



# Horizons.

Our insights  
on Today's Global  
Dairy Business

September 2023

# #09



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Hello!

To borrow the lyrics from Engelbert Humperdinck,

“Tell me when will you be mine... Tell me Quando Quando Quando”.

As we sat down to put together this riveting September 2023 issue of Hoogwegt Horizons, we couldn't help but notice the underlying consensus from our contributors on the current dairy market.

Yes, supply is not massively down, but it's not going up either. We are seeing the wheels rolling with higher slaughter numbers in the US, lower farmgate payout prices in NZ, smaller EU farmers not expanding due to lower milk prices...

Yes, demand is not good. But we are seeing demand for forward 2024 on the back of weak spot prices. Does this mean that buyers are acknowledging that the market is close to its bottom?

So when will we see prices recover?

Read on as we discuss milk production, deep dive into the Cheese markets, discuss the US Whey stock situation, learn more about the EEX futures market, and read about Nigel van den Bosch's journey within Hoogwegt that has brought him across 3 continents in the last 3 years!

Join us in this issue as we discuss the Quando (When) of the dairy market.

Enjoy!

As always,

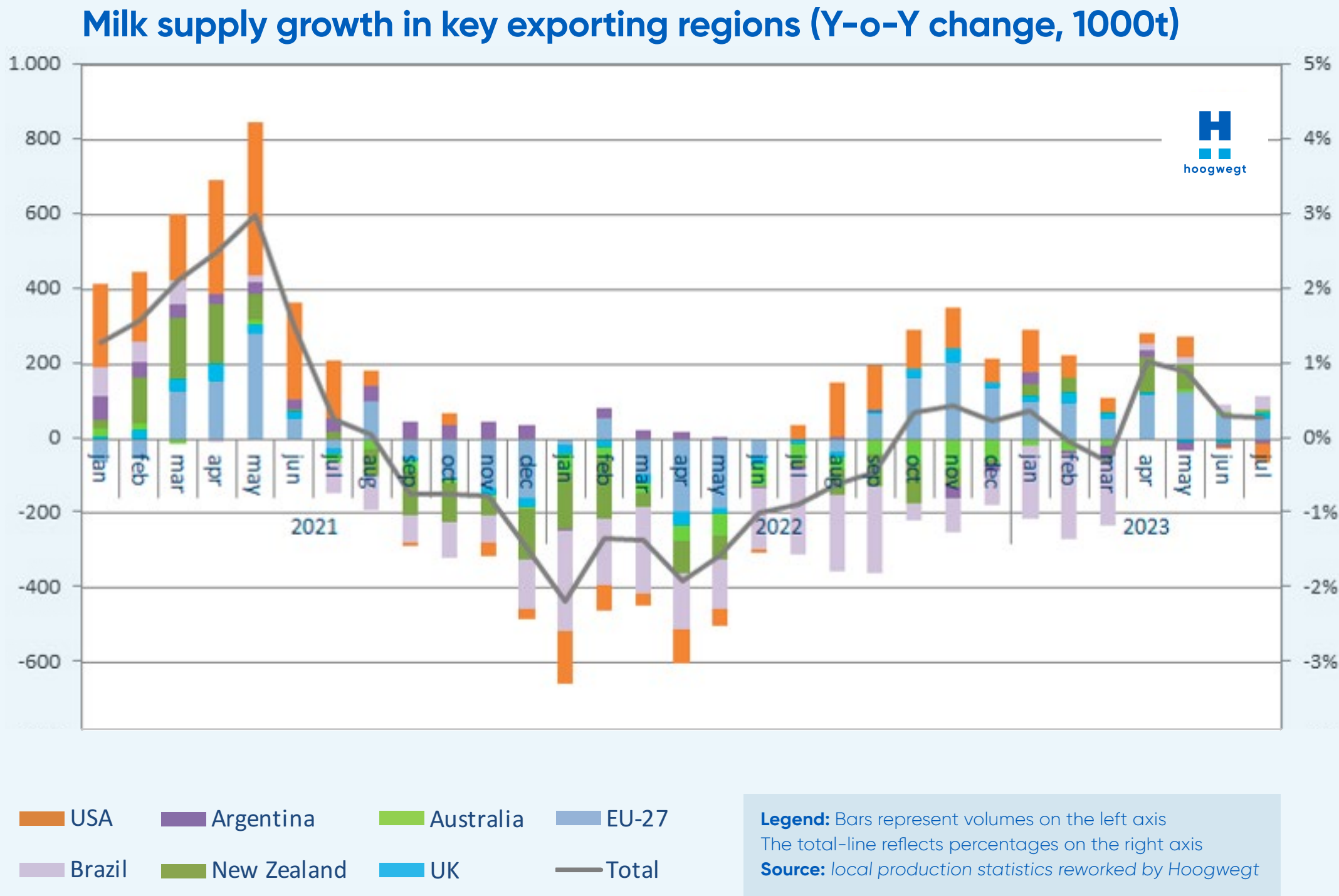
**Hoogwegt Horizons Editorial Team**

Market Direction

