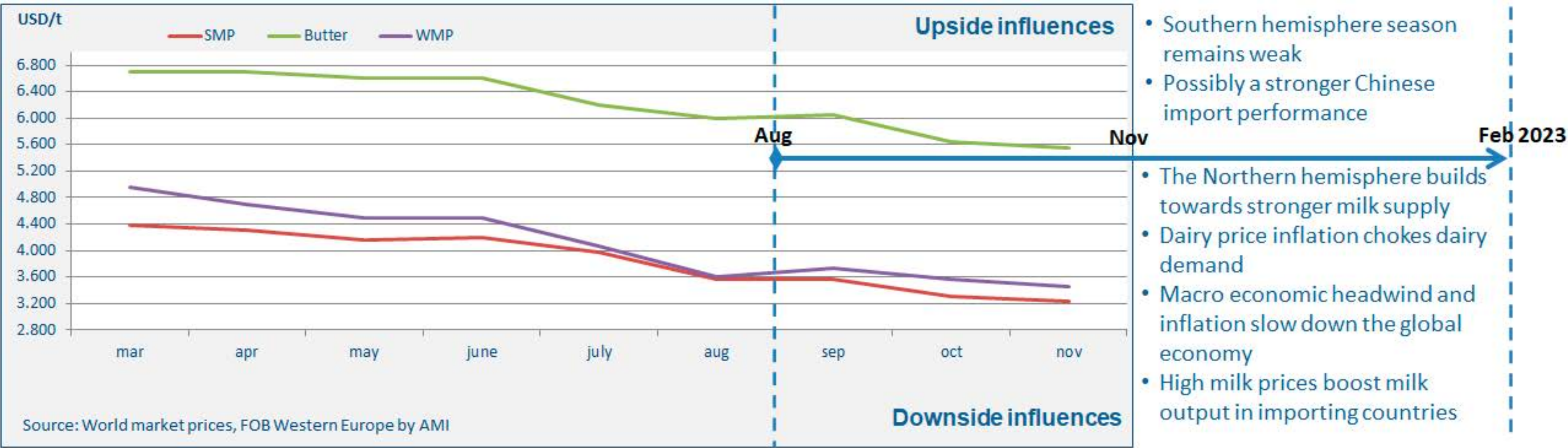


Looking forward

The remainder of the year traditionally is not too exciting in terms of price volatility but we probably should prepare for a very interesting first quarter of 2023. First of all there is a chance that China will show its true colors after its overall weak 2022 import performance and the absence of its usual peak purchases in Q4. Secondly, the market may finally see the return of more meaningful milk production growth in the Northern hemisphere and thirdly we may expect the joint impact of food price inflation and economic headwind

unfolding into lower end consumption of dairy products. So far, data indicate that end consumption has not yet been affected too much yet in 2022, but when rising unemployment rates add fuel to the fire, demand is bound to get affected. When looking at the graph below the weight of the downside risks appears to outweigh the upside risks, but a lot of the upcoming developments seems to have been incorporated in today's prices already. ■

