



Horizons.

Our insights
on Today's Global
Dairy Business

June 2022

#01

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Market Direction:

**Milk production
still fails to
surpass last
year's levels.**

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Market Direction

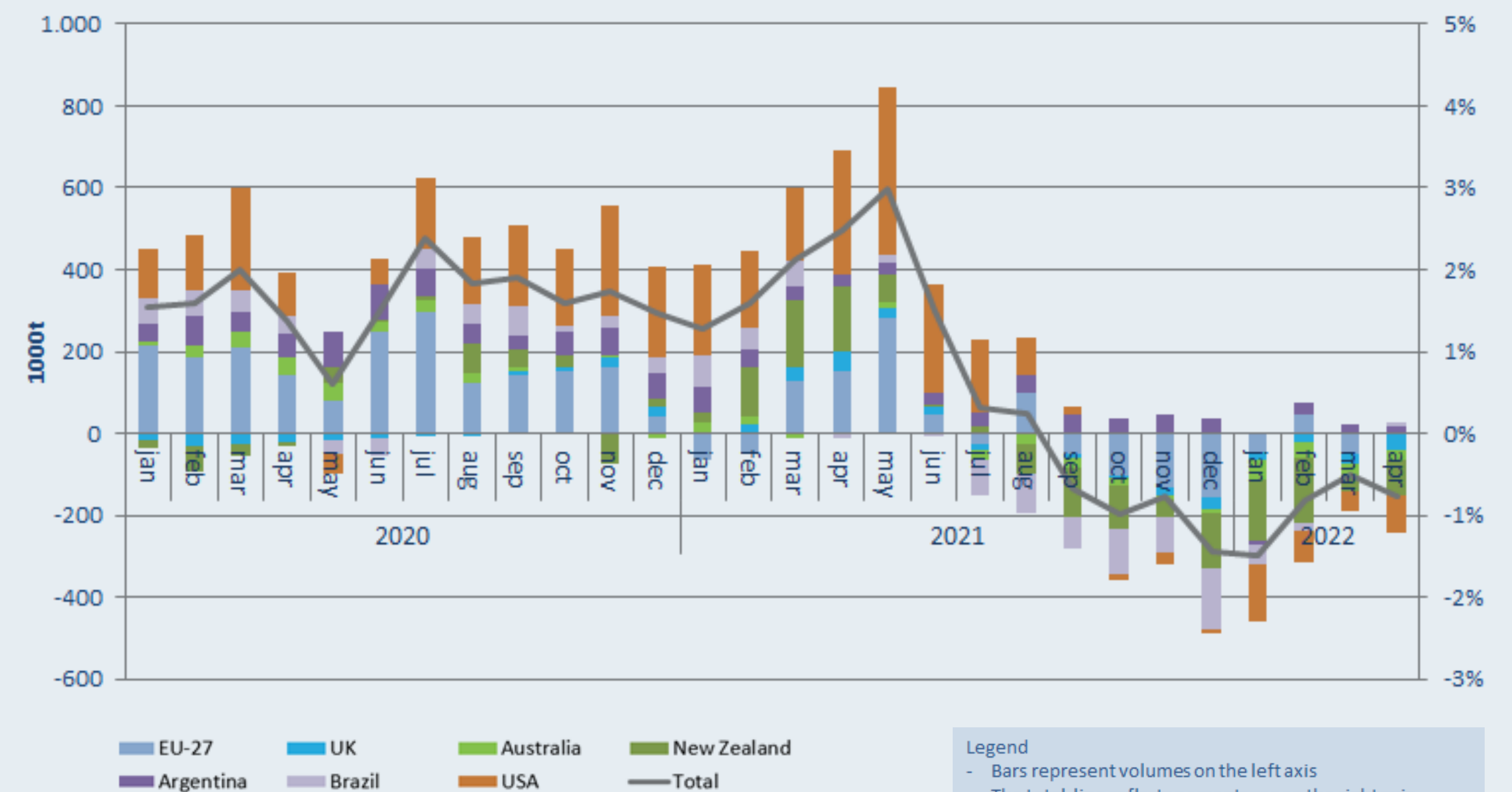
Milk production still fails to surpass last year's levels.

Processor milk prices went up with big steps in May in all major production regions now that retail contracts are also starting to reflect the global milk shortage. Without a change to the situation on the input side however, farmers have apparently very little incentive to push for more milk. April and May are critical months in the Northern hemisphere but we will not see any growth in both of these months.