# Milk Prices Provide Little Hope for Milk Production Recovery

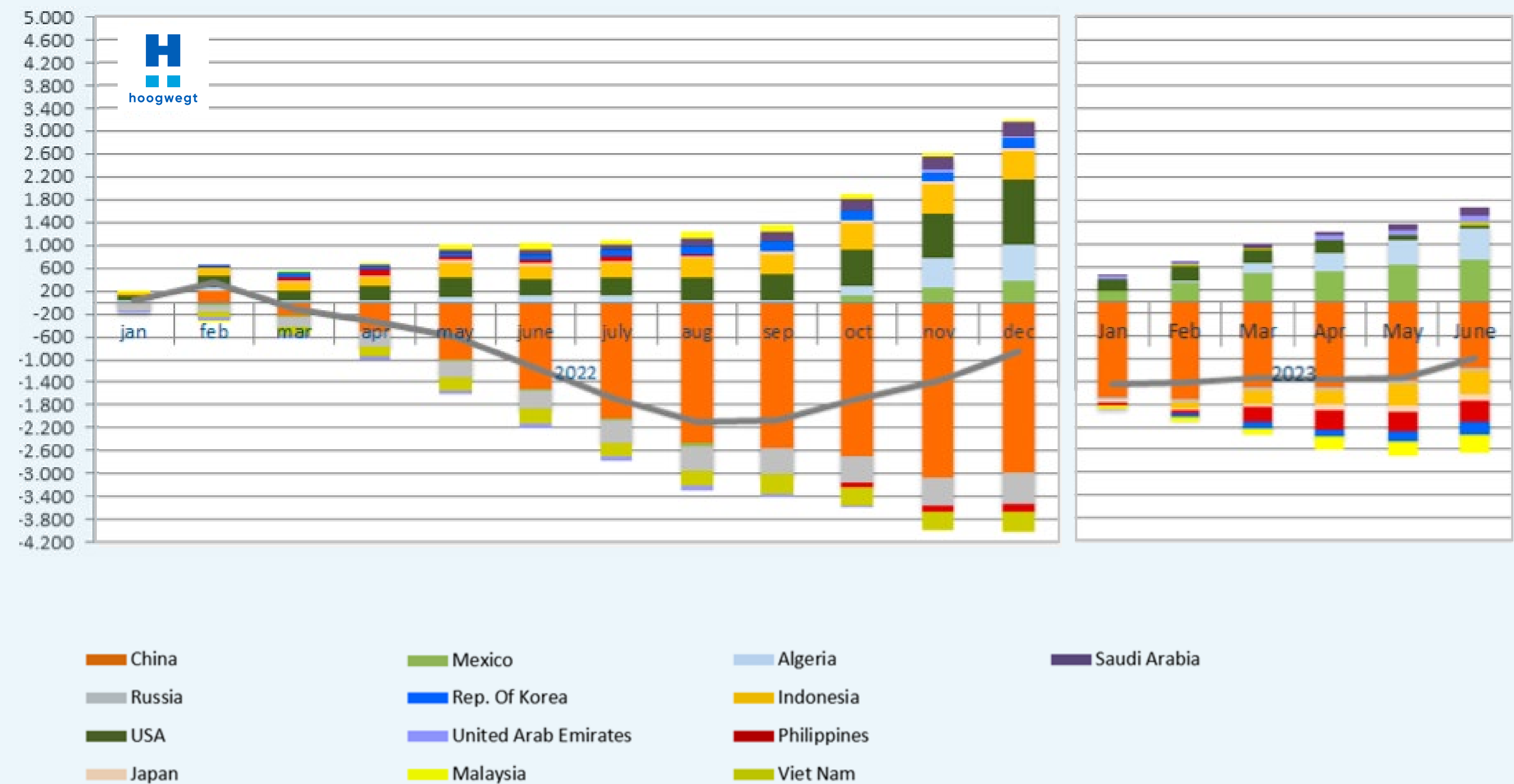
Now that US milk production turned negative in July and EU milk output also starts to trend towards zero growth or less, Oceania’s new season will determine whether milk production in the key export regions will conclude 2023 with a plus or not.

As Fonterra reduced their milk price at the start of the season to NZD 6.75 – which equals to a Euro-equivalent of just below €0.30 per kg – expectations are not too high about the new season on the Southern hemisphere. With the latest developments in global market prices in mind it is difficult to identify developments that could bring dairy farmers in export regions to a more favourable production response in the remainder of 2023. Milk prices and farmer cash flows are increasingly being determined by the local supply and demand balance and in that respect, EU farmers are still relatively well off. Most EU processors still pay a milk price of around €0.40/kg whereas US Class III milk prices are falling towards levels below USD 14/CWT, which is around €0.32/kg. Current export returns in butter and milk powder hardly justify a milk price above €0.30/kg, so the extent of exposure to export markets more or less determines local milk price levels.





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:** Dairyntel trade data, reworked by Hoogwegt

