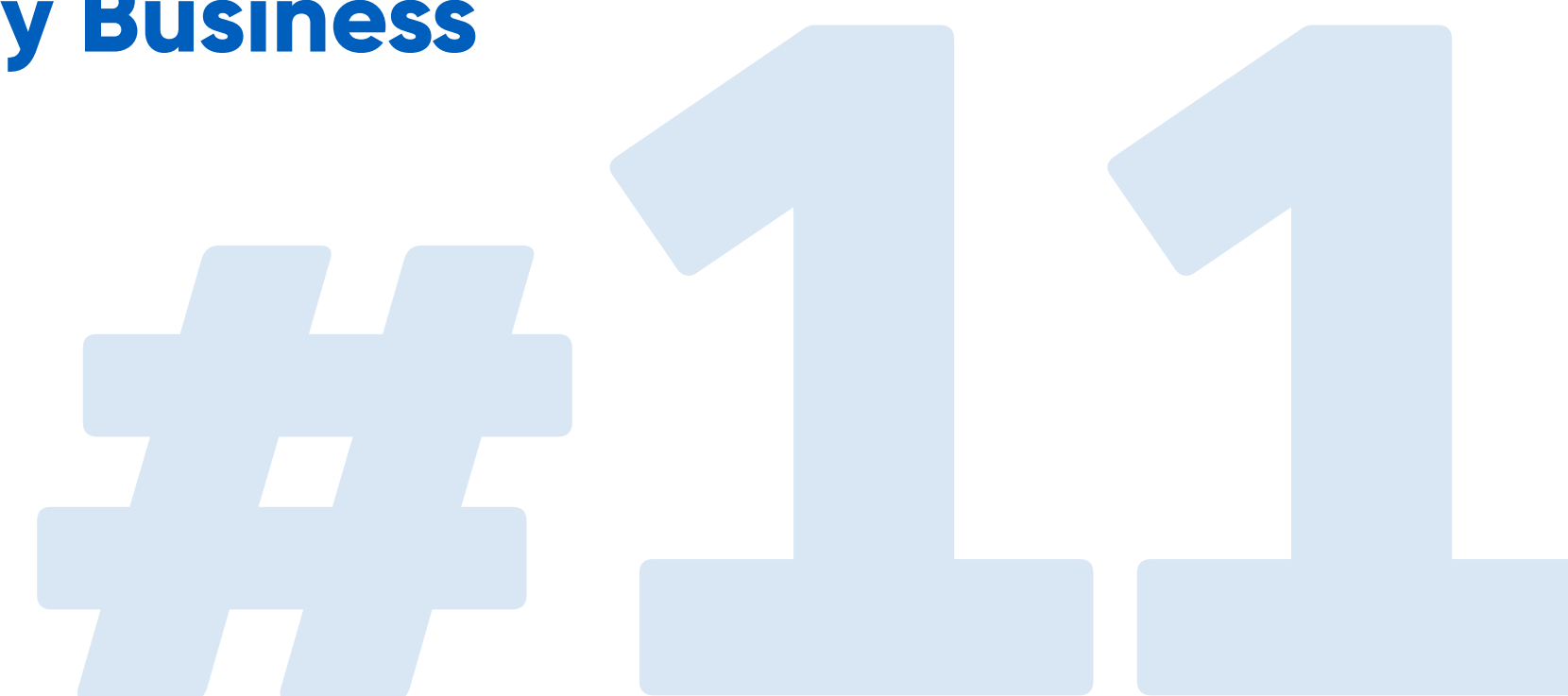




# Horizons.

Our insights  
on Today's Global  
Dairy Business

November 2023



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Market Direction

**More and  
more countries  
produce less  
milk than  
last year**

Read more →



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# Editorial Note.

As we sprint towards the end of 2023, our “Market Direction” section will look back at the impact of lower prices on supply this year. Even with the recent upward movement in prices, how soon will we see a return to growth?

Read our “Deep Dive” as we discuss in greater detail accelerating dairy prices.

Guest Contributor Joris Thys from HTM discusses the EEX futures market, and Peter Janssen van Doorn from Haverro Hoogwegt Dairy Ingredients reminisce on his exciting journey at Haverro.

We round up the recent Anuga 2023 tradeshow in our “Hoogwegt Happenings” section.

Also, listen in on our wide selection of Podcasts. Our latest Hoogwegt Dairy Spew episode is now [available](#) and our Hoogwegt Market Moov Vlog is now available on [spotify](#)!! Subscribe now!

Enjoy!

As always,

**Hoogwegt Horizons Editorial Team**

## Disclaimer

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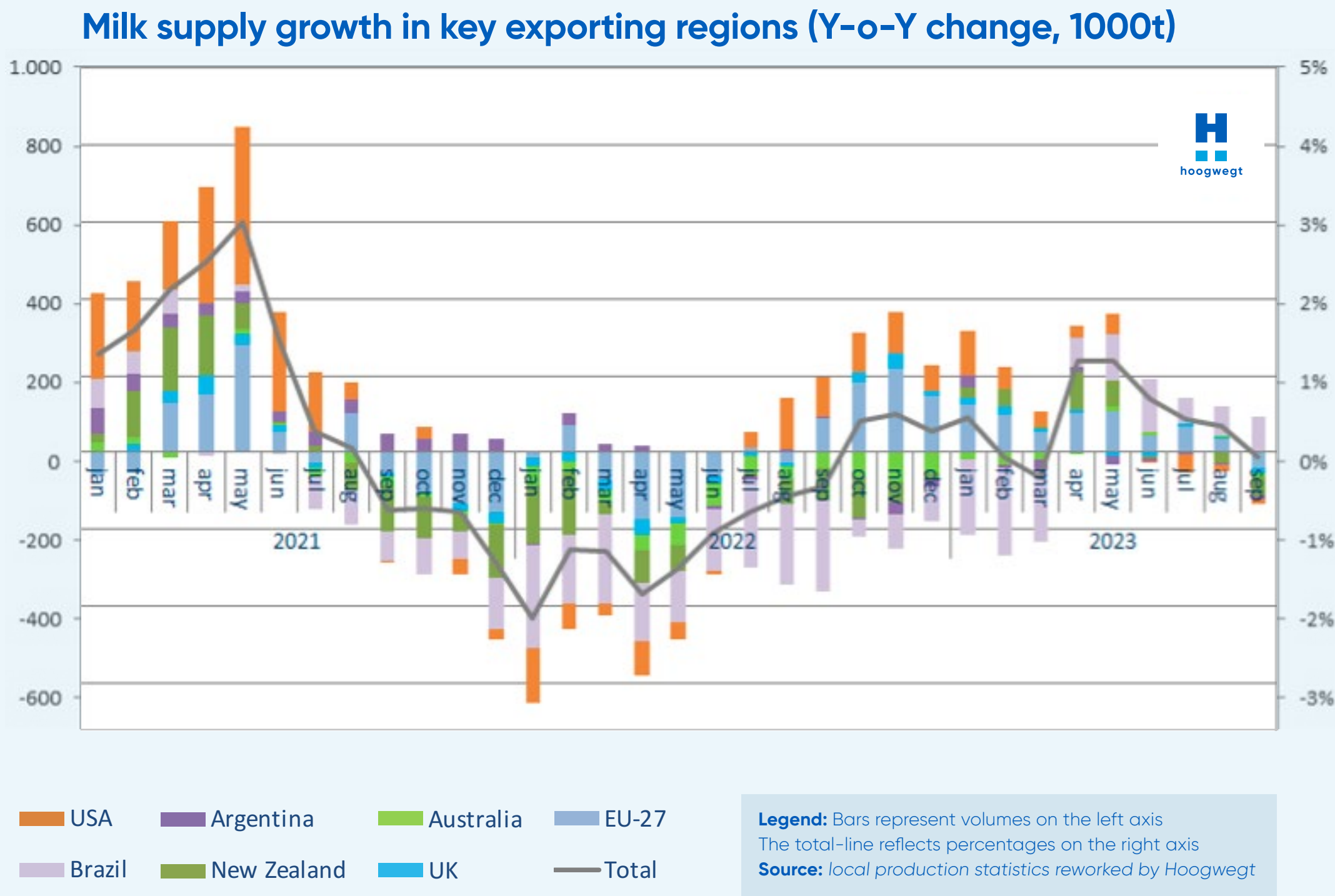
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Market Direction