Weekly numbers indicate ongoing declines of 2-3% in key production regions of Europe like the Netherlands, Germany, France and the UK. Solid growth in Ireland and Poland will not add enough weight on the positive side to shift the EU supply balance. Eventually – probably in Q3 – we will see milk supply growth turn positive again, but only for statistical reasons because we will be comparing with a much weaker performance in the H2 of 2021.

[more →](#)

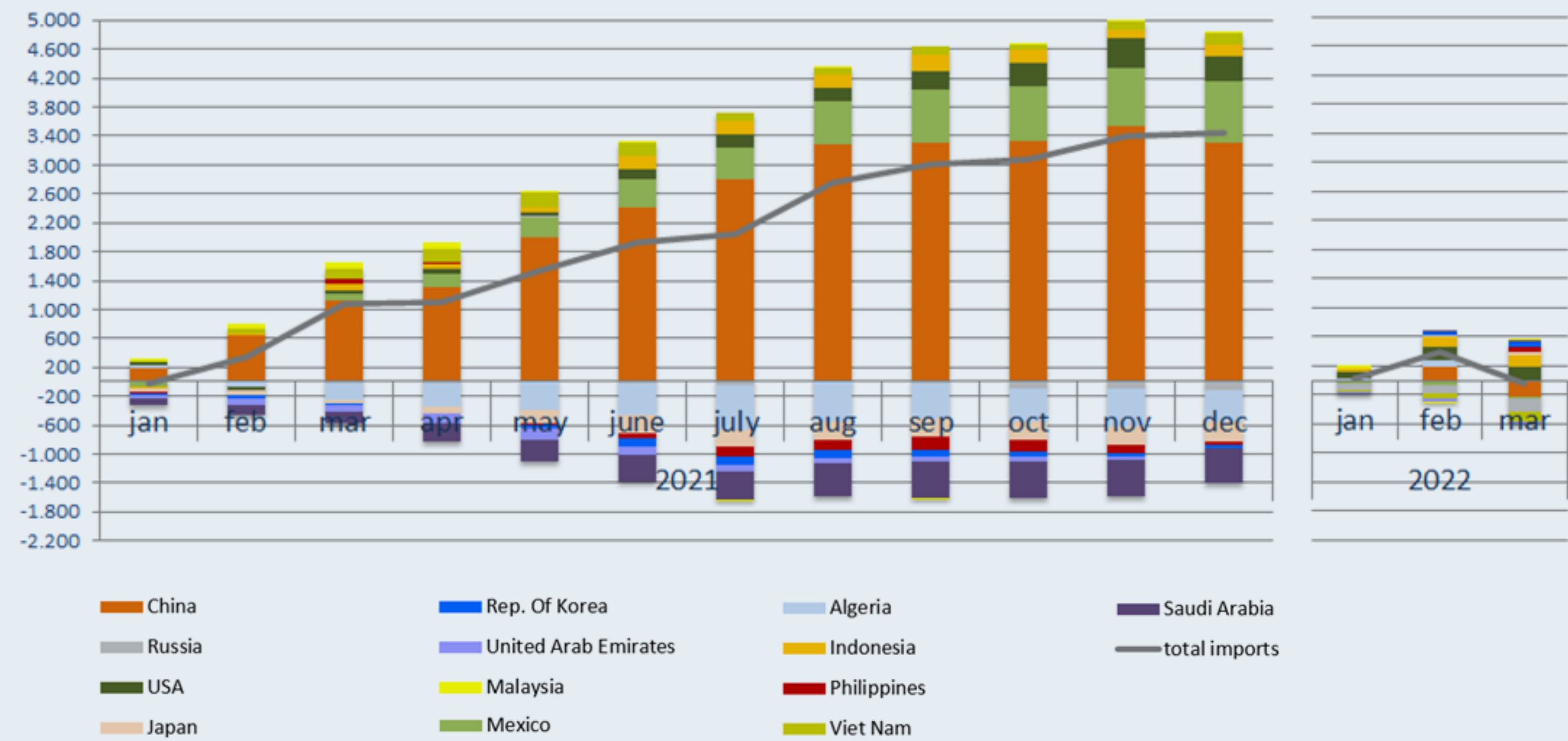
Milk supply growth in key exporting regions (Y-o-Y change, 1000t)



Legend
 - Bars represent volumes on the left axis
 - The total-line reflects percentages on the right axis
 NB: February 2020 numbers have been leap day corrected