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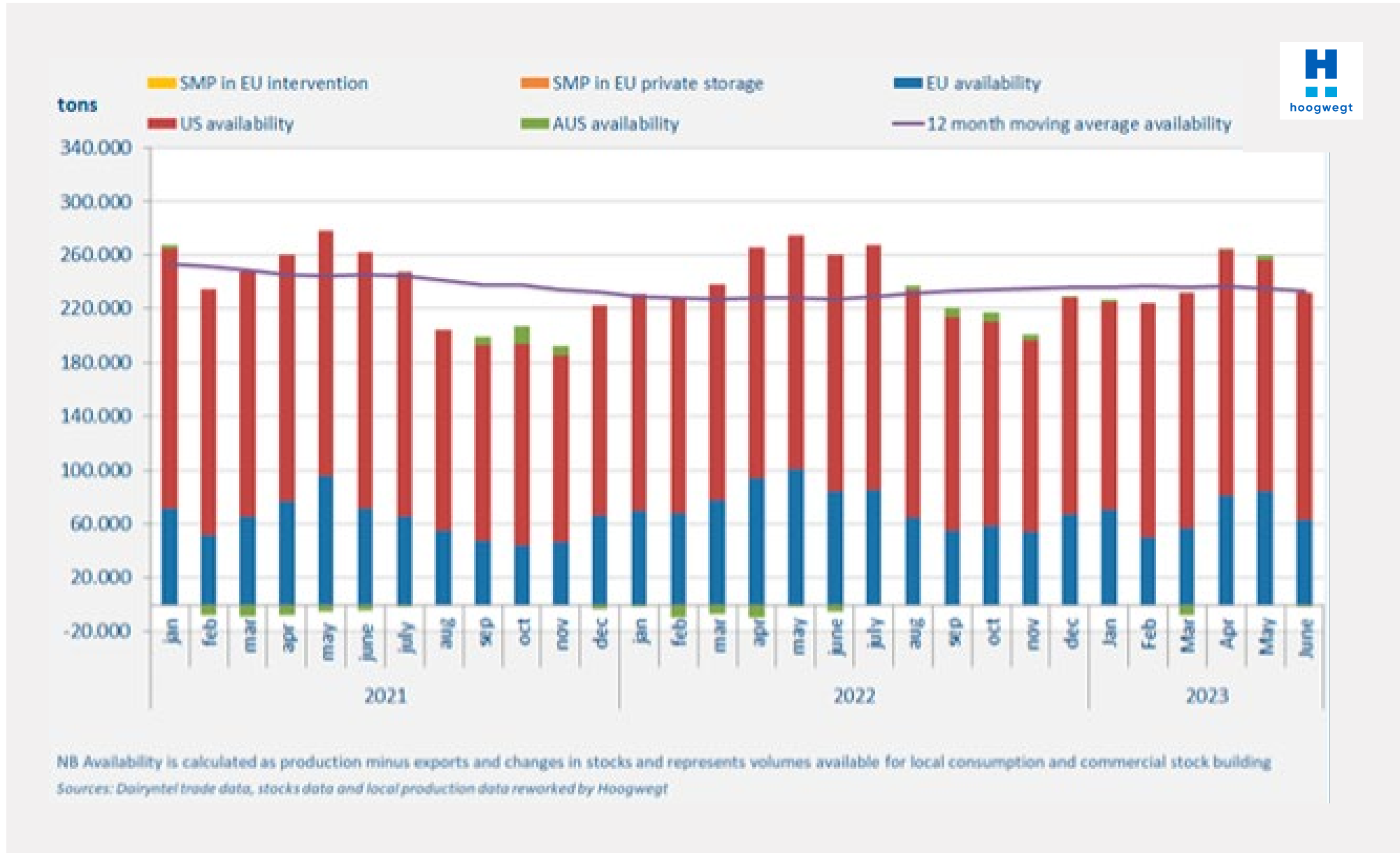
Now that China is starting to gradually catch up with 2022 import levels, the combined import performance of the top-13 importers is also approaching the zero growth line again. China's July import data suggest that this development will continue in H2. China's imports are far from impressive but they do trend some 15 – 20% higher than last year in recent months, with particularly strong gains in SMP and most cheese categories. If this continues, then by the end of the year, China's imports will more or less have caught with the large deficit in the January imports. Import demand in the rest of key import regions remains consistent with the trend in 2023 so far. Algeria and the rest of the Middle East as well as Mexico continue to show a healthy appetite for dairy commodities this year, whereas Southeast Asia joins China in its weak import H1 performance.

# SMP/NFDM: Have milk powder prices hit rock bottom?

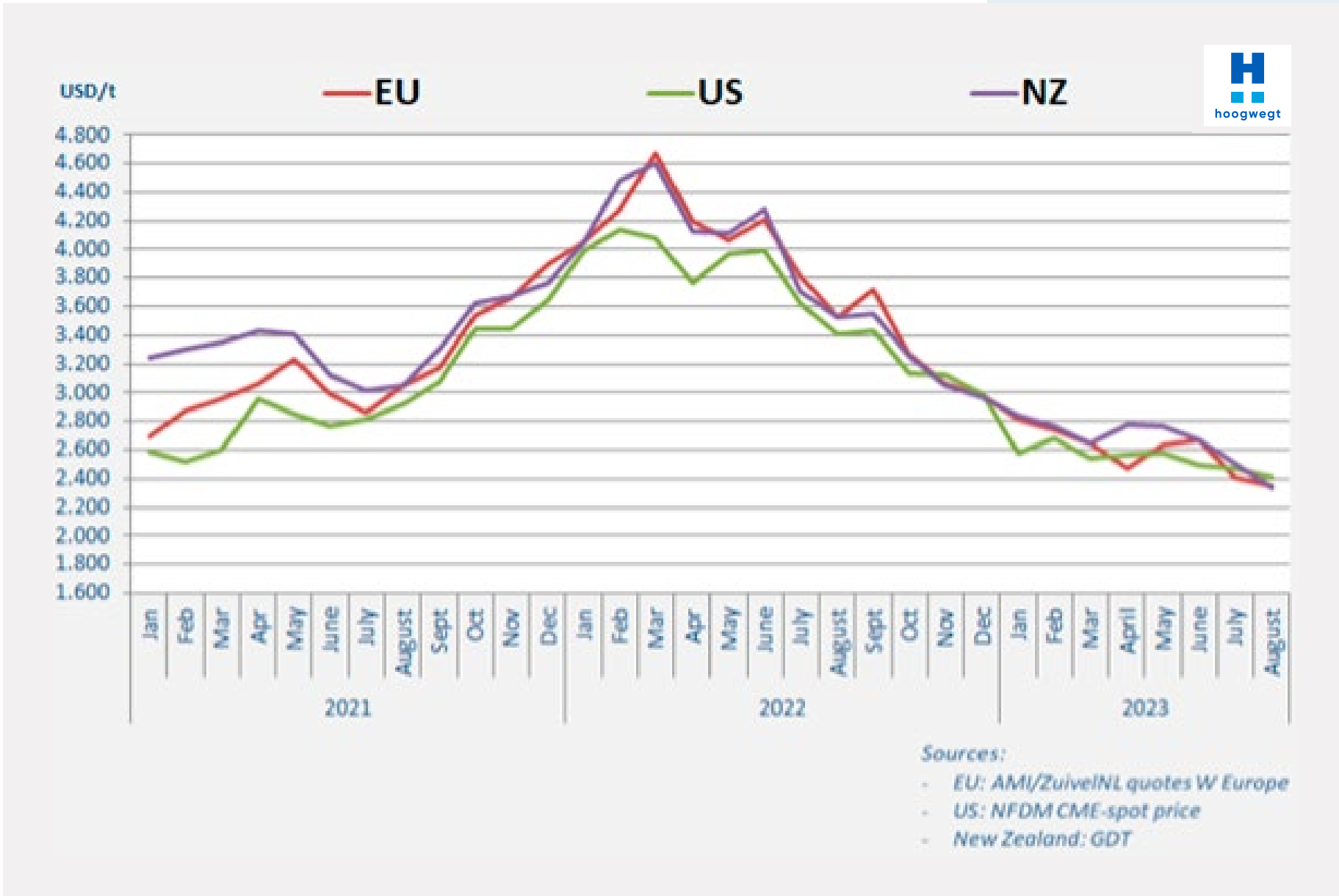
Prices in all major markets continued their downward trajectory in August. Given the latest ONIL tender, the push to sell seems strongest in New Zealand but EU and US products also still need to find homes outside their domestic markets, which explains the tight alignment of prices. EU exports improved quite a bit compared to H1 of 2022: + 84.000t, which was even more than the gain NZ exports compared to last year: +79.000t. US exports were more or less comparable with last year in the first 6 months of 2023. Global availability has turned the corner though in August.