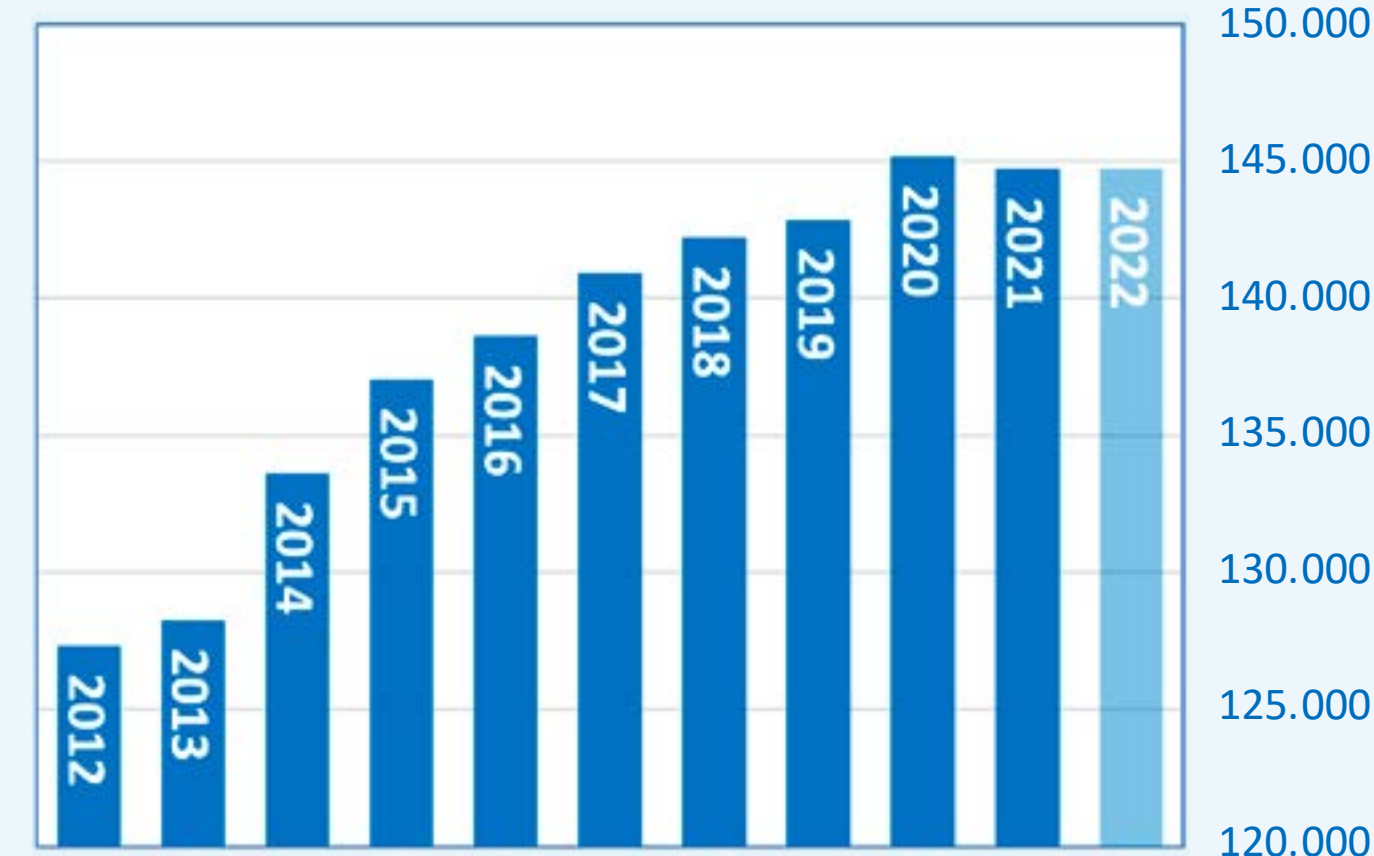
Market Outlook for December 2022 - February 2023