Source: local production statistics reworked by Hoogwegt

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: Dairyntel trade data, reworked by Hoogwegt

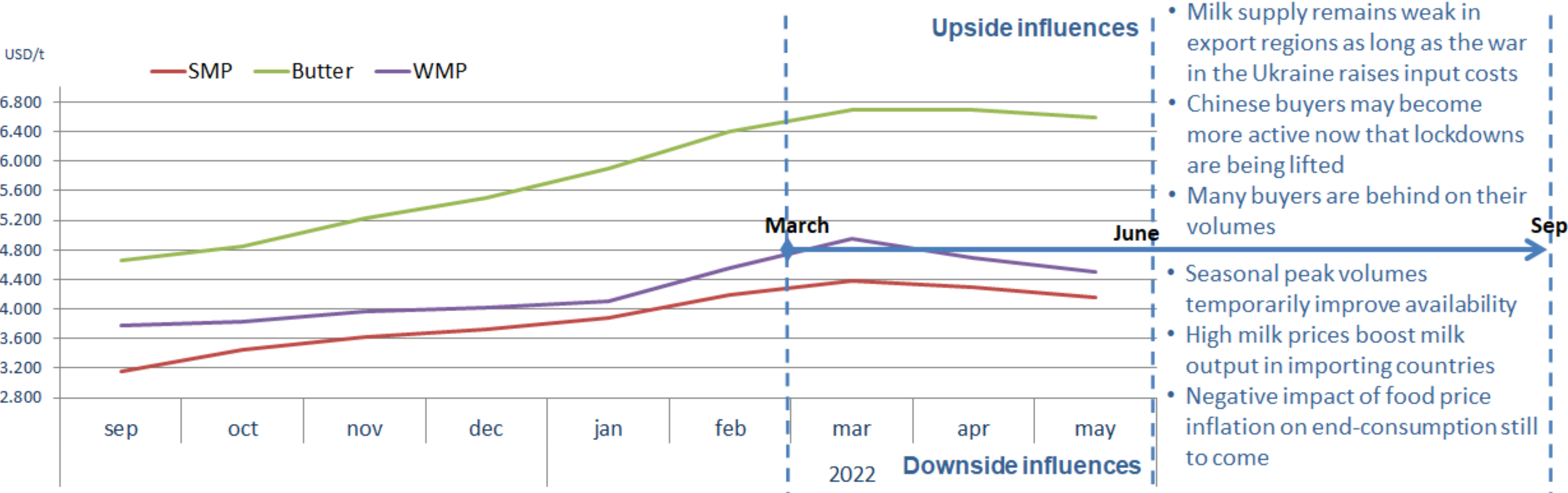
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Q1 2022 imports by the top-13 importers produced a flatline. China's lockdown affected March imports were weak, causing the full quarter imports to drop below last year's level. Russia's Q1 imports were obviously below last year's number as well. This conclusion is based on our estimate that is calculated from exports into Russia, as the country no longer distributes trade data since the start of the war. Overall strong imports by Southeast Asia and the US prevented a fall below last year's Q1 performance. Indonesia and the Philippines performed particularly strong in Q1. In Q2 it will be interesting to monitor Chinese imports and imports by the Middle East. Firstly, because it will inform the market about the balance between strong local milk production and equally strong consumption in the Chinese market. Secondly because the Middle East will provide a first indication of the impact of food price inflation on end consumption in price sensitive markets.

Looking forward

The short term price outlook is very unpredictable and mainly driven by weather circumstances during the summer months in Europe and the US. The downward price pressure seems to be losing momentum towards the end of May, as the chances of strengthening milk production resulting in a confident positive growth rate before the end of the year seems to be small. Therefore the attention shifts to the demand side of the market balance and the impact that the elevated dairy commodity prices will have on end consumption. After all, a zero-% growth performance for milk production in combination with consumption going backwards could still result in downward price momentum. The real test for dairy consumption probably comes after the summer holidays in the Northern hemisphere when people return with depleted cash buffers and experience food retail purchases at 20-25% higher prices than what they're used to. ■