So from a supply side perspective, fresh availability will become more restricted, but a favorable production season in Oceania still inevitably implies continuous export competition between all three origins. The big question is at which price levels these upcoming exports will materialize. Prices are very low but the NZ season only just got started and the structural shift from WMP destined for China to SMP and butter for other destinations will definitely continue.

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



Monthly SMP prices in the main export markets

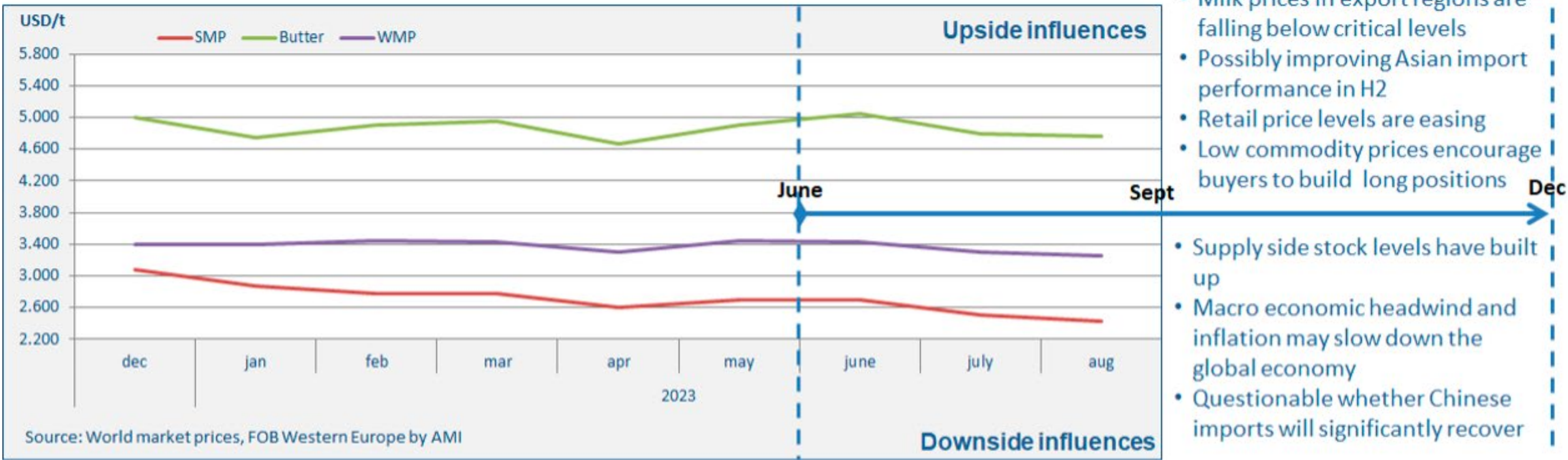


## Looking forward

China still holds the potential for a strong and sudden shift in the global market balance and a reversal of the direction of prices, but as the scenario gets more likely that we will not see strong recovery of Chinese import demand in this calendar year, a more gradual change in the supply and demand balance becomes the most likely scenario. Given where milk prices are heading, milk production and export supply can only get weaker going forward.

But without a recovery of global demand, the impact of that diminishing export supply on dairy commodity prices will be gradual rather than sudden. Although gradual price momentum seems the most likely scenario at this moment, it may be sensible to still keep in mind that the potential of the supply side to deal with weather disruptions, positive demand surprises or even just more forceful buying strategies is very limited.

### Market Outlook for September - November 2023





Dairy Deep Dive

# Cheese Runs the Show

Stronger import demand for cheese

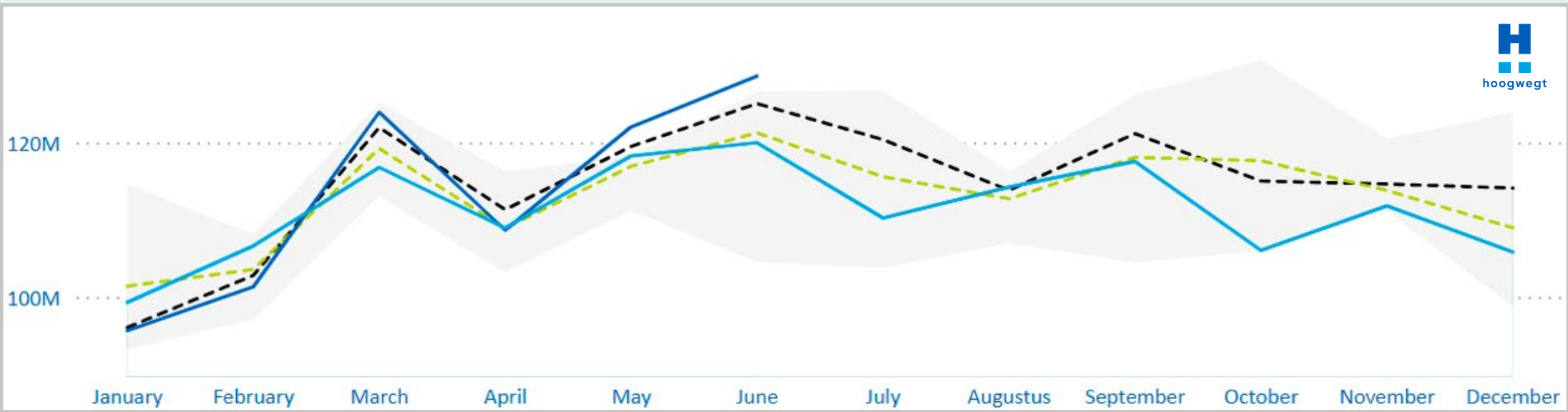
After a slow start in the first quarter, exports for cheese (HS0406) out of the EU-27 grew quite strong in the past months, as the EU-27 sold 11.000 tonnes more in H1 2023 compared to H1 2022.

