



# Horizons.

Our insights  
on Today's Global  
Dairy Business

October 2022

# #05



Page 3



Market Direction

## US milk supply growth appears to accelerate.

Read more →



Page 7

## Dairy Deep Dive: Winter is Coming.



Page 11

## World Comment.



Page 12

## Hoogwegt Happenings.

# Editorial Note.

And so it is – the last quarter of 2022 has begun!

Seems like once COVID restrictions were relaxed in most parts of the world, the world moved in an exceptionally fast pace – almost as though to make up for lost time.

The return of trade shows in South East Asia allowed some of us to see many buyers and suppliers around the region; and in less than a month, **SIAL Paris** would do the same for our counterparts in the other side of the globe! Do pop by our booth 7 E 173

In this edition of Hoogwegt Horizons, our Market Direction section touches on US milk supply and discuss how this might mean more US products into the export markets.

We discuss the implications of the upcoming Winter. Read our Dairy Deep Dive section to see if we indeed think it is something to dread (or not).

Guest writer Freek Jan van der Puijl writes about **Havero Hoogwegt's momentous 100<sup>th</sup> Year Anniversary** and his take on how this really is a people-led and people-driven business.

We hope you enjoy reading this edition of the Hoogwegt Horizons!

Sincerely,  
Hoogwegt Horizons Editorial Team

Market Direction

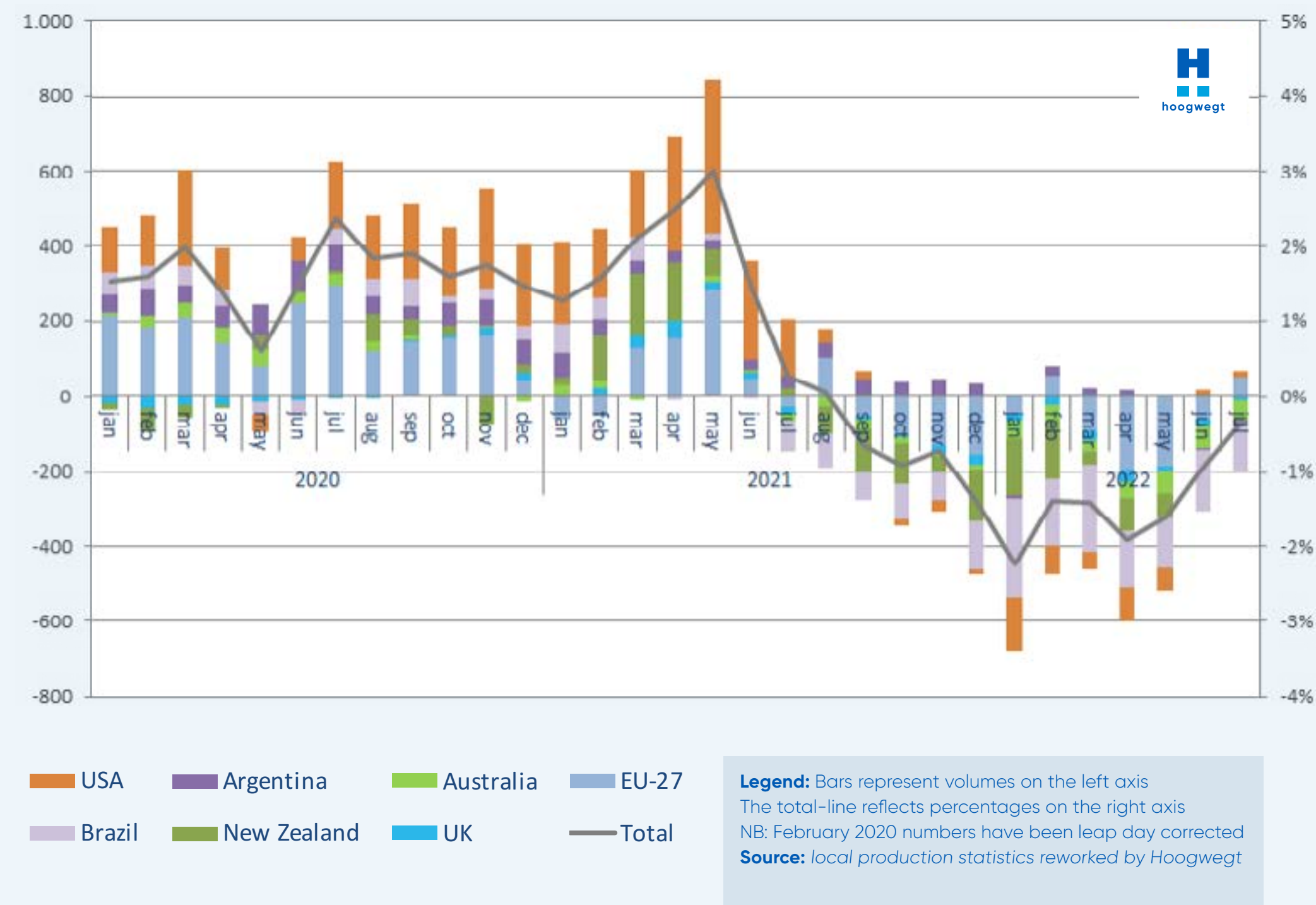
# US milk supply growth appears to accelerate.