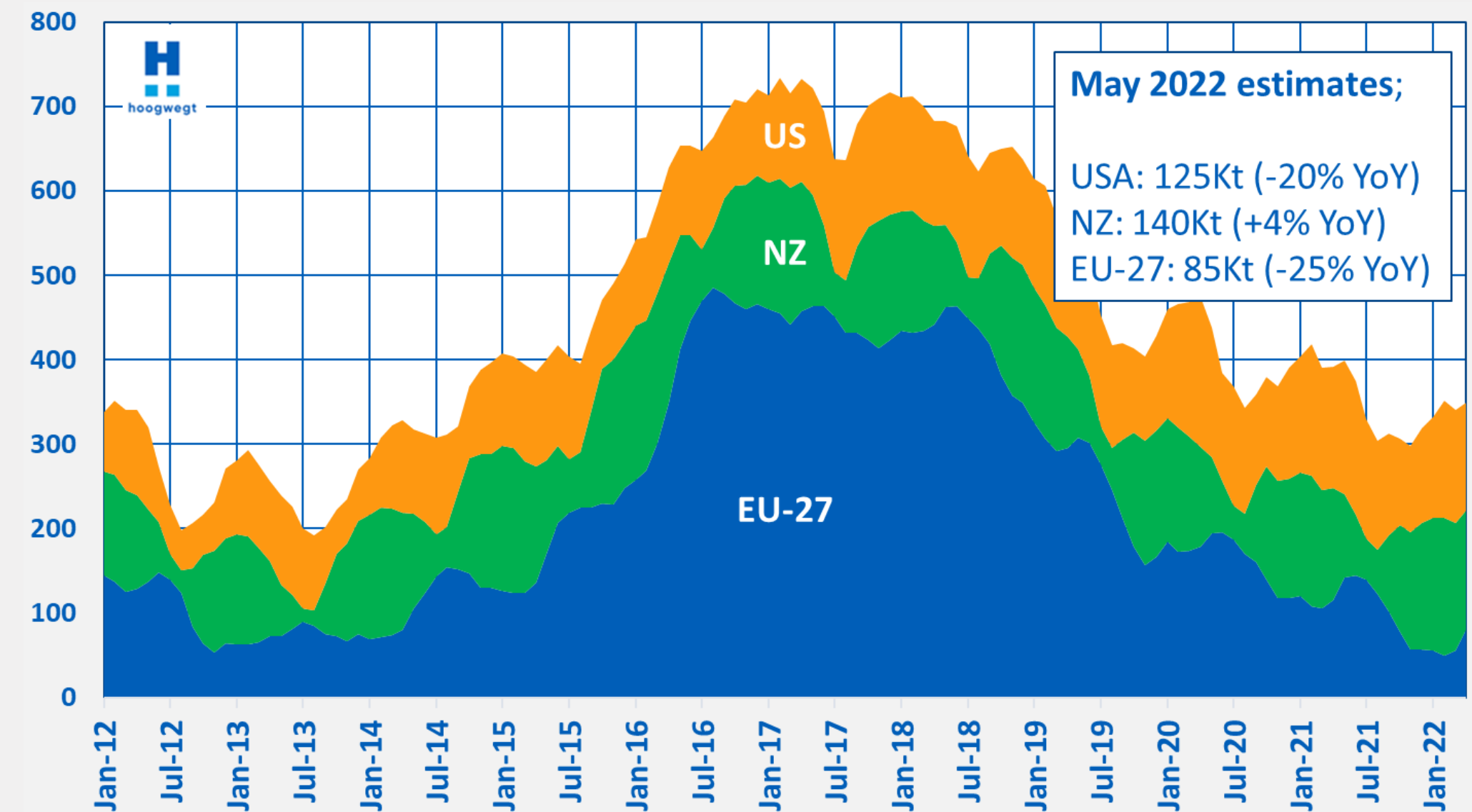
Market Outlook for June – August 2022





Top-3 stock levels SMP/NFDM:

Very low, Northern Hemisphere sees some seasonal growth in Q2.



Dairy Deep Dive Focus on SMP.

SMP/NFDM Supply

Last year we saw prices increase, especially in the second half when we saw SMP frontrunning. It's not just because of the stagnating European milk production which gives us part of the explanation, but the other part is the lack of SMP. We're a few years past the European Intervention years on SMP and stocks have decreased for a few years now, meaning demand outweighs supply. In particular for main supplier Europe.

But a closer look shows one that the SMP production (and WMP to a similar extent) has been low last year, and this first half of the year will probably show a similar decrease due to the increased costs. Drying takes a pretty big amount of natural gas and since the second half of last year Europe has been low on its gas stock and the current Black Sea conflict and deteriorating

EU-RUS relationships won't bring the price down. Euro-milk has been flowing to cheese, increasing the cheese production even on less milk. Eurostat data shows that the first two months of this year the SMP production was still low, losing 15Kt compared to the first two months last year and more recent ZMB reports on the German production ingraining that take. With current okay-ish domestic consumption and bad exports, stocks dropped to a record low of close to 50Kt in February this year. That was all before the flush, but with a decreasing milk production, you would only have a few months to build stock and unless there is a really significant decrease of exports, bigger than we have seen thus far, the third and fourth quarter will be rinse and repeat of last year on even less stocks. Especially if China returns to the market.