From the demand points, Chile and Algeria emerged as the standout nations within the top 10 in the latest report on cheese trade (June), displaying notably robust demand that surpassed the previous year. Chile witnessed a surge of 2.8kt (+485.7% year-on-year), while Algeria saw a substantial increase of 1.6kt (+162.6% year-on-year). Conversely, the United States experienced a continued decline, with a reduction of 1.3kt (-11% year-on-year).

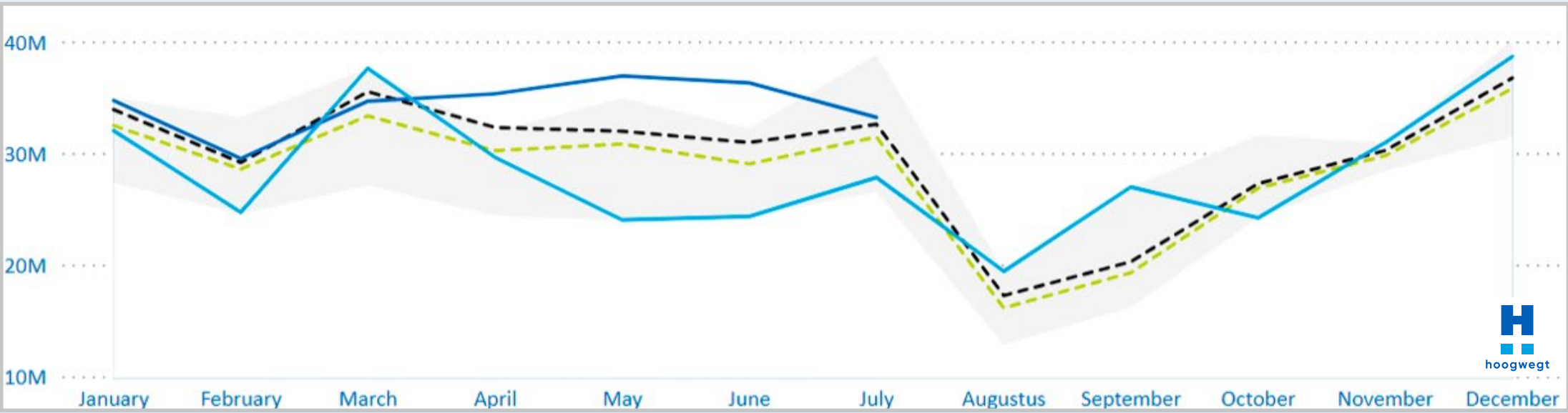
Turning to the exporting nations, The Netherlands led the growth, marking an increase of 3.4kt (+27% year-on-year), closely trailed by Germany, which saw a rise of 2.2kt (+16.8% year-on-year), and Ireland, +2kt (+30.8% year-on-year). The cumulative year-to-date volume of cheese exports has now exceeded the previous year's figures by 1.3%, showcasing a positive trajectory in the industry.

The EU-27 isn't the only exporter that is witnessing growth. New Zealand has more export availability due to changes in their product mix and succeeded in shipping more in the past months. China was the nation that picked up most of that cheese from a demand standpoint. Year to date (Jan-Jul) New Zealand shipped 40Kt more compared to the same months last year, +20%.

Cheese (HS:0406) Exports in European Union (27 Countries) in 2023 (kg)



Cheese (HS:0406) Exports in New Zealand in 2023 (kg)



→ continuation

However, it's not all green arrows for exporters. The US has shipped less cheese and lost 16Kt of shipments in the first 7 months of this year, South-Korea stands out taking less as an importing country. All in all, it shows strength in the global demand for cheese. With prices now lower, one should not be surprised if domestic consumption shows more strength as well and with milk production struggling in the biggest exporting regions, it's an interesting development for the valorization and value of milk. Also, because a steady cheese production (which is usually the case in Europe, means less whole and skimmed milk powder production when milk production growth is negative.