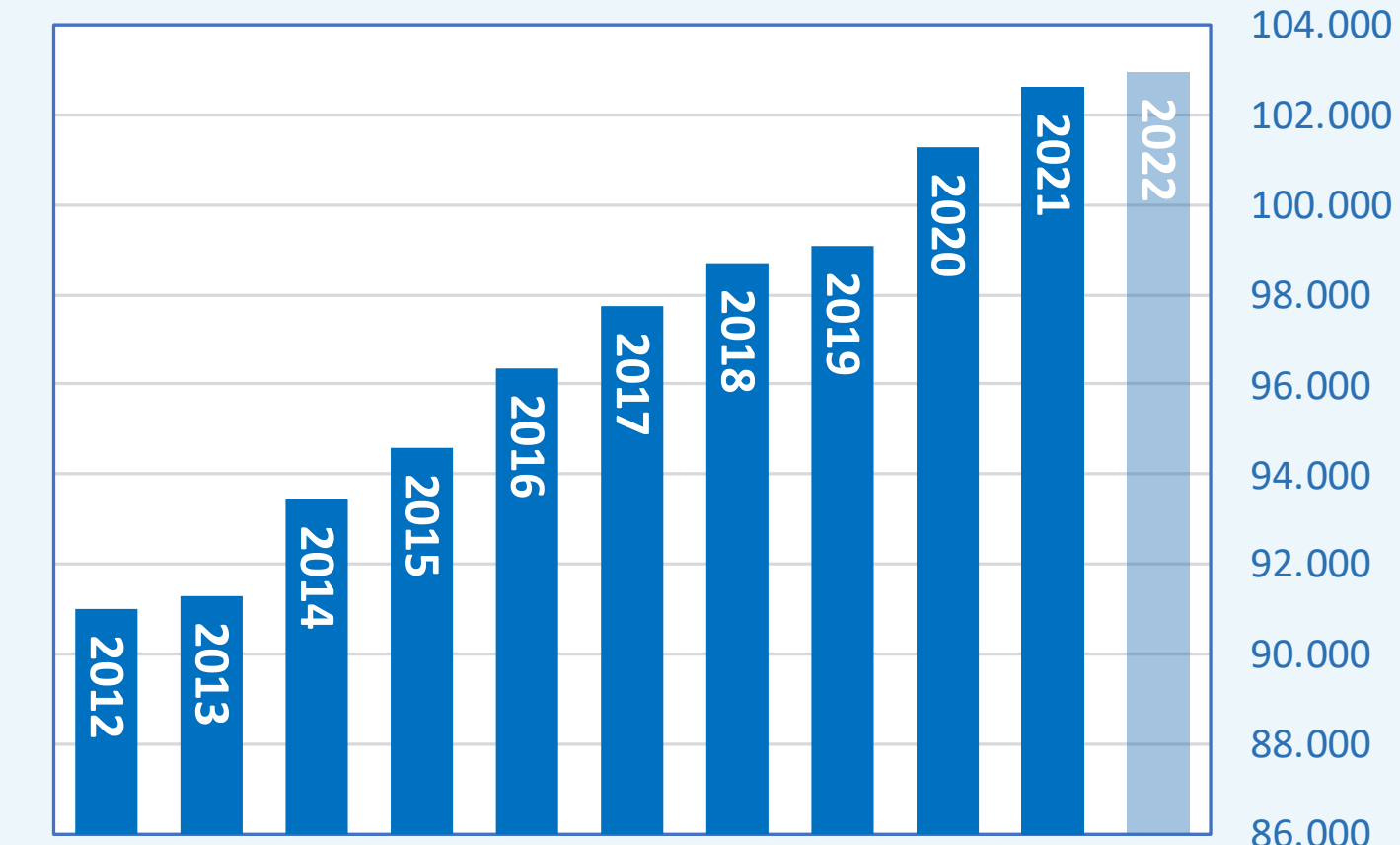
Dairy Deep Dive

End of the year edition.

EU-27 milk production (Kt)



United States milk production (Kt)



December means time to reflect.
This December edition of the dairy deep dive looks back on 2022.

Stagnating Europe

Europe, obviously a powerhouse in milk and dairy production, started the year pretty bad, with decreasing numbers across the boards. While since September Europe is putting out green to very green numbers over beatable months. The question pops up if it was too little too late to beat last year in terms of milk production. Extrapolating the growth numbers over unknown months, Europe should end pretty neutral in around 144.700 Kt. Zooming out, it may be an exemplary year, the European continent is facing structural problems in ageing farmers. Especially in countries like France, Germany and the Netherlands it's hard to find successors and on top of that governments

are eyeballing the possibilities to put environmental restrictions in place. Herd size increases are not on the radar, the trend is on reducing the herd so changes in yield are the only possibility.

United States: A year of two tales.

The Top-3 Exporter where herd size increases are still possible, the US, had a slow start of the season as well. Their H1-2022 number came in decreasing (0.6%). The US is showing green YoY numbers since July, splitting the year in two halves. H2 should put out something close to a 1.5% increase compared to H2 2021, putting the US on an overall plus of around 400Kt to 103,000Kt.

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Struggling Southern Hemisphere

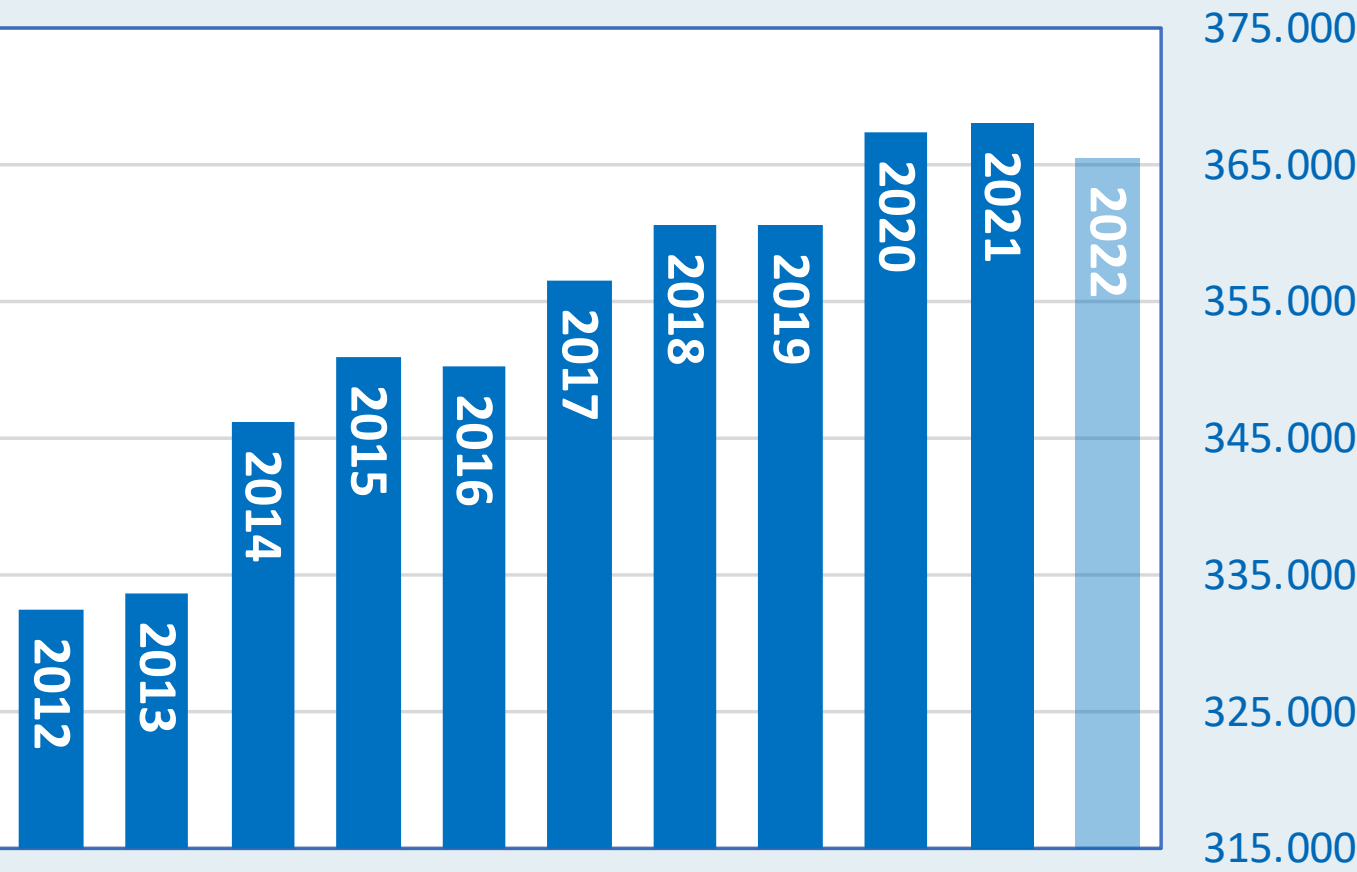
2022 was a tough year for the Southern Hemisphere. While Europe is close to neutral thanks to a good H2, the US showed growth, the Southern Hemisphere’s problems dragged the world into decrease. NZ saw red numbers in pretty much every month, Australia was even worse. NZ should end the calendar year close to -3.5% YoY for the entire 2022, Australia should end the year close to -5.5% YoY. To add to that, Brazil saw YoY-red in every month, URU struggled in a lot of months and while we saw Argentina struggle against the Saudi’s their year was overall the positive exception from the Southern Hemisphere. All in all, the Southern Hemisphere dragged 2022 into a decrease overall, with a Top-12 Exporters decrease of close to 3-4000Kt of milk production (or close to -1.4% compared to 2021).