# More and more countries produce less milk than last year

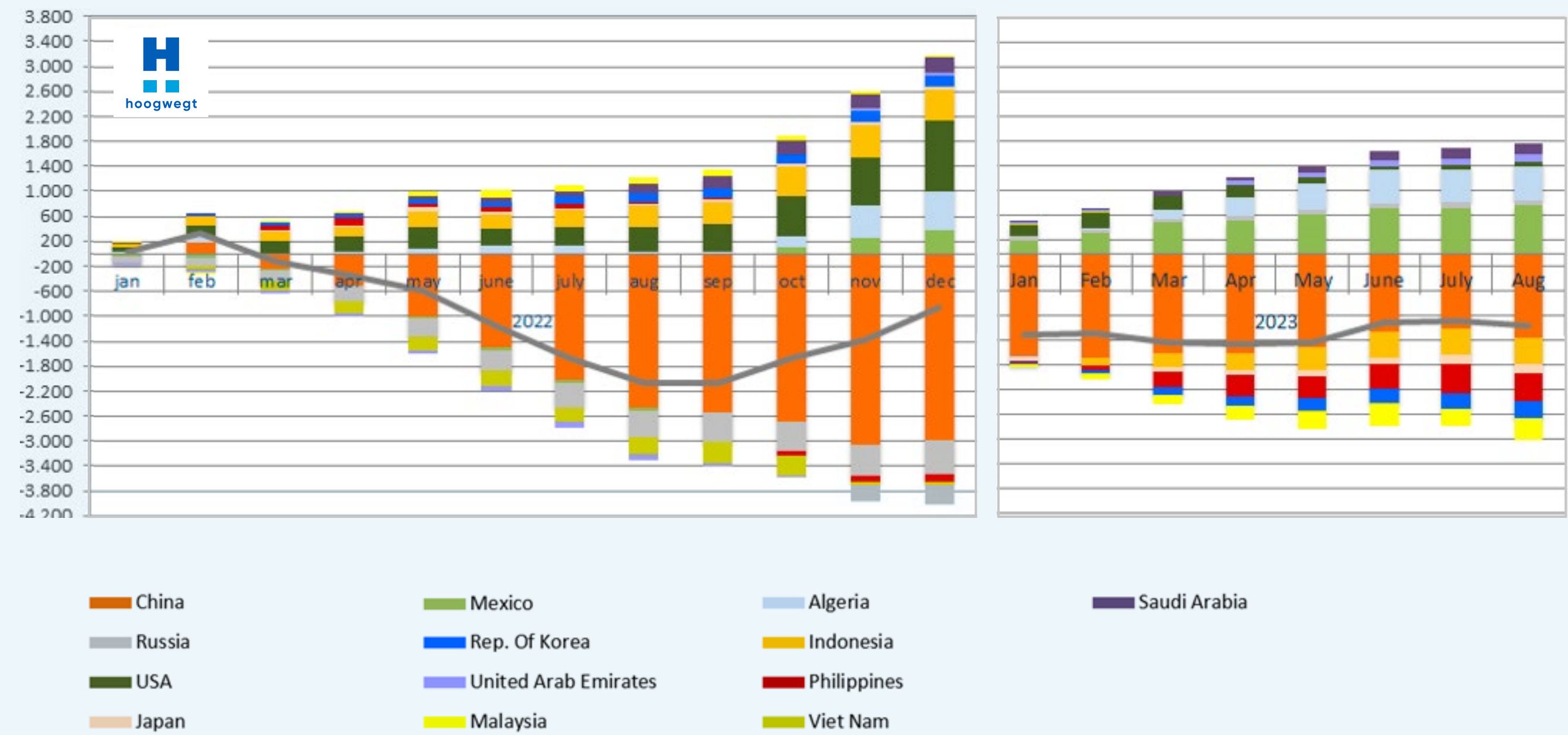
With most – but not all – September milk production data being final we may have already come to the point that the growth of milk production in the key export regions monitored for this report has turned negative. Just at the moment that returns from dairy commodity markets have started to improve again, more and more countries – the Netherlands and the UK being the most recent ones – fall behind last year’s comparable numbers.

As it usually takes quite a bit of time before milk prices will start to reflect the better returns that will be generated from October onwards, it is not likely that we will see a massive return to growth in early 2024. The US may be the first country where the positive signals are translated into growing milk output. The country has passed through the worst of the milk checks, and weather has gotten back to normal to mild. Since interest rates and labour are still on the expensive side, significant expansion and investment probably won’t be happening soon, but productivity alone should be able to turn the growth rate positive again. Most EU countries are normally much slower to react to changing market signals and Oceania output will remain largely weather dependent.





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 countries combined  
**Source:** Dairyintel trade data, reworked by Hoogwegt

→ continuation

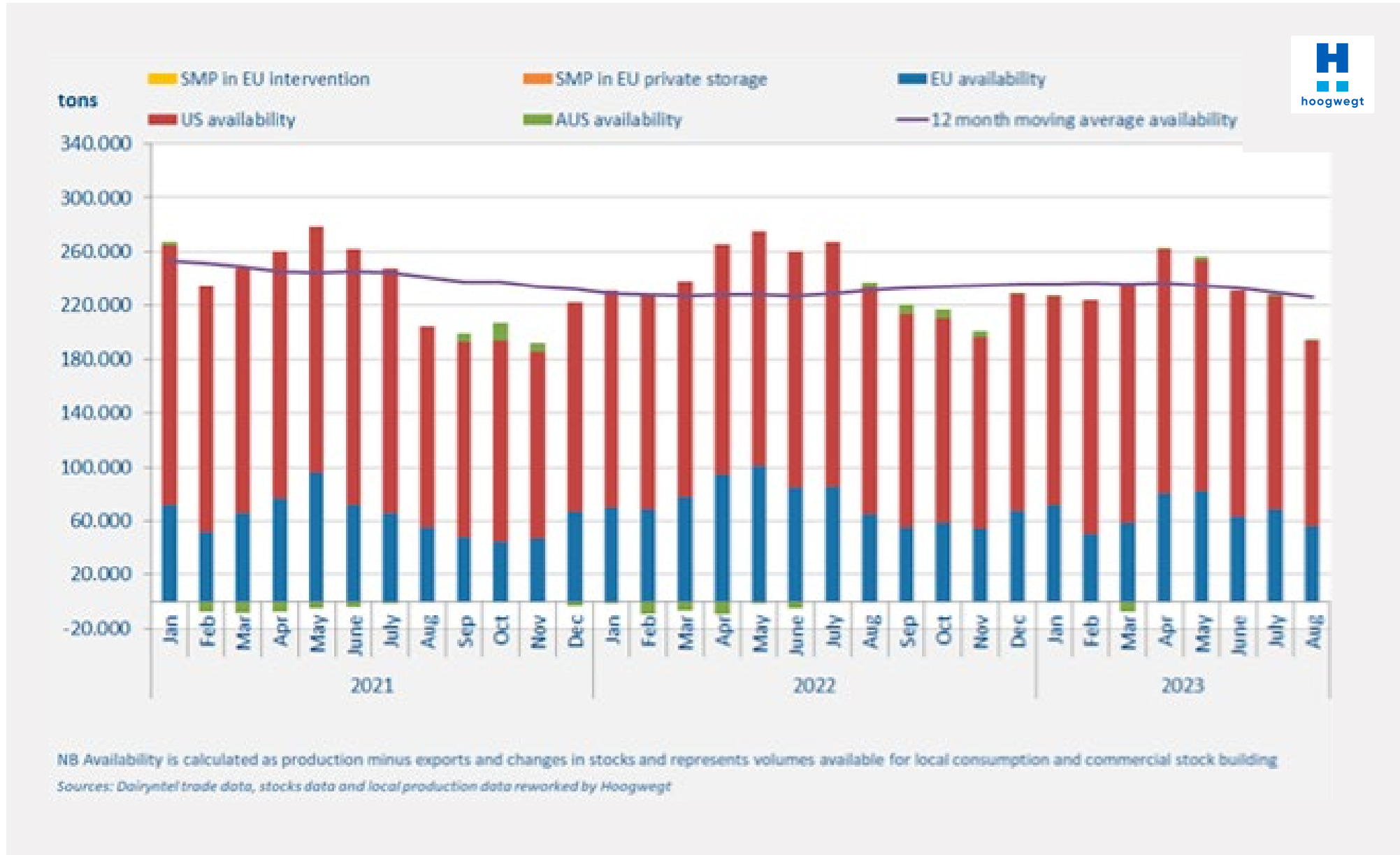
Trade data are always some 6-7 weeks delayed so the buy-side activity that recently developed will only get reflected in the Q4 data. If we look at the January – August imports by the top-13 importers combined then China and SEA imports remain overall significantly behind on 2022 numbers. The Middle East continues to do relatively well this year but that is not enough to compensate for the overall weakness in global import demand. China's September data indicate that SMP imports for the January to September period are some 9% above last year's levels and cheeses have done generally OK as well but the 38% decline in WMP imports in the same period makes it clear that China will not be able to match last year's total volume of dairy imports. Whether the other importers will be able to fill that massive gap in the remaining months of 2023 has now become unlikely. The chances of the grey line crossing the zero growth line before the end of the year are small. This means that 2023 will become the second year in a row that global import demand effectively went backwards.