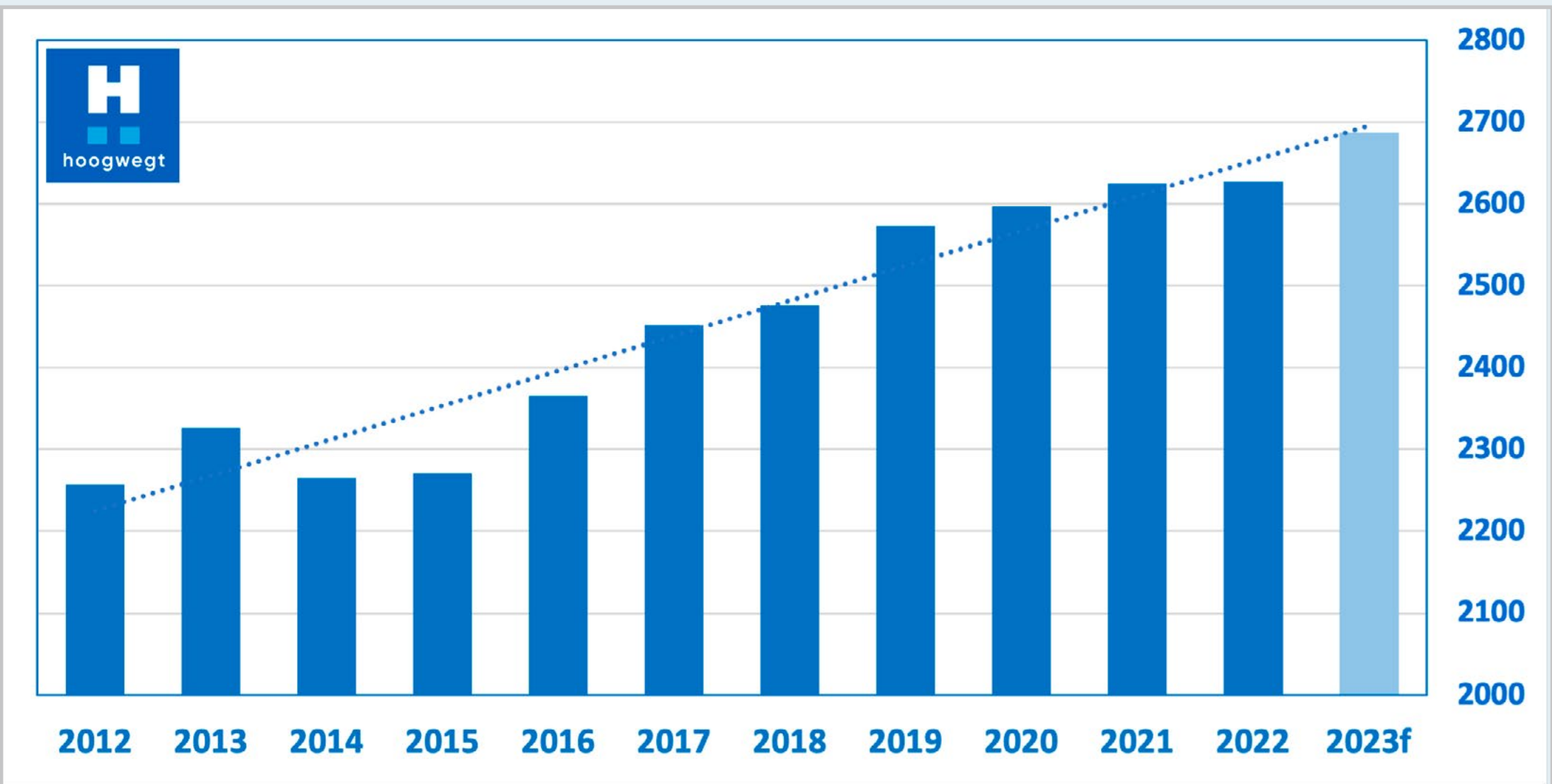
**Polish intervention to support milk prices and farmers.**

The implementation of an intervention purchase for butter and milk powder has been initiated, sparking questions about the potential impact on milk prices. As of August 23rd, preparations are underway for the acquisition of butter and skimmed milk powder to bolster reserves. In response to a Polish "milk market crisis", Minister of Agriculture Robert Telus expressed optimism that this move would alleviate the situation. Telus remarked, "May this endeavor contribute to an upward shift in milk prices."

The specific purchasing prices and quantities for butter and skimmed milk powder have yet to be disclosed. Consequently, the extent to which dairy producers will benefit from this initiative and its potential influence on milk prices remain uncertain. Poland reports a decline in milk prices below PLN 1.90/l, while production costs stand at PLN 2.10/l. Numerous smaller dairies are reportedly struggling.

"These costs do not account for investments that farmers have made in recent years, often with the assistance of loans. In light of this situation, many farmers are monitoring developments and contemplating the possibility of exiting milk production and divesting their herds. Such intentions are already surfacing in agricultural publications," a translated report mentioned. Note that there are elections in Poland next month (October).

Annual global cheese exports (HS0406) in metric tones (×1000)





# Bulls vs Bears...

## On the bullish side:

- While margins are dropping, the US turned negative milk production and negative in their herd. Will Europe see negative milk production growth as well end of Q3 and Q4?
- MENA and Mexican demand is ample.
- 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.
- While short term Asian demand still feels low, it could be rational for a Chinese buyer to wait a bit until FTA and Tariff advantages become an option and that is when a ship arrives in China past 1st of January, leaving the exporter ports in Q4 '23.

## On the bearish side:

- Recessions, inflation, leading to drops in demand. In Asia and elsewhere.
- SE Asian demand still seems to be low. While others who bought might have enough for now.
- In the short term, it's rational for a Chinese buyer to wait a little bit longer due to the tariff advantage.
- NZ supplies are overall still there and competitive.

## Things we watch:

- Geopolitical turmoil and governmental policies.
- NZ season; Cows, slaughter, payout prices and product mixes
- European post-flush slaughter
- Volatile currency rates and foreign exchanges (Mexican Peso vs Dollar, availability of foreign currencies in exporters markets)