What was made from all that milk?

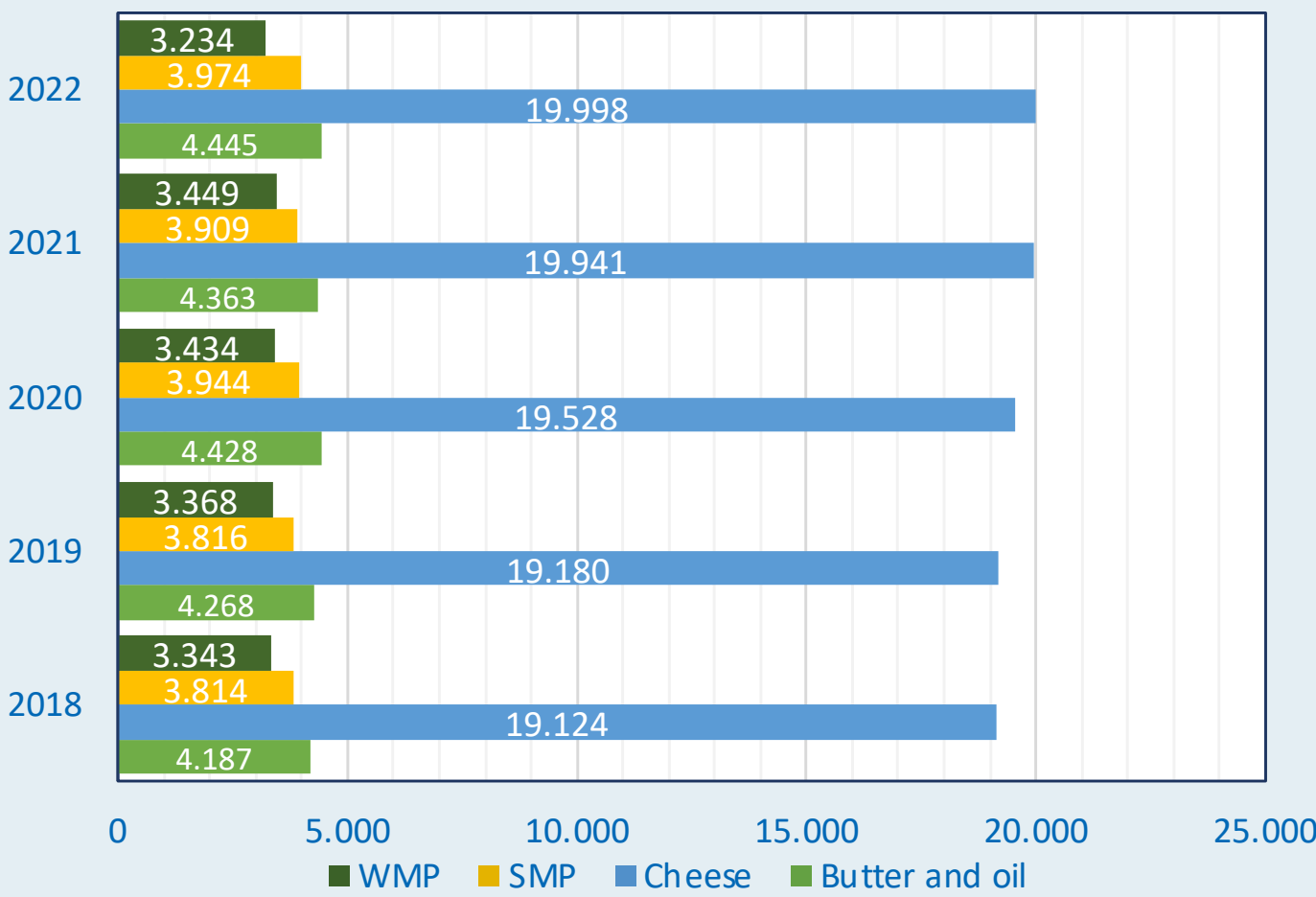
To a certain extent exporters try to anticipate on what’s hot and what’s not. If they can of course. We saw changes in NZ Product mix, reducing the WMP Production while increasing their SMP, increasing the global SMP production while both Europe and NZ produced less WMP. Cheese production was close to last years level, while butter jumped back closer to 2020 levels after a drop in production last year.