## SMP/NFDM: Big drop in SMP/NFDM availability after July

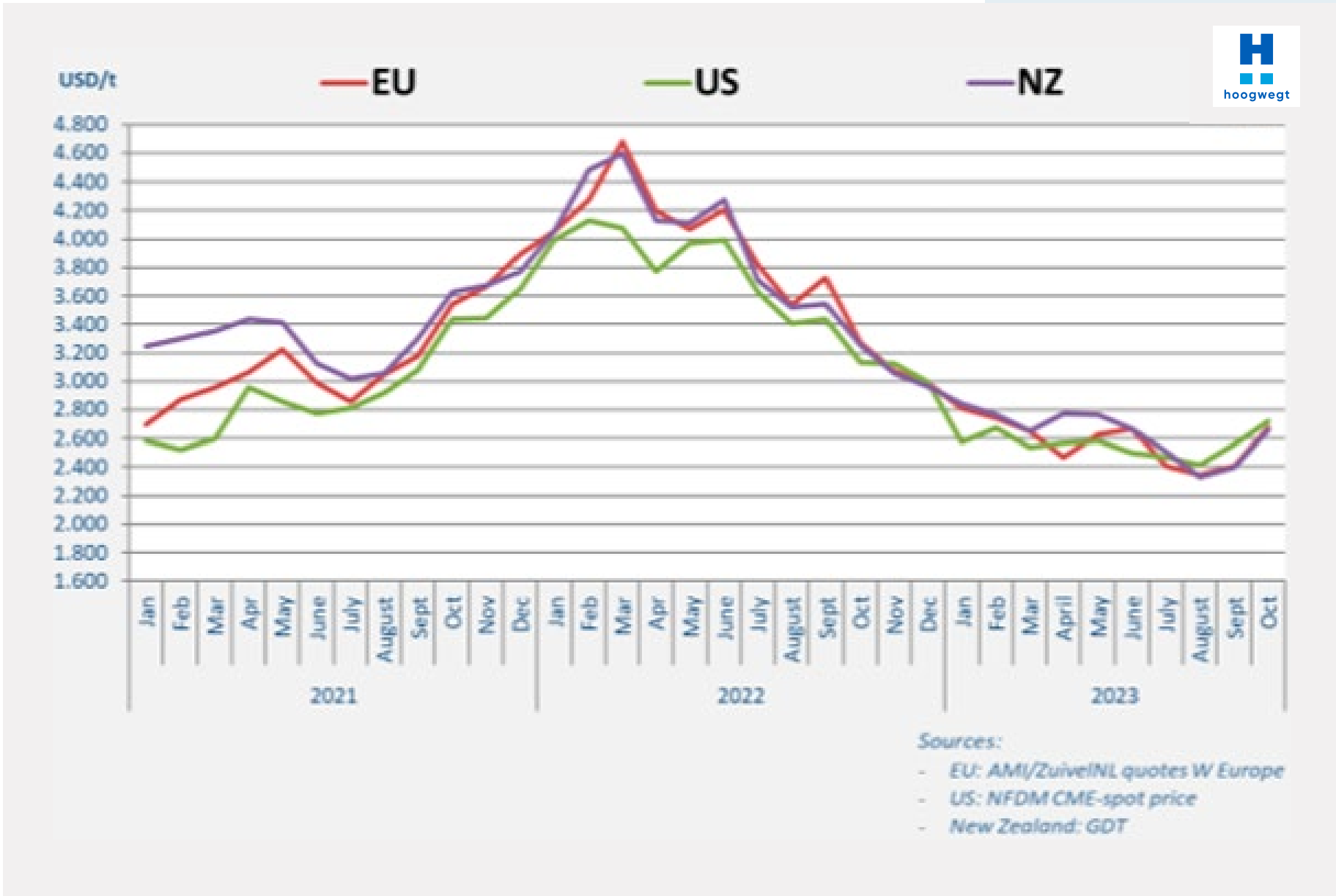
The EU, the US and Australia jointly produced some 55,000 tonnes of SMP and NFDM less this year between January and August. As milk production only weakened further after August there is a lot of pressure on New Zealand to complement the weakening availability in the other key origins. With the risk of El Nino related weather disruptions later in the season reportedly being significant, buyers are getting more active in securing supply for the next couple of quarters. Prices are still considered favorable from a buyside perspective despite the

recent appreciation. Prices have by now more or less made up for the dip in prices that occurred during July and August. The balance between New Zealand SMP supply and Asian demand will largely determine how price momentum develops going forward. The buyside is clearly hoping for a scenario of China remaining relatively dormant for a few more months and New Zealand peak production not getting too much affected by weather in weeks to come.

Production, exports and availability of SMP in EU, US and Australia<sup>1)</sup>



Monthly SMP prices in the main export markets



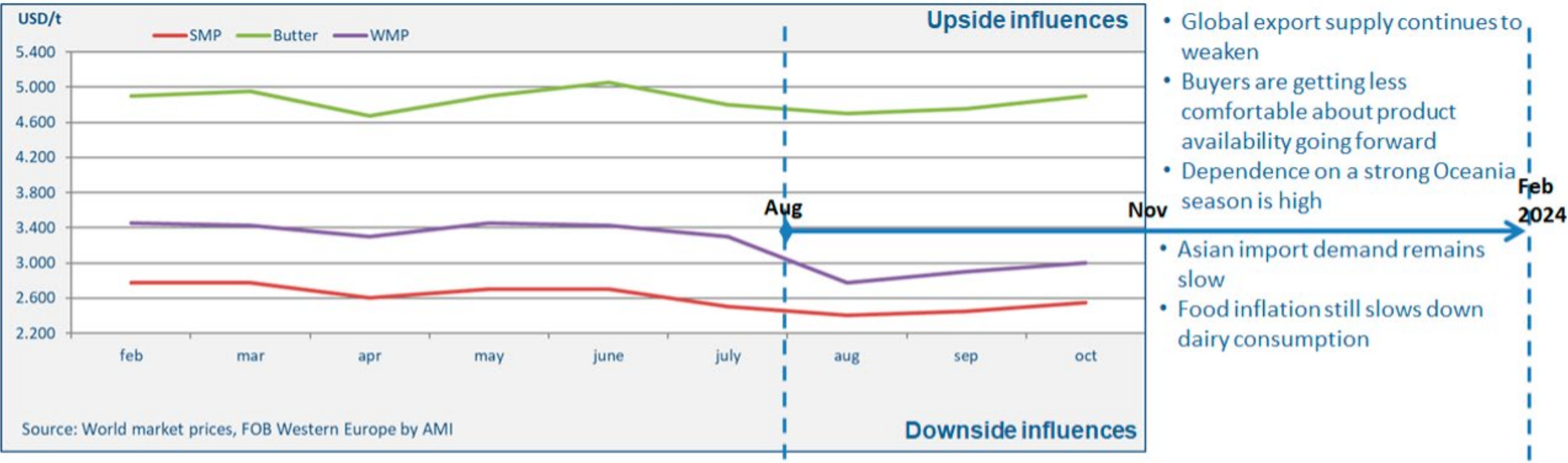


# Looking forward

If we consider the July-August price dip a temporary sentiment-driven overshoot on the downside then we have almost made up for that dip by the end of October. It seems like the scenario for the direction of prices from this point onwards will mainly be driven by the strength of demand recovery as even in a scenario that demand remains as weak as it is, the market balance

will initially probably continue to tighten due to milk prices and consequently milk production taking its time to respond to the price appreciation that is happening in dairy markets around the world. So the general direction will likely remain upward in the next couple of months but demand will determine the pace and strength of price recovery.