[more →](#)

→ continuation

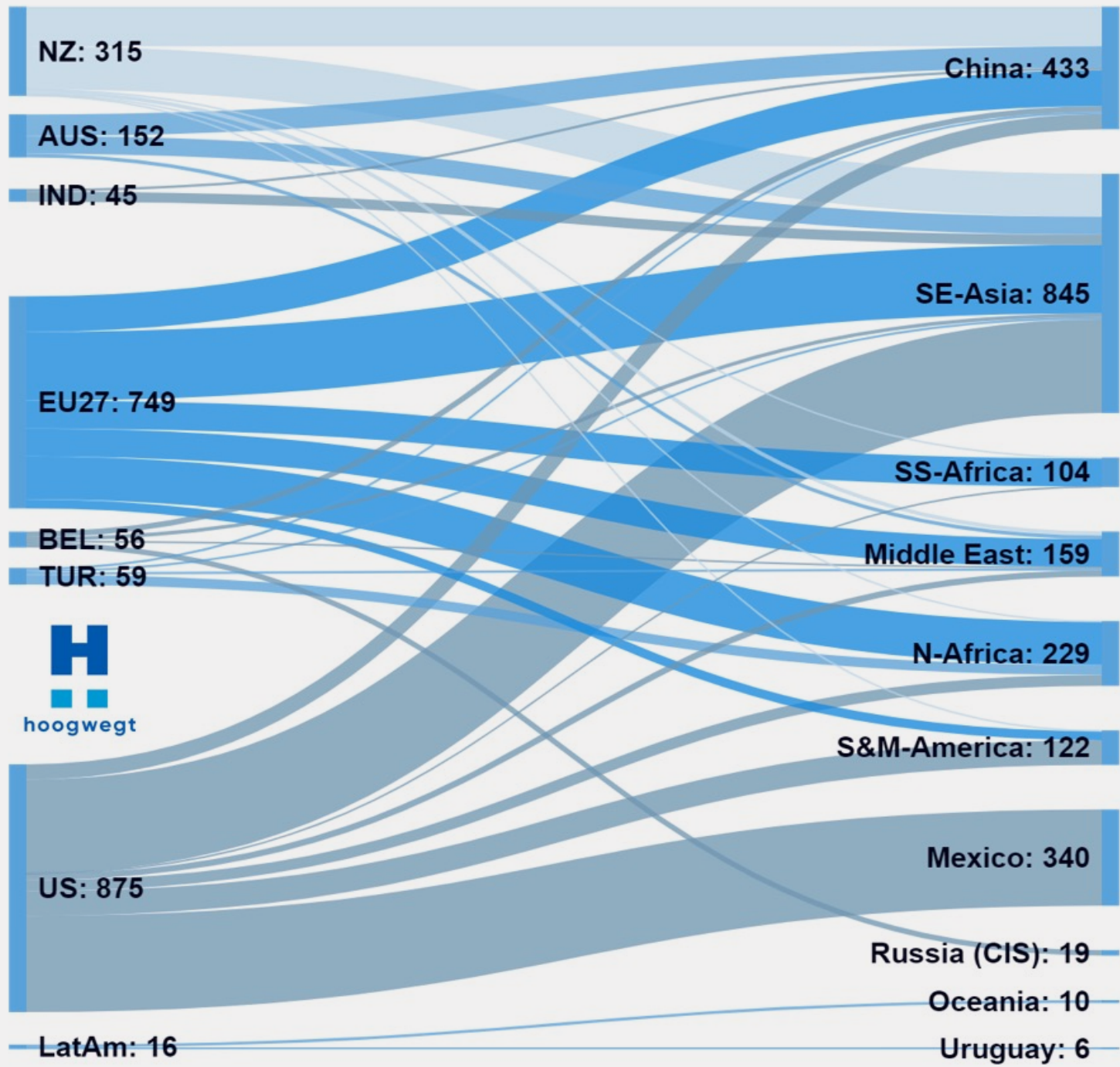
SMP/NFDM Demand

On these high prices and lacking export availability, everybody is looking in their attic for dried milk. India and Turkey were able to increase their share in the market. While India only is around when prices are high enough, the question is: will Turkey limit their exports to keep inflation in their own country down?