more →

Top 12 exporters milk prod. (Kt)



Top-12 Exporters dairy production (Kt)



→ continuation

Say cheese!

Cheese demand remained stable. But barely. While China probably needed less Cheese, we estimate -10%, Cheese loving Japan needed more and so did MENA. Cheese import demand is estimated to be positive in 2022. Nothing spectacular as Cheese demand has been trending up for years now, for 2022 it's estimated to be close 1.8%.

2022: Not a whole lot of demand for WMP.

Obviously WMP demand in 2022 took a big hit with a lack of Chinese import demand for the full cream. Using our current projections, with a low Chinese demand, their loss should be around 300Kt. Pretty much the entire loss in the need for WMP. And most of that is not just a bearish projection, the bulk of

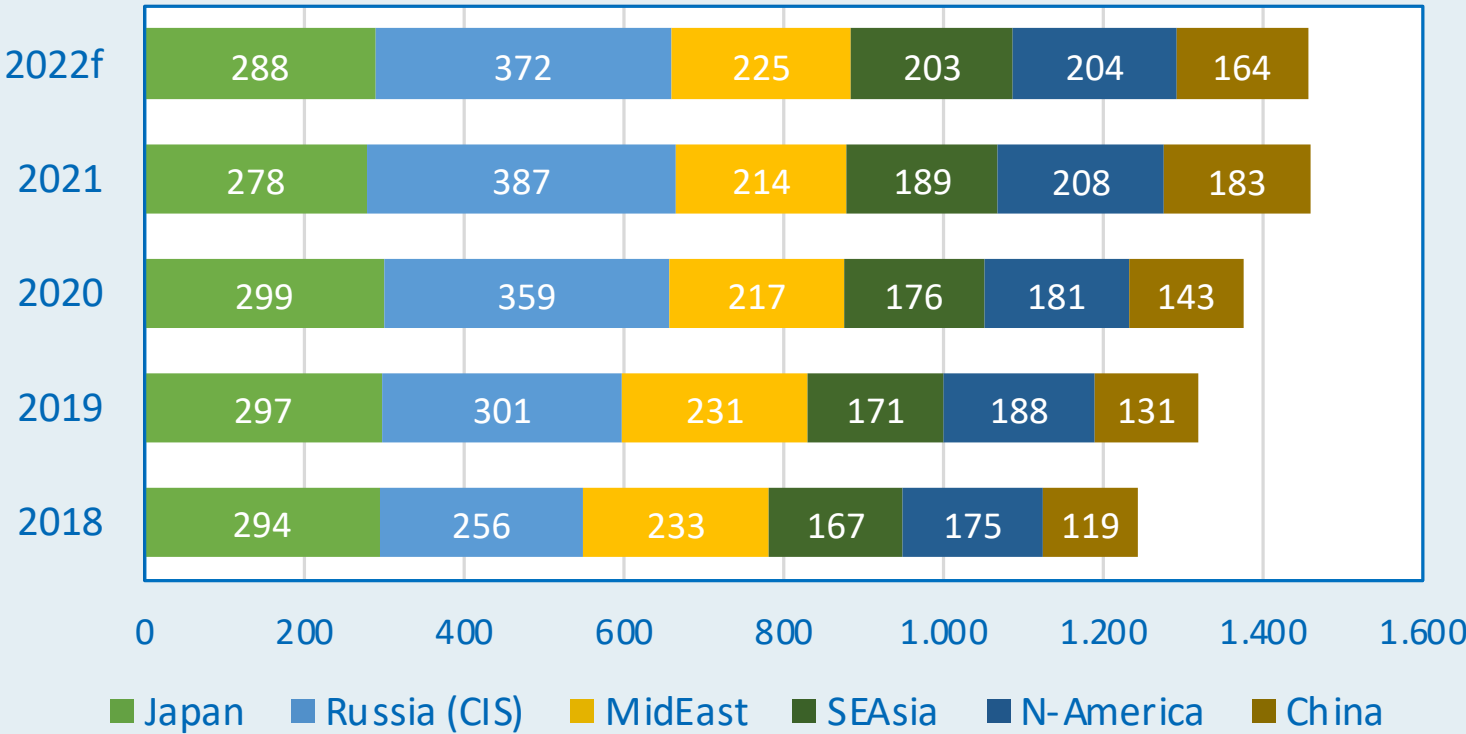
the loss already took place. Compared to 2021 it's a global loss in demand of around 12-13%.

