



HORIZONS

Insights on Today's Global Dairy Business from the Hoogwegt Companies

Market Matters

Global Output Strong Despite COVID-19⁺

Global milk production volumes in 2020 were more than enough to fulfill demand as foodservice outlets closed and people worldwide turned almost entirely to retail food sources due to recurrent local and countrywide lockdowns. Now that COVID-19 vaccines are beginning to be distributed throughout parts of the world, foodservice demand could begin to recover in earnest in mid-2021. In the meantime, though, unstable demand will collide with rising stockpiles of dairy products to weaken the milk-producing sector unless governments maintain subsidies.

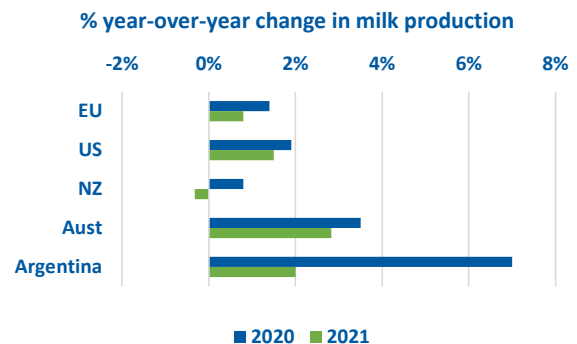
According to Italy's CLAL, EU 2020 milk production through September—driven by a slowdown in culling and higher yields—increased 1.7% above the first nine months of 2019 before trailing off seasonally. For the year, the European Commission (EC) expects milk volumes to best last year by 1.4%. Following an initial drop in prices last spring due to COVID-19, milk and dairy product prices have since remained stable or increased, aided in part by the reopening of the Private Storage Aid (PSA) program. The EC projects year-over-year production growth next year to only near 0.8% because the high growth rates of 2020 will be hard to maintain as the world economy, weakened by the pandemic, struggles to recover.

Aid Drives U.S. Milk Output

In the United States, milk prices that surpassed \$20/cwt. for some producers through much of 2020 have driven milk output higher. For the year, total U.S. output will likely best 2019 levels by 1.9%. So far this year, the United States has spent more than \$5 billion to subsidize the dairy industry, providing \$4 billion in direct payments to farms and the remainder to purchase food, including milk and cheese, to help the unemployed. U.S. output in the first half of 2021 will depend on how quickly companies and governments can distribute vaccines and how robust demand recovery is at foodservice. For now, USDA is predicting a 1.5% year-over-year increase in 2021 output.

In New Zealand, where the virus has not wreaked as much havoc as it has in Europe and the United States, weather will once again be the major factor affecting the outlook for milk production. New Zealand output passed the 2020-21 seasonal peak slightly

above prior-year levels, but growth slowed after a strong start to spring. Looking ahead, a La Niña event could bring warmer weather to both islands, but heavy rainfall events are anticipated in the north while the south should remain drier. Farm margins are likely to be a little weaker than last year, with milk prices projected to finish near \$7 (NZ) on a per kilogram of milk solids basis. USDA forecasts New Zealand milk production in 2021 to drop 0.3% below 2019 levels.



Source: European Commission, USDA, Dairy Australia

In Australia's southern production regions, good pastures in early spring produced growth in milk collections, but gains stalled during peak production months. Despite lower feed prices and improved irrigation availability, year-over-year milk production is unlikely to grow in the first half of 2021 due to strong 2020 comparisons. East coast fresh milk regions remain distressed, which will pull more milk from manufacturing. Dairy Australia expects milk collections for the 2020-21 season to grow 1-3%.

Milk production in Argentina is expected to advance at a much slower rate in 2021, compared to this year, limited by weather and eroding farm margins as inflation continues unabated. The effects of COVID-19 on domestic dairy demand pushed more milk into driers in Argentina this year, while weaker milk collections in southern Brazil could extend the country's recent surge in whole milk powder imports. USDA projects Argentina's milk output will grow 2% in 2021.