## Market Outlook for October - December 2023



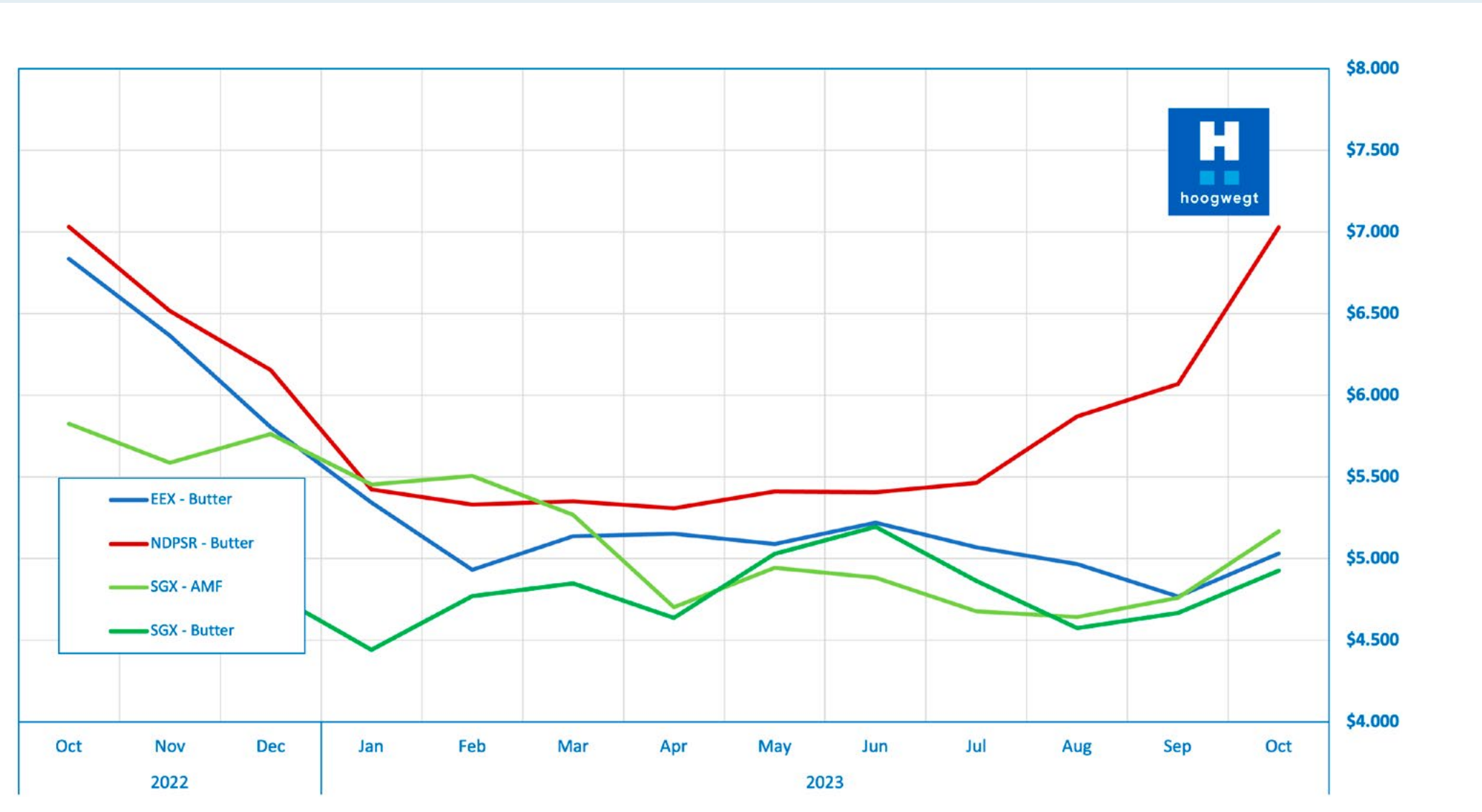
Dairy Deep Dive

# The curious case of butter and butter-oil stocks.

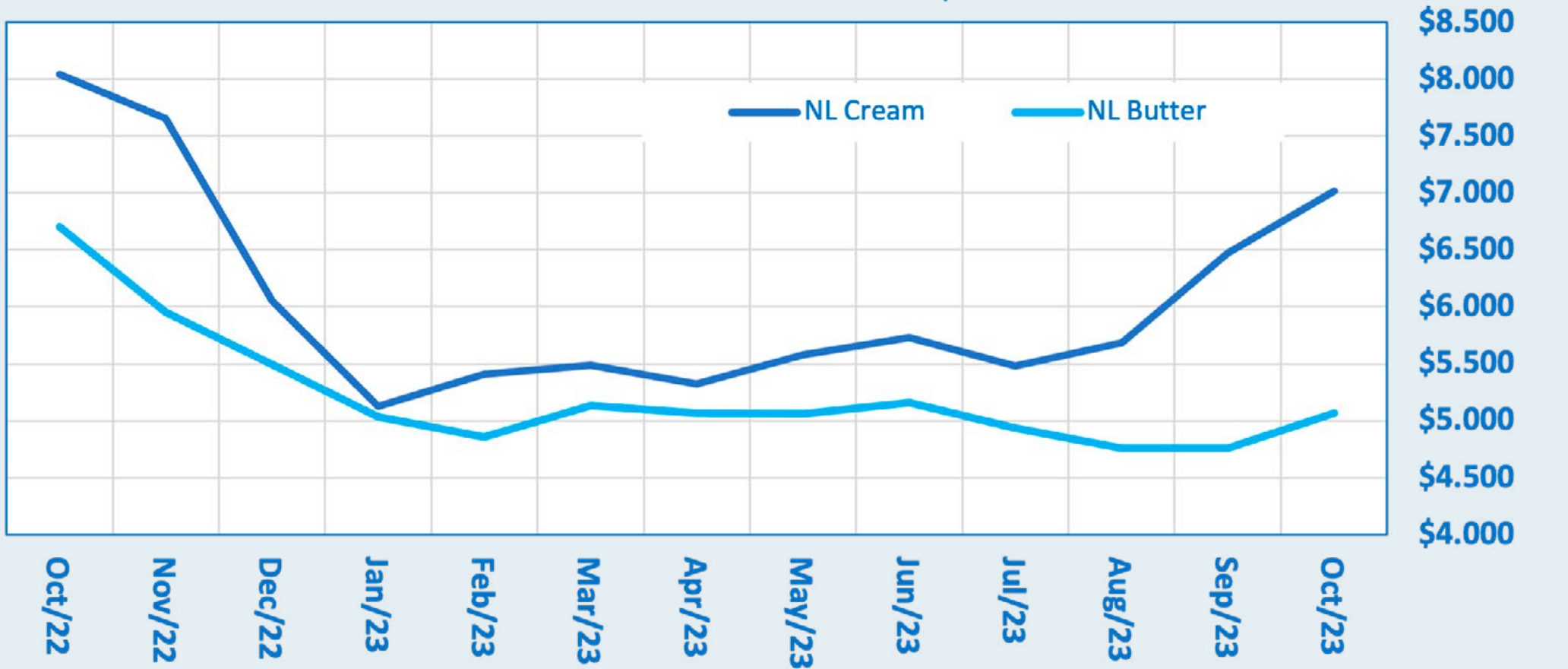
A few weeks ago, the European milk observatory released their stock report. Butter- and butteroil stocks were again reported to be quite strong. This year we started on a higher stock-level than 2022, especially due to ample production and struggling demand at the end of last year.