Skimmed milk powder.

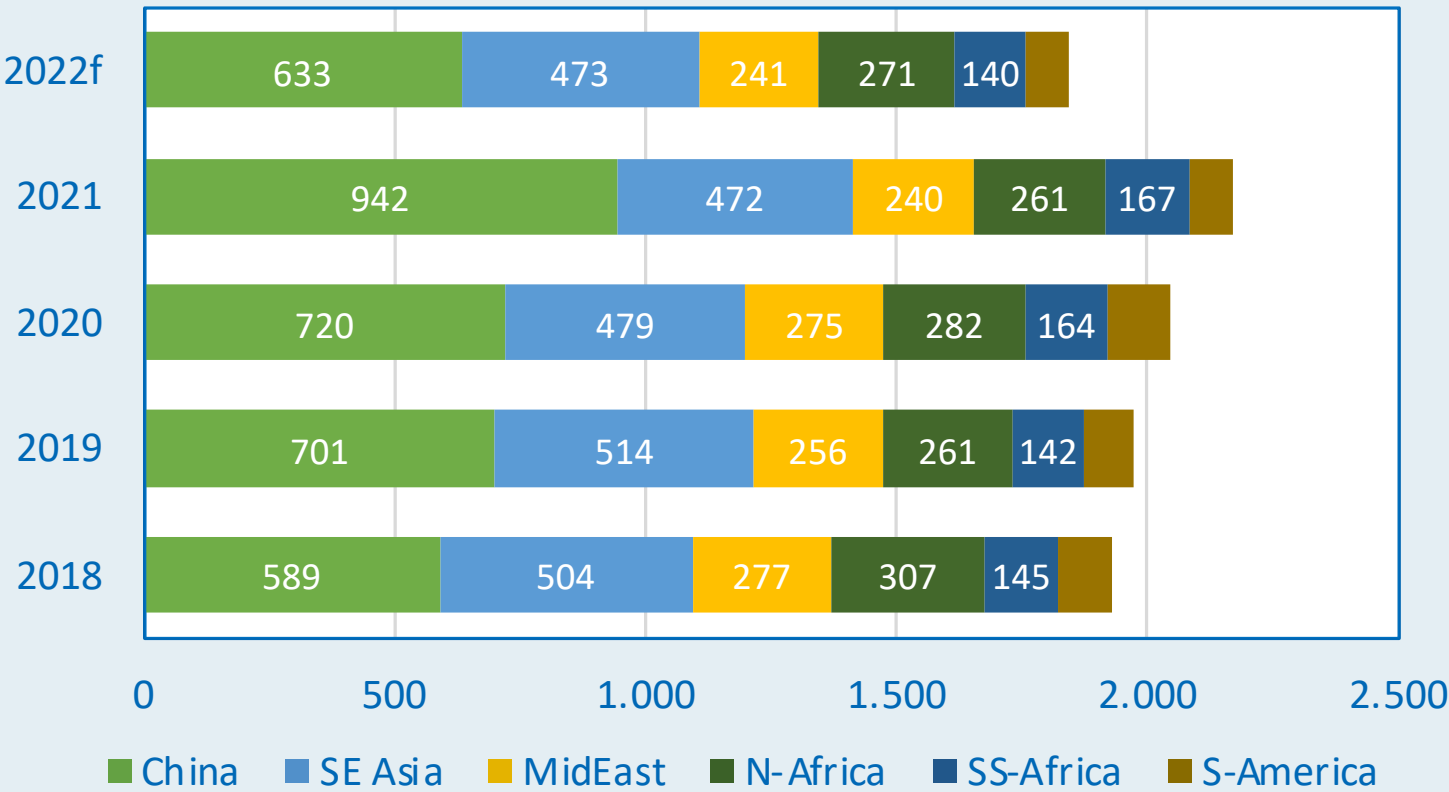
On current projections the loss in demand is limited. Mexico needed more SMP than last year. China needed less, with spill-overs to SE Asian. The loss in demand should be close to 100Kt compared to 2021, or 4-5%.