Hoogwegt Forecast

	U.S. Average Prices			EU Average Prices			Oceania Average Prices		
	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend
SMP	2.535	1,15	Firm	2.750	1,25	Firm	2.925	1,33	Firm
FCMP/WMP	3.525	1,60	Stable	3.450	1,56	Stable	3.180	1,44	Firm
Butter	3.750	1,70	Stable	4.275	1,94	Firm	4.200	1,91	Firm
Cheddar	3.860	1,75	Weak	3.920	1,78	Stable	3.885	1,76	Weak
SWP	950	0,43	Firm	1.100	0,50	Stable			
Lactose	925	0,42	Weak	1.000	0,45	Stable			

U.S. prices stated ex-works/including expected CWT subsidy where applicable; world prices stated FOB main port; EUR/USD: this week \$1,225

World Comment

EU milk exports has been less dominant in 2020 in comparison with the previous years. Total production growth was also less than initially expected, and ended up in a minor and a bit disappointing growth. Global exports were relying much more on the US and the Americas. US production growth was above 3% in November, which was the highest growth figure in many years. In Oceania we've seen a very strong season so far. But due to the exceptional strong season last year, we'll hardly see any YoY growth. However, we can still conclude that Oceania managed to have a second strong season in a row.

On the demand side we've seen a very strong year from China. In October total imports already grew by 20% for powders, and 60% for butter. Mexico has shown the weakest figures of the top 10 importers, and it's still unknown how they will end the year. We do have signals of stronger imports towards the end of 2020. If Mexico does manage to improve imports, we might see higher import figures of the top 10 importers than last year.

Bring it Home

Demand to Hinge on Economic Recovery

The outlook for the 2021 global economy remains hopeful as governments roll out Covid-19 vaccines. For this year, the Organization for Economic Development and Cooperation (OECD) predicts the global economy will decline by 4.2%, an upward revision from September's forecast for a 4.5% drop. OECD thinks the world economy could recover to pre-pandemic levels by the end of next year, assuming countries maintain fiscal stimulus, including support for the world's most vulnerable populations.

OECD expects China to be the only major country to show economic growth this year. Next year, China could account for one-third of the world's economic growth, and a GlobalData survey shows dairy demand remains strong in China, with 51% of consumers increasing fluid milk intake due to its health benefits.

As economies recover and COVID-19 infections subside, citizens worldwide could gain enough confidence to attend large events, dine-in at restaurants, and travel more and for farther distances. As this recovery takes place, dairy demand will increasingly shift

into foodservice, and supply chains should return to their pre-COVID balance soon thereafter.

However, vaccine deployment could take years in many of the world's developing countries, where economic recovery could also be delayed. Struggling economies in these regions as well as exchange rates will have a major bearing on global dairy trade in 2021. According to Bloomberg, the median consensus forecast calls for the euro to strengthen against the U.S. dollar next year, giving more of an edge to U.S. exporters in world markets.

Developed economies, where stocks of dairy products are large, have an opportunity to provide much needed aid and nutrition to less fortunate countries as they struggle to emerge from the worst pandemic in a century.

Did You Know?

Strong growth in Argentina milk output and a drop in domestic dairy demand due to COVID-19 restrictions drove a 16% year-over-year increase in whole milk powder output in the first nine months of 2020.

The two most recent La Niña events to impact New Zealand milk production occurred in 2016-17 and 2017-18, and each caused a sharp year-over-year drop in summer milk collections.

In July as producer margins improved, U.S. dairy cow numbers outside of the Southwest posted their first year-over-year gain since late 2017.

Hoogwegt Group

P.O. Box 30242
6803 AE Arnhem
Groningensingel 1
6835 EA Arnhem

The Netherlands
T: +31 (0)26 38 84 802
E: mail@hoogwegtgroup.com
I: www.hoogwegt.com

Hoogwegt Horizons is a publication of
Hoogwegt Group. Information is gathered
from reliable sources but it cannot warrant the
accuracy of any of the data in the report. © 2020
Reproduction with permission only

DAIRY INGREDIENTS 
DAIRY PROTEINS 
CHEESE 
LIQUID DAIRY 