In the first quarter of the year demand from China has been down significantly, comparing on their stock building last year and their Omicron enticed lockdowns. South-East Asia and the Middle East and North Africa bought hand to mouth, and the same could be said about Mexico. So they can't look at a big stock supply to eat from.

Both EU and US domestic consumption are seeming stable, even though retail expects to see some further price increasements and demand may drop a bit, but don't forget dairy alternatives also increased in price and dairy is not the most expensive way to get your proteins. The EU-27 Domestic Consumption trended slightly up from 2012-2020, but trended down since 2020 due to lockdowns. Since Europe reopened the domestic consumption seems to have stabilized. Domestic consumption of US Non-Fat has been trending down for years. In 10 years it decreased from 500+ kt to less than 300kt per year. Last year bottomed at 137kt in H1 and 158kt in H2.

SMP/NFDM Trade flows 2021 (Kt)

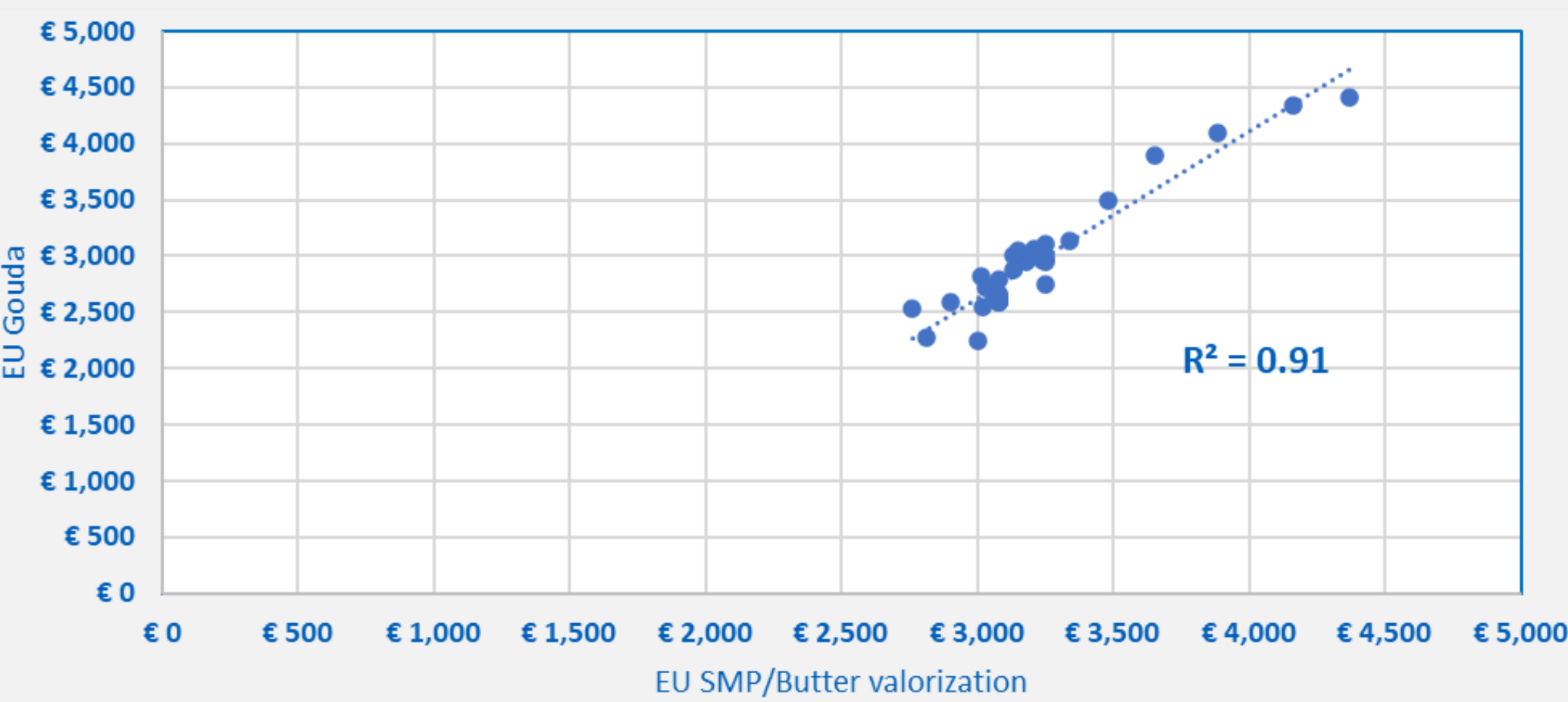


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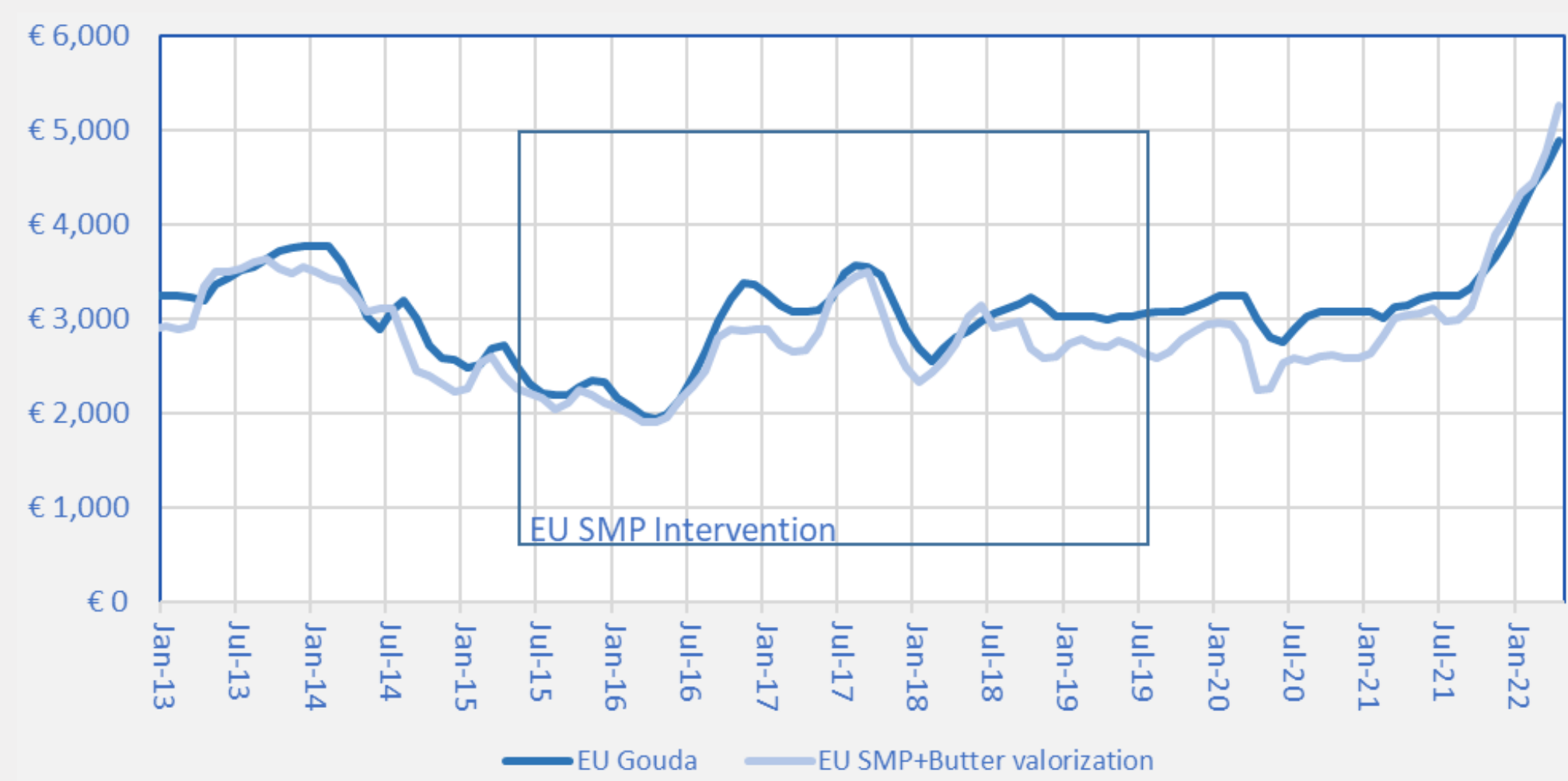
Cheese