Wishing you all the best for the coming year. ■

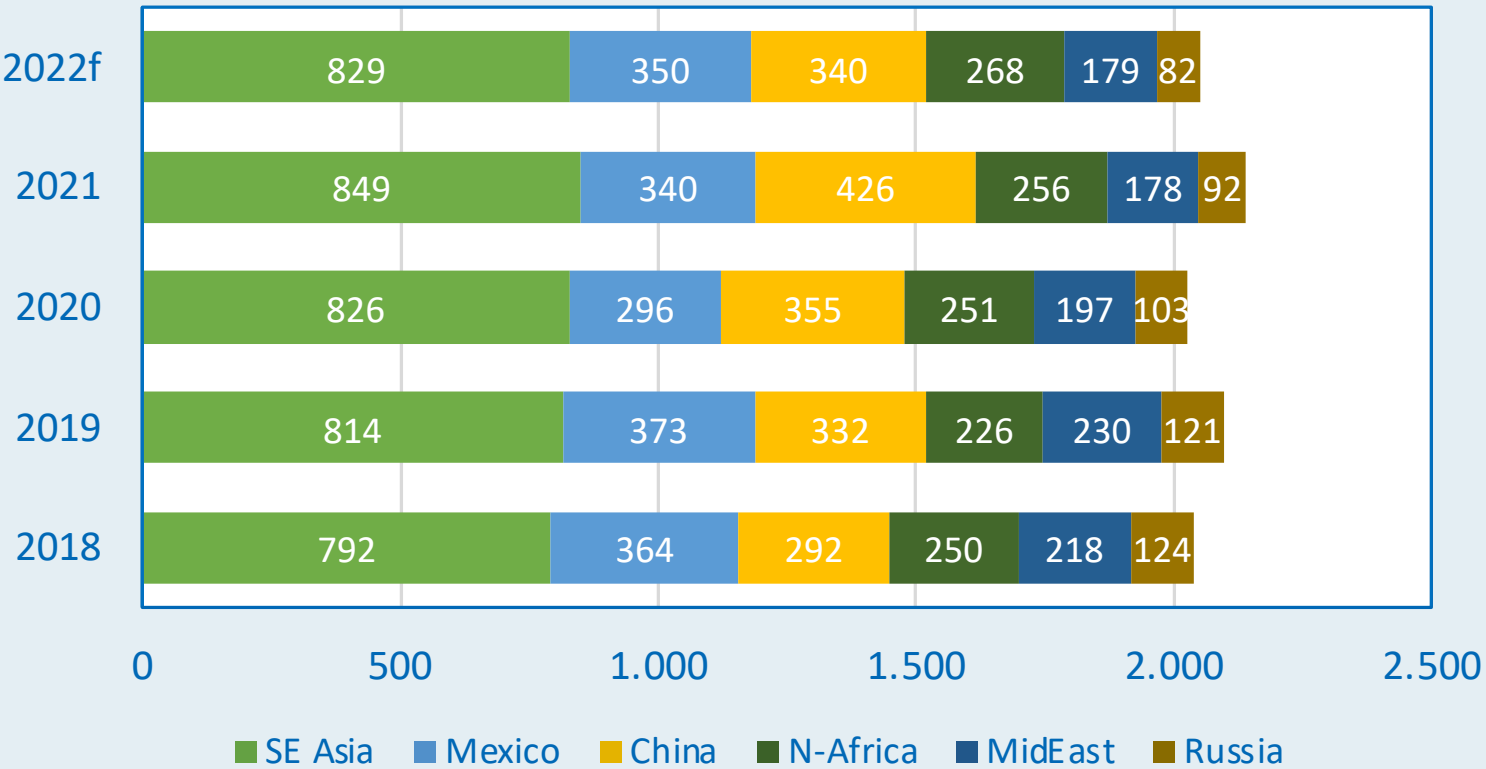
Cheese Imports, annual per region (Kt)



WMP Imports, annual per region (Kt)



SMP Imports, annual per region (Kt)



Onno van Vliet Senior Account Manager Hoogwegt Milk



A month ago, I saw on LinkedIn that I have been employed at Hoogwegt for 9 years already. That not only made me realize that I am becoming an old man, but also that I have an incredibly nice job. Time has really been flying by.

My career started in 2013 at the Logistics Department. I can still remember the first day very well. I found the dynamics, speed and group/family feeling within this

company overwhelming (in a good way). After four years, it was time for me to take the next step. Fortunately, I found this within the Hoogwegt family and joined the commercial team of Hoogwegt Milk.

This great step was soon followed by a succession of changes, topped off with the merger of Apollo in February. Never a dull moment!