# A Quick Note on...

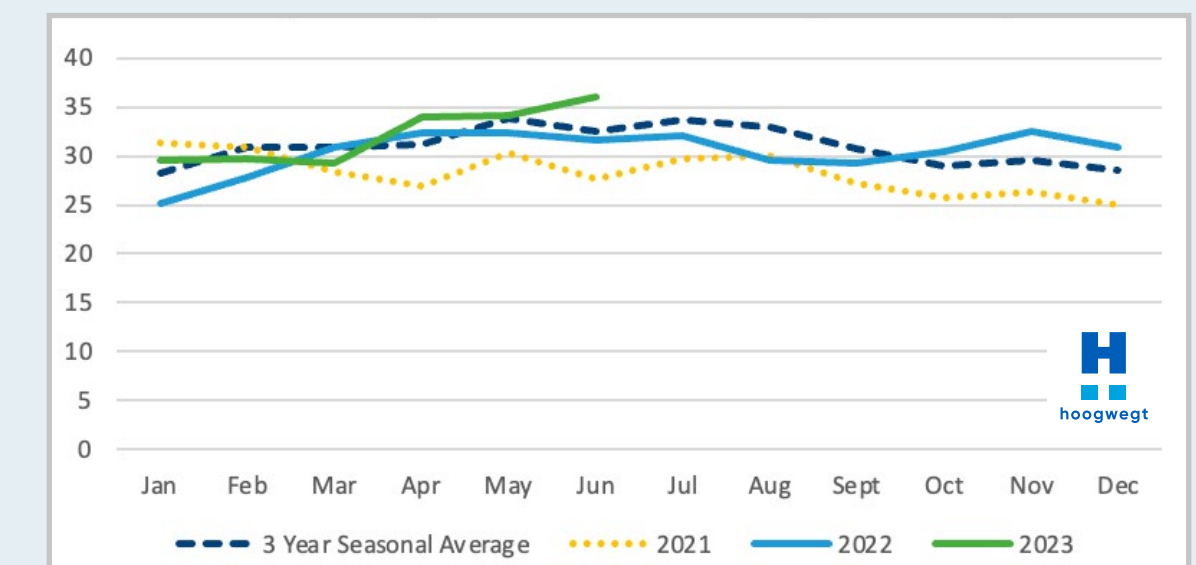
## Whey

By John Kramer, Global Head – Whey, Lactose & Permeates

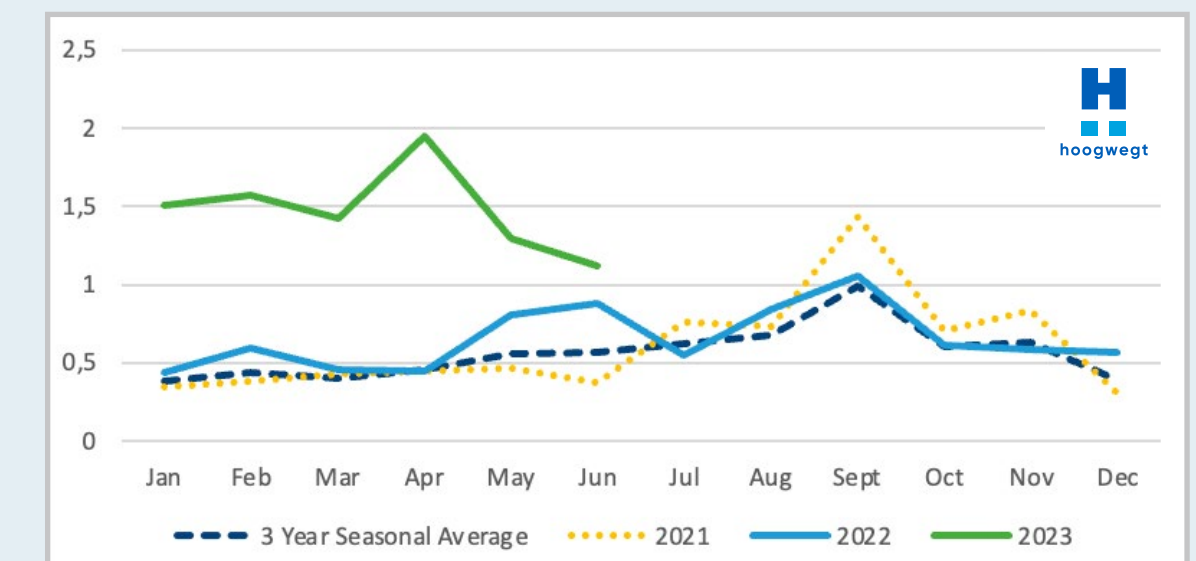
- A combination of falling milk prices, stable to higher input costs (Compound Feed) and hot and dry weather is slowly taking its toll on milk output.
- Overall, there is still more milk produced compared to 2022, but the magnitude is clearly curtailing.
- Leading global regions produced 0,2 % more milk during June 2023, set against last year coming from a 0,8 % plus figure over January until June in total.
- For EU & UK, the July figure is now 0,35 % YoY with large regional differences in patterns driven by either fundamental change (France minus 2,2 %) or weather conditions (Italy minus 1,0%).
- Also Poland could not manifest the strong growth rates earlier due to long periods of heat waves.
- EU leading producer Germany manufactured 2,1 % more milk during June but this is coming from a 3,0 % plus in previous months.
- The current growth rate is now at 1,4% based on weekly numbers.
- In the USA, we see the same picture: July output was 0,5 % lower than last year (the first decline since exactly one year ago). This situation seems to vindicate the current sentiment which seems to be in a transient mode.
- For spot business, the market still feels heavy with especially large stocks on both sides of the counter. At the same time, the market endorses the fact that less milk is on the horizon and at a certain point in time, demand will recover.
- This scenario is broadly acknowledged, the deviation is merely in opinion on the when (time frame).
- This outlook is underscored by carry out premiums we see from Q4 2023 to Q1 2024 pricing and EEX futures which could easily be €100 plus higher between each quarter.

- Zooming in on the stocks, during the Covid global pandemic period, due to stock-piling behavior from consumer demand, industries created large buffer / safety stocks propelled by the uncertainties in the logistic chain.
- Products were hard to secure – increasing the order quantities and building up of safety stocks.
- However, when Covid threats vanished and societies opened up, the global inflation commenced and economies cooled down leading to demand destruction.
- Eurostat figures show that June private consumption in the EU during June was 1,6% lower than a year ago.
- At the same time, the total added value of stocks increased with €310 billion – the largest increase since 1995.
- Same circumstances in USA where stocked goods value during May was \$ 2546 billion coming from \$ 2544 billion in January.
- It's recognizable if we look at the stocks of Whey products held by producers, traders and consumers.
- For the EU, no rock-hard data is available but the fact that we have to fight to find storage capacity affirms that a lot of product is not moving.
- As usual, the USA provides much more transparent intel and we can have a look at the June report.
- Total whey storage was approximately 37.250 kMt, up 5,0 % from May 2023 and 14,5% from June 2022.
- In January of this year, stocks were at 31.000 kMt.
- Adding in some background, the all-time high of 48.500 kMt happened in January 2017, and the all-time low of 25.500 kMt happened in December 2021.
- It's clear those stocks create a chunk that has to be eaten and swallowed by the market place first before we are really ready for a rally...