Unlike SMP as we discussed in the previous Horizons edition, butter and butter-oil production in Europe continued to be strong, and while the import demand for butter (HS040510) was quite strong, domestic demand struggled. Prices for European butter since February remained firm though, and firmer than some other dairy products like SMP, which registered lower availability. And milk production in Europe looks worsening now, but it has been good in H1 2023, so there is no reason to be found in there. Firm cream prices? Yes, of course, cream prices stayed firm influencing butter as well.

International price comparison Butter in US\$/t, monthly averages



NL Cream vs NL Butter in US\$/t





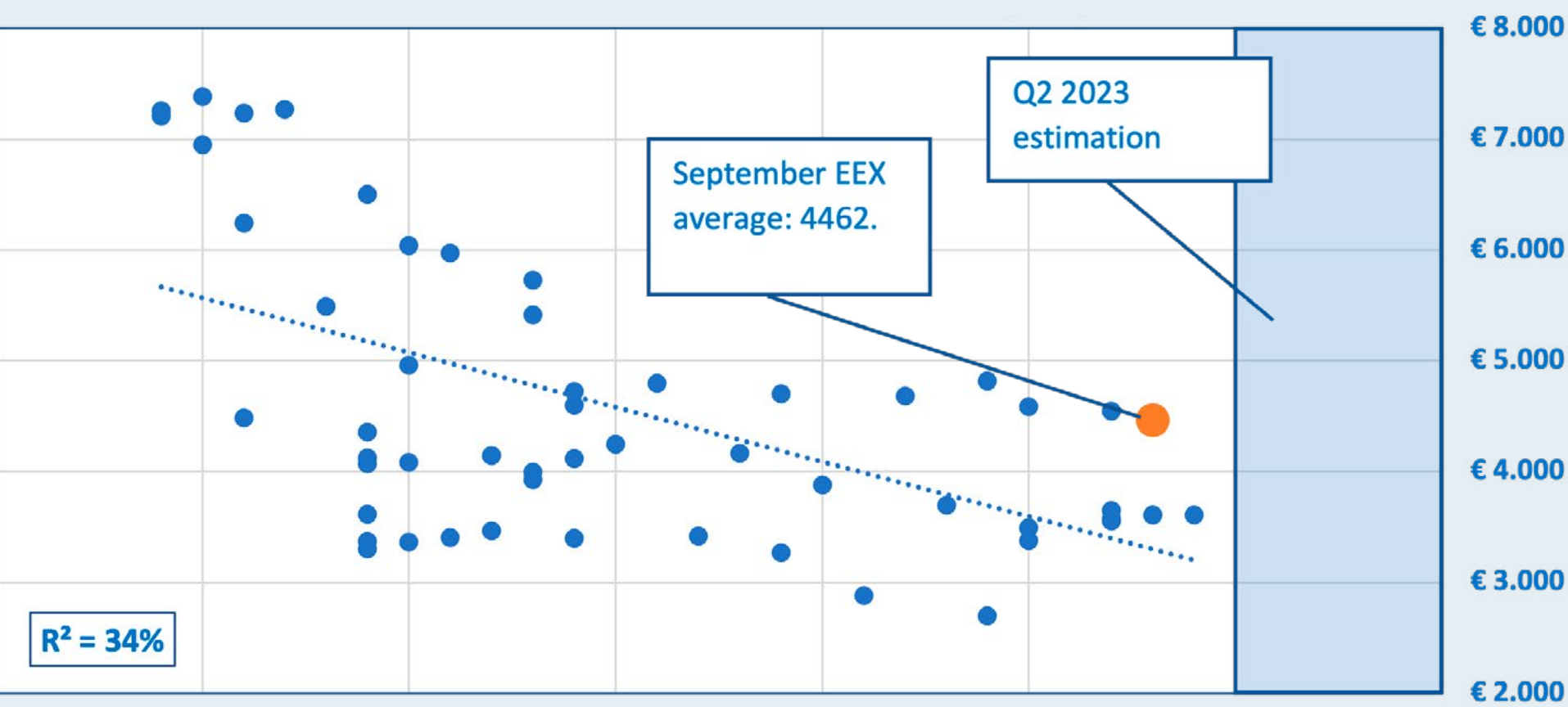
→ continuation

Stock levels paint only a part of the story, but a Stocks / Use scatterplot gives us some analytical insights. The stock level divided by the use of the product (domestic consumption and exports) explain a third of changes in butter prices. From that perspective the butter price in Europe saw yet no response to the high butter stocks.

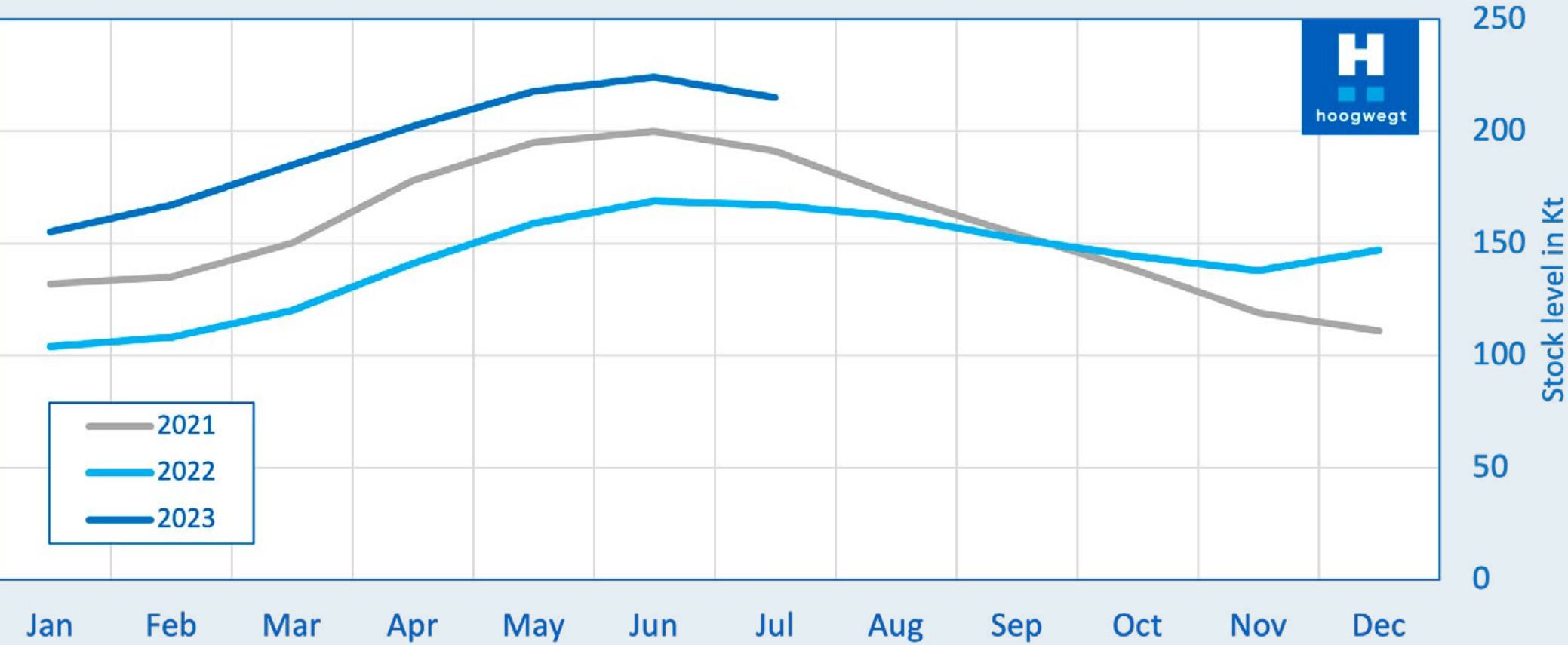
So, conclusive, how would the butter price develop from here?

- Struggling milk production gives a reason to see prices on the spot increase from here, especially given key player France is struggling to produce more milk.
- As long as cream prices stay firm, that adds another reason to continue to see firm prices for butter as well.
- Butter (and cream) may be the most seasonal products within dairy, and as long as the calendar gives a reason for stronger cream demand prices may stay firm but note that from the S/U perspective for butter and butter-oil perspective butter is a bit overvalued. Especially since we should move slightly to the right going forward, but as said, due to cream demand and the lower spot availability for butter, butter value didn't seem to have responded to its high reported stock level yet. One might want to take another look at the butter stocks when all the cream taking festivities are over.