Within this large and experienced team, in addition to a nice mix of suppliers and customers, I am in charge of managing our long-term position.

By being active not only on the physical - but also on the derivatives market, we are able to serve current and new clients even better. We can offer fixed prices for liquid dairy products for longer periods on both the purchase and sales side. Unlike many producers, we are willing to take over the basis risk between commodities and liquids, on top of that, we have added value in the market as a trader.

With our cooperation with A-ware in Aalter, we also come very close to being a producer. This addition, which means we can always deliver and absorb product at short notice, makes us, in my opinion, a very strong and well-rounded player.

World Comment.

Within Hoogwegt, we are also an interesting and important source of information for the various Business Units. After all, we are at the very basis of the chain. Whether it's cheese, butter or WPC's; Everything starts with Milk.

Within Europe, there are interesting developments in terms of available milk.

After almost a year of disappointing milk figures, driven by high payment prices, a lot of milk is currently being produced. Available feed is being used or bought where necessary and fewer cows are going to slaughter. This is resulting in a quick recovery and a clearly better supply than last year and certainly than expected.

This extra milk will have to find its way into the market and will most likely result in higher commodity production. This is already resulting in lower prices and we expect this pressure to continue until the end of Q1 2023.

During the coming months, payout prices will undergo a significant correction. This, together with continuously high production costs, the poor image of farmers and the uncertain future due to environmental and sustainability laws and regulations, will ensure that we will see red production figures again on the mid/long term.

For the aforementioned reasons, in the years to come, we expect less milk in Europe.

I look forward to the challenges that come with that and am sure that with this team and the huge ambition we share, we will continue to find and develop ways to add value.

Hoogwegt Happenings.

Part of the Dutch based team.

This December, Havero Hoogwegt celebrates its 100th Anniversary!



Havero – a name derived from “Handelsvereniging Overzee” which means Overseas Trade Association, was registered as an independent Dutch company in the global trading port of Rotterdam on 27 December, 1922.

During the first 25 years of Havero’s existence, the company concentrated on chemicals (dyes), coal and animal products.

In 1954 the young Rotterdammer Jacobus (Koos) Rotmans started working at Havero and convinced the Management (which was headed up by company veteran Josef Peeraer until 1956) to pivot away from pure trading activities and more towards their own production. Several factories were built for textile production, jute, and tanning agents. A subsidiary company Provedon was established to produce caseinates.

By the 1970s, the processing and trade in milk proteins (caseins and caseinates) was booming. Rotmans, Director by that time, saw the future of Havero in these products and put all his energy into the caseins and caseinates business.

At Havero’s Provedon facility in Dongen, the blending equipment was put to good use by being allocated to toll production of cocoa preparations for export to South Korea. When volumes grew in the years after, partnerships were set-up with other blending companies.

In October 1991, Havero was acquired by Hoogwegt Group. Whey proteins was added to the portfolio and new company management added product development and quality systems to meet customer requirements.

Read more about Havero’s History in our 4 part Jubilee newsletter series:

Congratulations on this Jubilee Anniversary!



Hoogwegt Dairy Spew Episode 12

Q&A Session with Chris Ward & Jurgen Elfrink

We had the privilege of having both Chris Ward (DE APAC) and Jurgen Elfrink (Hoogwegt Global Analyst) on this Episode of the Hoogwegt Dairy Spew. Join us as they answer questions from our listeners:

- Is China the antidote for low prices?
- What is the impact on Oceania Skimmed when China returns?
- What is the European Stock going into Q1 2023?
- What's going on with Production?
- What's the impact on Farm Gate Milk Prices due to rising costs of production?
- European Gas prices going into Winter
- What is Valorizing at the moment?
- How much are Geo-political Factors priced into Dairy Prices?

Want to find out more? Listen in! Also, Hoogwegt Dairy Spew moves from East to West! Tune in to our next Episode 13 which would be recorded out of Chicago, hosted by Luisa Resendiz!

Comments / suggestions / collaborations are welcome!
Do let us know if you would like to be a guest speaker on our upcoming Episodes!

--- Hoogwegt Dairy Essentials Asia Pacific Team

Note: Podcast was recorded on 28/Oct/2022

→ You can listen to us via our [Podcast Website](#), [Spotify](#) or [Apple Podcasts](#).



Episode Guide:

- 0:20** Introduction
- 2:40** Is China the antidote for low prices?
- 6:23** What is the impact on Oceania Skimmed when China returns?
- 8:44** What is the European Stock going into Q1 2023?
- 10:06** What's going on with Production?
- 12:30** What's the impact on Farm Gate Milk Prices due to rising costs of production?
- 15:20** European Gas prices going into Winter
- 18:19** Fun Facts about Jurgen & Chris
- 21:38** What is Valorizing at the moment?
- 27:45** How much are Geo-political Factors priced into Dairy Prices?
- 31:56** Coming Up Next! Hoogwegt Dairy Spew US!