We saw that the percentage of milk going towards cheese was better, at the cost of the powder production. While milk production has been red in the past months. Overall cheese production slightly increased on previous year. That didn't bring us extra stocks of cheese. In Europe, consumption in the past 12 months grew 100Kt compared to the 12 months before. The latest known data is Feb/Mar. In the US, with the reopening of food services and pretty much everything else, the cheese consumption increased as well. Leading to 5Kt less cheese on stock in march compared to march 2021. The decrease is bigger in Europe though. European stock levels are close to 20% lower than the same time last year, and lower than all three previous years. But what you would want to watch is if they're going to crawl closer. Do note though, that the correlation between SMP + Butter valorization and for example Gouda cheese is pretty strong. So from a quantified perspective one can't ignore the looming Q3+Q4 shortages there when making assumptions on cheese. ■

EU Gouda price vs. SMP+Butter valorization, post EU intervention



EU Gouda vs. EU Butter+SMP



World comment.

Tom Stevens, Managing Director Dairy Essentials Asia Pacific



Malcolm Gladwell was wrong.

His “10,000-Hour-Rule” in his 2008 bestseller – ‘Outliers’ is incorrect. It *isn’t* about the hardwork of slogging through 10,000 hours of intense practice which brings about true expertise, bringing about success.

Nope. It’s *WHO* you meet in life. The people who you surround yourself with – that shape you, that make you, that empowers you.

For me, this is the beauty of working for the World’s Largest Dairy trading company. The people we meet, the people we learn from.

And *where* can we best learn from people? In their own natural habitats! From the markets of Kinshasa, to the dairy farms in The Netherlands, to the factories of Thailand.

For more than 2 years, our habitat became staying firmly rooted at home. Covid and lockdowns have been a fascinating period. Extremely confronting but at the same time, also very comforting and valuable. This allowed more time for family & friends, and a better understanding of what is meaningful.

No more traffic jams, no more long commutes and no longer dressed up, sitting at the office 5 days a week.

Flexibility, sustainability and creativity are key learning points from this pandemic. *However*, is being “grounded” truly our natural habitat? Is this how and where we can learn from each other? I do not think so.

With travel restrictions finally easing, memories to the pre-Covid era have been resurfacing lately.

Beautiful and inspiring evenings in Dakar, powerful lectures from business women in Ho Chi Minh and beyond-MBA-degree lessons from the streets in Freetown; they now suddenly and more frequently pop up in my head.

Now that borders are opening up and travelling is (re)becoming part of our (professional) lives again, the journey finally continues. And I’m extremely looking forward to re-visiting your natural habitats and to re-embark on my journey to learn more about you in your habitat.

Admittedly, our current playing field is not easy. Massive supply chain issues, a potential recession, impact of a heartbreaking war, the green revolution, volatile currencies, the ongoing debate on price elasticity in dairy and close to double digits global inflation. We are now dealing with probably the most challenging macro factors throughout my Hoogwegt career...

But let’s navigate together through this difficult period and exchange hellos, handshakes, views, opinions and ideas. Let’s mentor each other. Let’s learn from each other. Let’s prove Malcolm Gladwell wrong – it’s not that 10,000 hours. Success comes truly from interacting and learning from people, in their own natural habitats.

Hope to see you soon somewhere around the globe!

After a hiatus of 2 years, Hoogwegt International, along with sister companies Haverro Hoogwegt and Meelunie are finally participating in Food Ingredients Asia 2022!

Join us in Jakarta, Indonesia this 7th-9th September 2022
in Booth F40.

Feel free to contact our Dairy Essentials Asia Pacific, Meelunie Singapore and Haverro Hoogwegt Team for more information!

We look forward to meeting you in person soon!

Hoogwegt Happenings.



Hoogwegt Dairy Spew
Episode 10

Down The Rabbit Hole.

“Down, Down, Down. Would the fall never come to an end?”
- Alice in Wonderland by Lewis Carroll

Welcome to Episode 10 of The Hoogwegt Dairy Spew!
The situation has just gotten “Curiouser and Curiouser!”.
Join us for our little Tea Party as we explore the falling dairy prices,
fundamentals and the macroeconomic drivers at play.

Comments / suggestions / collaborations are welcome!
Hoogwegt Dairy Essentials Asia Pacific Team

Note: Podcast was recorded on 5/May/2022



Episode Guide:

- 0:34** Introduction
- 1:24** Fundamentals: Supply
- 7:29** Fundamentals: Demand
- 11:13** New Team Members!
- 12:18** Topsy-Turvy
- 14:24** Impact of China on Dairy Prices
- 21:59** Back to The Skies + FI Indonesia 2022
- 24:38** Macroeconomic Drivers
- 29:11** Summary
- 36:39** Closing

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