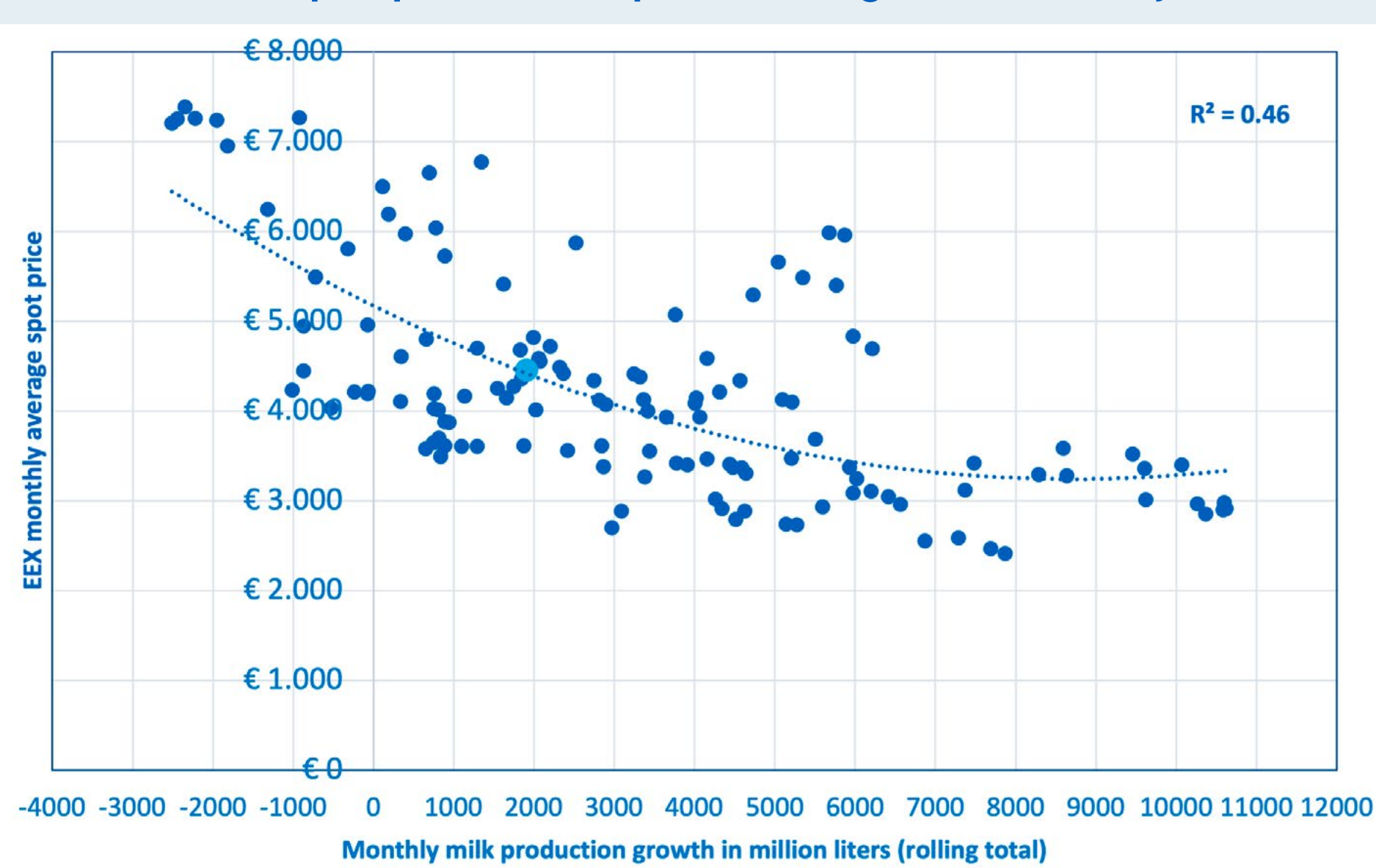
EEX Butter in Eur/t vs EU Butter(-oil) S/U



EU-27 Butter Stocks in Kt/m



EEX Butter vs Top exporters milk production growth, monthly 2013-now





# Bulls vs Bears...

## On the bullish side:

- Will Europe see negative milk production growth as well end of Q3 and Q4? Recent weeklies out of France, Germany and UK are saying yes.
- Mexican demand is fair, although they do have some border struggles. MENA demand seems fair too and GDT's are showing more interest.
- Prices dropped; this should attract some buyers. SE Asia is probably on low stock levels for powders.
- Money isn't free anymore and stricter loans could limit farmers in their investments leading to scarcity.

## On the bearish side:

- Domestic consumption in Europe is still struggling.
- Recessions, inflation, leading to drops in demand.
- SE Asian demand still seems to be low. While others who bought might have enough for now.
- Butter stocks in Europe are relatively high, also compared to SMP stocks.
- NZ's current product mix continues to be a bearish argument, next to the bullish ones out of the Northern hemisphere. And since their product mix is historically still pretty new, it's harder to catch it in a model.
- Margins for US farmers are improving.

## Things we watch:

- Geopolitical turmoil and governmental policies.
- Natural Gas; closing in on winter and when either Asia or Europe face a very cold winter Europe is not out of the woods yet.
- NZ milk production, El Nino and product mixes.
- SMP and Butter correlation, given their different stock levels.
- High cocoa and sugar prices giving issues for multinationals to sell volume, that affects their need for SMP.
- Volatile currency rates and foreign exchanges.

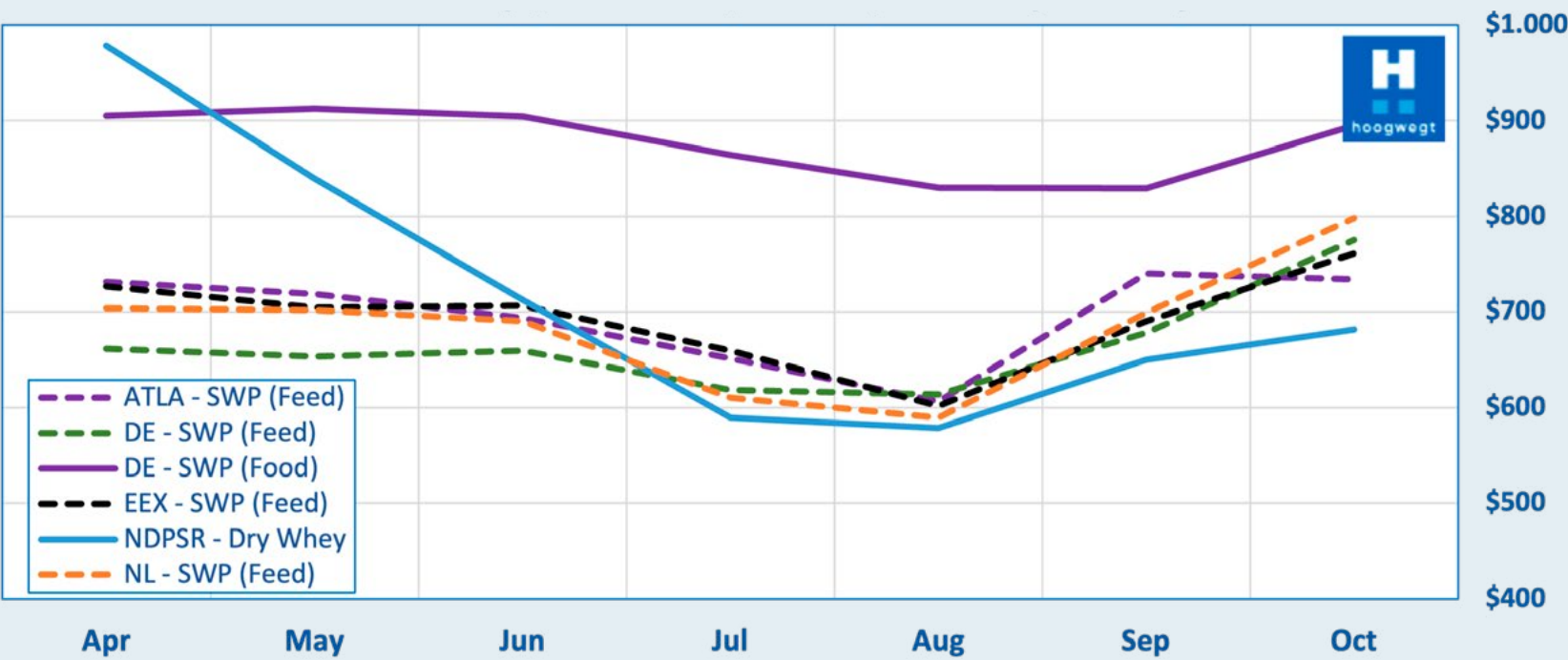
# A Quick Note on...