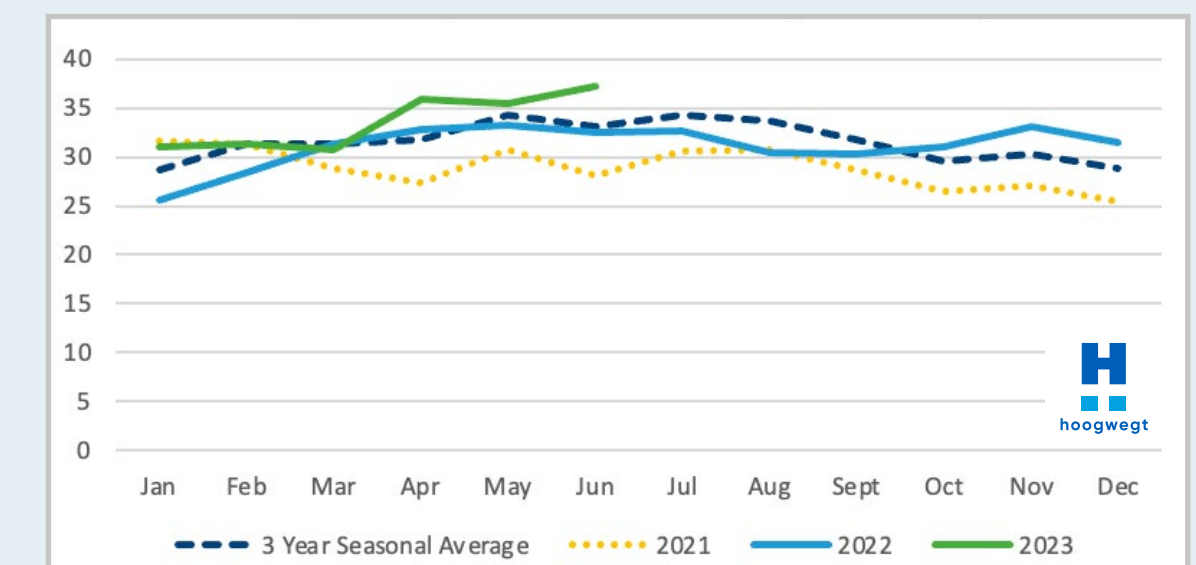
## Dry Whey Human Stocks ('000 MT)



## Dry Whey Animal Stocks ('000 MT)



## Dry Whey Total Stocks ('000 MT)





Futures

By: Joris Thys, Derivatives Trader, HTM

- Powder future markets have been weak after 2 consecutive weak GDT's. NZ is bidding for demand and does so by pushing the SGX future prices lower. WMP futures took the lead and pushed to 6 year low levels, now trading at the lows levels reminiscent of the 2017-2020 era.
- This weakness then spilled into SMP. SGX SMP trades now at historically cheap levels to US and EU levels, therefore claiming SEA demand as current spreads limit exports out of EU and US, forcing prices in these markets lower as well.
- Looking at the EEX 3rd continuation future, one can see that the market is currently trying to break the 2300 support level. For now, the break is not confirmed as we see that these low levels are attracting some bigger buyers who are stepping in, and for the last few days, the market seems to be stabilizing a bit.





## Nigel van den Bosch Vice President – Commercial Dairy Essentials Americas



I joined Hoogwegt Australia in 2010 – not knowing a lot about Hoogwegt, but with a background and passion for the dairy industry and international business – it seemed like a great fit and opportunity! It was fast moving, and with the ability to develop new markets, and work with colleagues around the

world – it was a steep but enjoyable learning curve. Initially, my focus was primarily around sourcing product from Oceania, and selling into various Middle East and Asian markets – both directly and working with our global team. Over the years, my role evolved to take on new areas such as the development and trading of derivatives in Oceania, and was fortunate to be part of various global projects, providing a fantastic opportunity to gain a deeper understanding of the Hoogwegt business, and work closely with many colleagues abroad.

In 2020, I took on a new opportunity as the Managing Director of Pacific Dairy Ingredients in China. Whilst a challenging period in time for the world over – it was an invaluable experience, both professionally and as a family, gaining a deeper insight into the Chinese market and culture. In July 2022, my journey at Hoogwegt took another new direction – moving to Chicago to take on the role of Vice President – Commercial, for our Dairy Essentials America's business unit, where I sit today.

## World Comment.

As we approach the back end of 2023, the market finds itself in a delicate position. On the production front, farm economics are under increasing strain, especially in the US, Latin America, and now New Zealand. Although concerns about this have been raised for a while, it's only recently that we've observed a direct impact on milk production figures. US milk production figures just turned negative year over year in July for the first time this year. This trend appears set to intensify in the coming months, given the declining herd numbers in the US and dropping farm gate milk prices in New Zealand.

Yet, in the face of this milk reduction and its future outlook, global prices continue to weaken. This underscores the importance of demand recovery for any potential price rally. When this recovery will occur is uncertain. The ongoing adverse macroeconomic conditions in key dairy import markets like China and the Southeast Asian region, coupled with the elimination of import tariffs on NZ-origin milk powders into China starting January 2024, suggest that a recovery might still be several months away. Despite the numerous challenges in our current landscape, we remain committed to expanding various facets of our business. This includes bolstering our market presence in Latin America, digitizing segments of our operations via the MyHoogwegt platform, and consistently aiming to add value for both our current and prospective suppliers and customers.



# Hoogwegt Happenings.

Hoogwegt Group has been an ardent fan of the Wageningen Student Rowing Club Argo (W.S.R Argo). As proud sponsors since 2019, we see many parallels between Rowing, and working at Team Hoogwegt.

Like rowing, Team Hoogwegt members need to operate in perfect unison to achieve the best results, win matches and achieve our goals!

Recently, we delivered 1500 single-serve sachets of Clear Whey Protein Isolate W.S.R Argo. This contribution was for Argo to introduce new students to the wonderful world of rowing during Introduction Week. We hope that Argo successfully signed up a new generation of rowers!

Clear WPI is a low-sugar protein shake with a fresh and fruity taste which aids the active athlete in his/her muscle growth thanks to 30 gr of protein per serving. Clear WPI is one of the many food ingredients in Hoogwegt's portfolio.

Hoogwegt wishes W.S.R Argo many wins in the upcoming rowing year!