## Whey

### Global supply

- In Europe latest official milk production figures reported a +0.3% YoY for August. France is still struggling and Germany is getting closer to neutral. Overall, margins for European farmers still are limited and relatively close to break-even. September 2022 was the kick-off for strong milk production months, with ample margins, so those comparables are hard to beat on low margins. Cheese production in Europe continued to be relatively strong and stronger than last year.
- US Milk production saw a strong revision for August, and minor revisions for each month since April. August initially was reported at a 0.2% loss of milk production, now it's -0.7%. The September production was reported at -0.2%, with a YoY positive yield per cow, and a negative herd size. Note though that slaughter is easing and has been below last years figure since September as margins are looking better.
- August 2023 Dry Whey (human) production in the US registered a strong 79.8 mil. Lbs. calculating to +13.4% compared to last year. Stocks were reported at a +31.5% YoY level of 85.9 Mil. Lbs. according to the USDA, both a YoY and MoM increase. So all in all supplies in the US are ample. US Cheese production overall was negative; -0.2% compared to Aug '22 at 1155 million pounds.

### International Whey price comparison, monthly averages in US\$/t

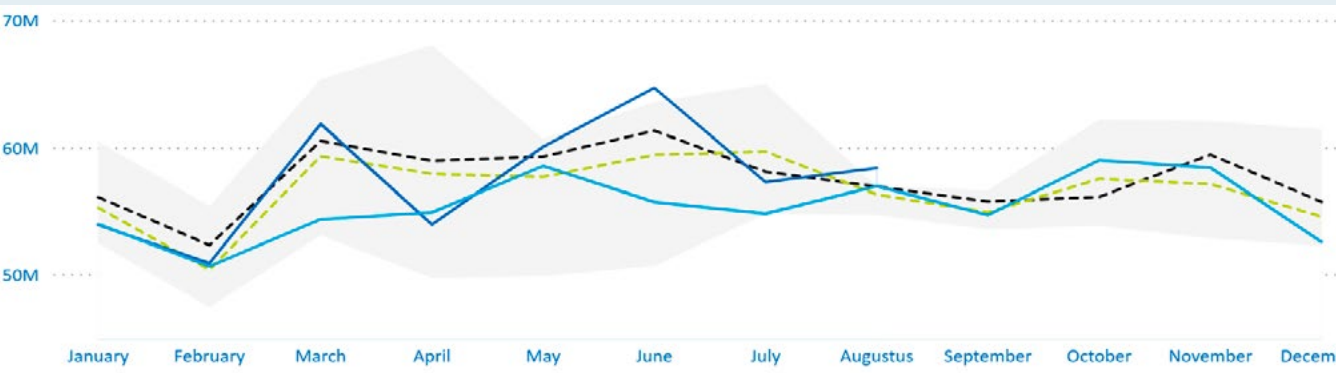


### Global trade

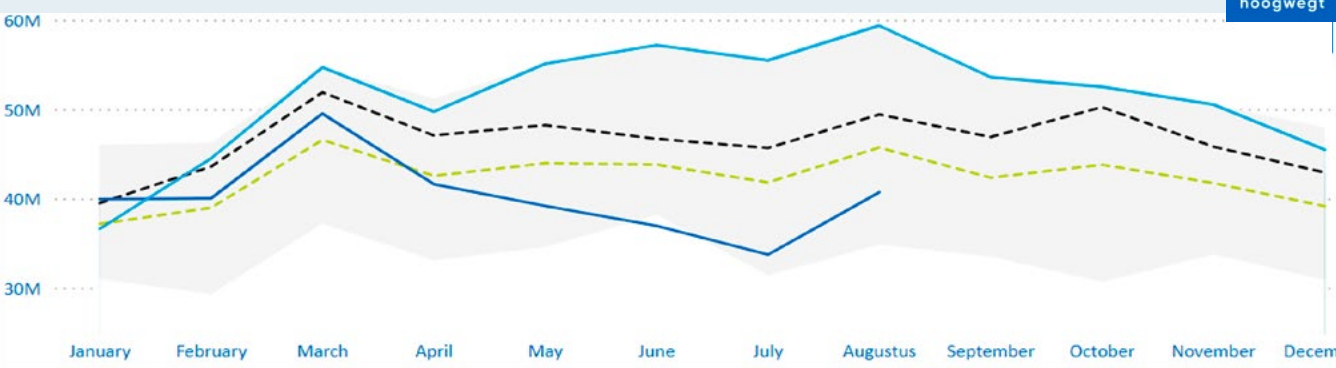
- EU-27 Exports of Dry Whey (HS040410) in August showed a slight increase compared to the same period last year, rising by 1.4Kt from 2022. Registering 1.5Kt above the three year average as well. Increased interest for European dry whey came from the Middle-East and SE Asia, while Chinese demand was lower than August 2022. August 2023 WPC-80 Exports out of the EU-27 were also stronger than last year, but did ease month-over-month. The EU-27 shipped almost 4.6Kt, increased interest out of SE Asia and the UK, while Japan and China asked for less volumes compared to August 2022.
- The US saw strong Dry Whey disappearance for consecutive months, while exports were struggling. Exports out of the US were still behind the 3-year average at 40.7Kt which was -38.2% compared to August last year, but on a strong increase compared to July. Domestic use continued to be strong (a whopping +71.2% over August last year). Sum of both: a 2.4% YoY increase on domestic disappearance. The recent Japanese Feed tenders (K-Kai and Zen-noh) would have also flushed out considerable quantities of aged US whey. Low protein WPC demand was 2% stronger compared to last year, domestic sales were up 64.1% and outweighed the loss of exports. Exports were down 11.1%. High protein WPC domestic disappearance was strong too: a very strong +345% for August, while exports eased 16%, totalling a +14% increase of disappearance.
- Chinese whey imports: whey powder and WPC imports witnessed a notable Year over Year (YoY) decline, marking the third consecutive monthly decrease. Import volumes fell by 11.6% compared to the previous year and were 4.6% below the three-year average. This decline was predominantly driven by

reduced imports from the U.S., which contracted by 3.3kt, representing a 9.9% YoY decrease. Similarly, the Netherlands and Poland also experienced substantial reductions in Chinese imports, with declines of 1.8kt (a YoY decrease of 36.5%) and 1.5kt (a 29.5% YoY decline), respectively. Regarding the monthly import volume for September, the U.S. accounted for 55% of the total, maintaining a 47% share of Year-to-Date (YTD) imports. Notably, Belarus has risen to become the second-largest source of imports for the month of September, contributing 11% to the total volume. Belarus also holds a 9% share of the cumulative import volume, solidifying its position as the second most significant source of imports to date.

Dry Whey (HS:040410) Exports in European Union (27 Countries) in 2023 (kg)



Dry Whey (HS:040410) Exports in US in 2023 (kg)

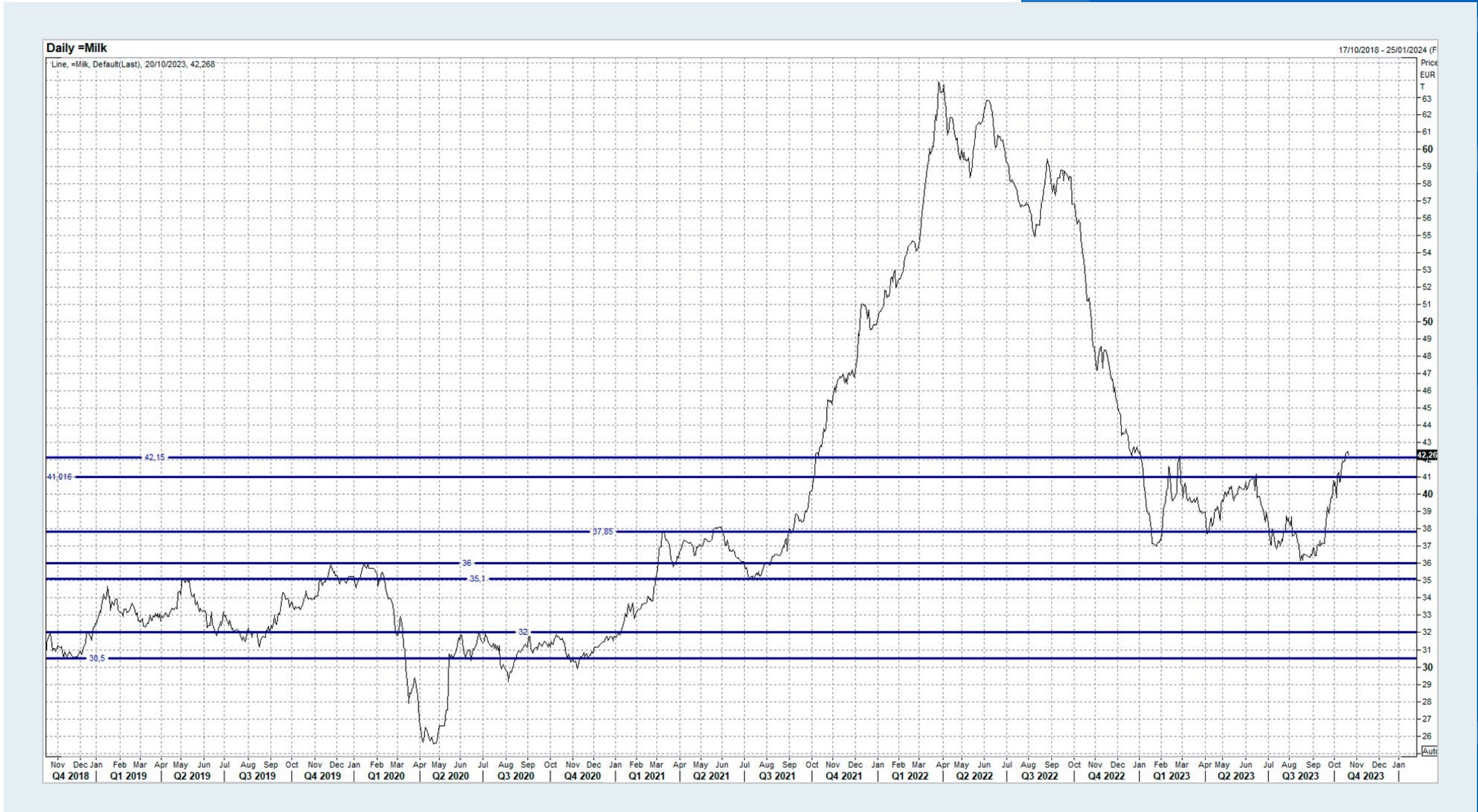




Futures

By: Joris Thys Derivatives Trader, HTM

- Markets have been moving up dramatically since August. This is obviously linked to tighter fundamentals as there is genuine concern about the milk production in Europe and the continuously weak skimmed and butter production.
- Looking at the implied milk prices (combination of butter and skimmed) we can see that we have left the era milk below 40c behind us and that current implied spot milk is around 42,5c. This is above the current payout price that the farmer receives which results in the return of milk programs in Europe for the first time in over a year. This added liquidity on the sell side is very welcome, but will disappear again if implied prices were to drop again below 40c. Hence, downside from here is limited unless the supply-demand picture was to change again.
- EEX SMP prices exhibit similar strength with the market rallying from 2300 levels to present 2800 levels. Where the trading range for 2023 was 2300-2600 all year, we broke out of that trading range and we perceive weakness as a buying opportunity.
- Similar story on butter: as cream prices have been well above butter equivalent for the past months, producers have very little incentive to produce and the curve is bid from the spot. Q1 is at 5250 bid levels, but even these high prices are not attracting offers.





## World Comment.

**Peter Janssen van Doorn**  
**Senior Accountmanager**  
**Havero Hoogwegt**  
**Dairy Ingredients**



Since September 2023, I have been working for (Havero) Hoogwegt for 8 years. I can still vividly remember starting in September 2015 in the commercial department of what was then Havero Hoogwegt, now Hoogwegt Ingredients. In the first week of September 2015, the 50th anniversary of Hoogwegt was celebrated at the Concertgebouw in Amsterdam. After

that evening, I was certain that I wanted to be part of this club. Over the past 8 years, I've experienced a positive rollercoasting, embarking on a literal journey around the world in terms of work. I've had the opportunity to visit all continents. Having grown up on a modest farm in Wageningen. I always found this experience very special and I am grateful for the moments from places like Singapore, New Dehli, Minnesota, Las Vegas, Kiev and the ever-enchancing Budapest.

During the past 8 years, I've witness changes in the world, the dairy market, Hoogwegt and our own Ingredients team. There has been much written and said about the changes in

the world and the dairy market, my opinion seems redundant in this context. Hoogwegt is the market leader I chose to work for 8 years ago, and the Hoogwegt team is preparing to maintain this leading role in the future. Additionally our own commercial ingredients team has undergone a transformation in recent years and, in my opinion, is the strongest team I've seen in the past 8 years. It's a pleasure to work with this relatively young team, and I sincerely hope that the team can remain in this composition for a long time.

What are the developments in the ingredients market? Over the past 3 years, we have seen historic fluctuations in prices for higher milk and whey proteins. If I had written this piece a few weeks earlier, I would likely have said this was a one-time occurrence. However, it seems like we are in the midst of the storm of 2021/2022 for WPC/WPI caseins/caseinates. Please note that this piece is being written early October, and the reality may have already caught up with us by the time of publication. The extreme volatility of 2021/2022 could be attributed to some fundamental changes in the market. At the moment, it seems that volatility is primarily due to sentiment (mainly in WPC/WPI), which is still very relevant but doesn't appear sustainable for the long term, we saw that the extreme price for isolates/caseinates have destroyed short-term demand.

Within sports and lifestyle nutrition, we see the field of proteins developing. In the past, companies focused on whey protein concentrate based powdered shakes specifically focused on sports nutrition. Today, many consumer products are enriched with milk protein to allow a healthy lifestyle next to clear ready to drink protein products showing exponential growth and new developments are at the horizon. New technologies today allow for subfractions of proteins such as alpha lactalbumin enriched whey protein and/or BCAA (branched chain amino acids) rich proteins. This opens up new possibilities for consumer goods producers for products with more specific nutritional benefits.

The future looks bright, see you soon!

Cheers.



# Hoogwegt Happenings.

Team Hoogwegt participated in the recent Anuga Cologne 2023 where we met up with our esteemed suppliers and customers.

Next up, we will be participating at the upcoming GULFOOD Hall 8 C8 - 27 from November 7 - 9 in Dubai. See you there!!







# Hoogwegt Dairy Spew: Burning Questions

Join us for Episode 16 as we discuss several burning questions submitted by our listeners.

In this mixtape, we explore:  
What's the story (morning glory)? -- NZ production  
Let's talk about Kungfu Fighting -- China  
Beautiful Ones -- High Proteins  
I Believe I Can Fly -- Sustainable High Prices?  
And many more

We also decided to give the recent TikTok 90s Yearbook AI Trend a go! Do share your rendition of your photo with us!

We have also added in **Transcripts** of this episode on our Buzzsprout website. You can find it [here](#).

Listen in to find out more!

Note: Podcast was recorded on 5/Oct/2023  
Transcript was generated automatically. Its accuracy and spelling may vary.

**Subscribe today!!**

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

--- Hoogwegt Dairy Spew Team

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



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FI Europe / Gulfood
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# Hoogwegt Market Mooo Vlog

Our Vlog is now available for free at spotify! Tune in for monthly discussions between Jurgen Elfrink and Sanne van Welij discuss our dairy market. Next episode will be recorded end of October 2023. Stay tuned!

[Subscribe](#) now!