In August US milk production growth finally became more substantial. We will have to see if the August rate of 1.6% increase compared to 2021 is sustained in months to come. If that is the case then the US may soon need exports again to balance its market and Oceania may find stronger competition from US origins in export markets in Q4.

The Oceania season is at best expected to produce a flatline compared to last year but without strong import demand in China, Oceania’s export ambitions also need to be recalibrated. It is expected that overall milk supply growth will turn positive in weeks to come without being able to change the global market balance in the remainder of 2022. The return of positive growth rates may certainly affect the sentiment in months to come, but it will be the prices and availability of the main farm inputs at the start of the Northern hemisphere season in 2023 that have the potential to fundamentally change the market balance.

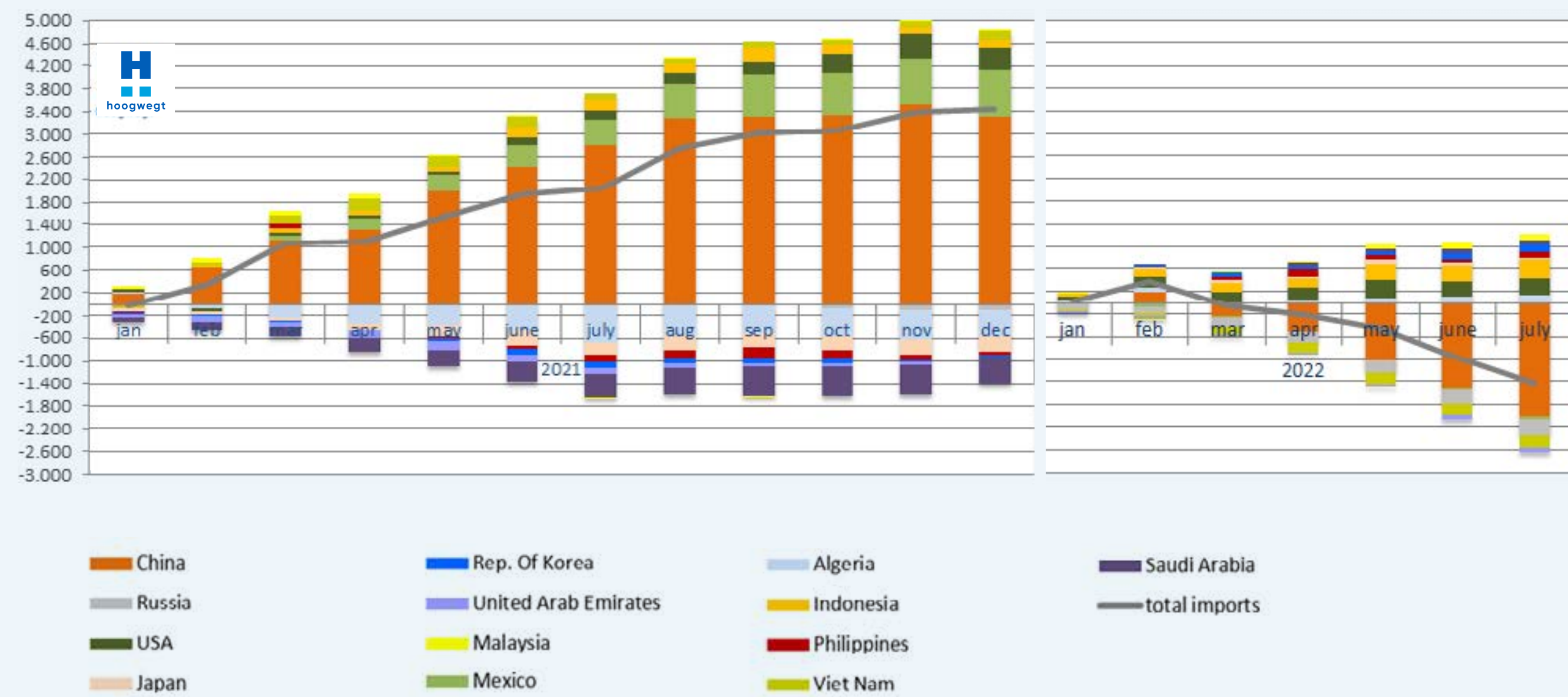
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Milk supply growth in key exporting regions (Y-o-Y change, 1000t)





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: Dairyntel trade data, reworked by Hoogwegt

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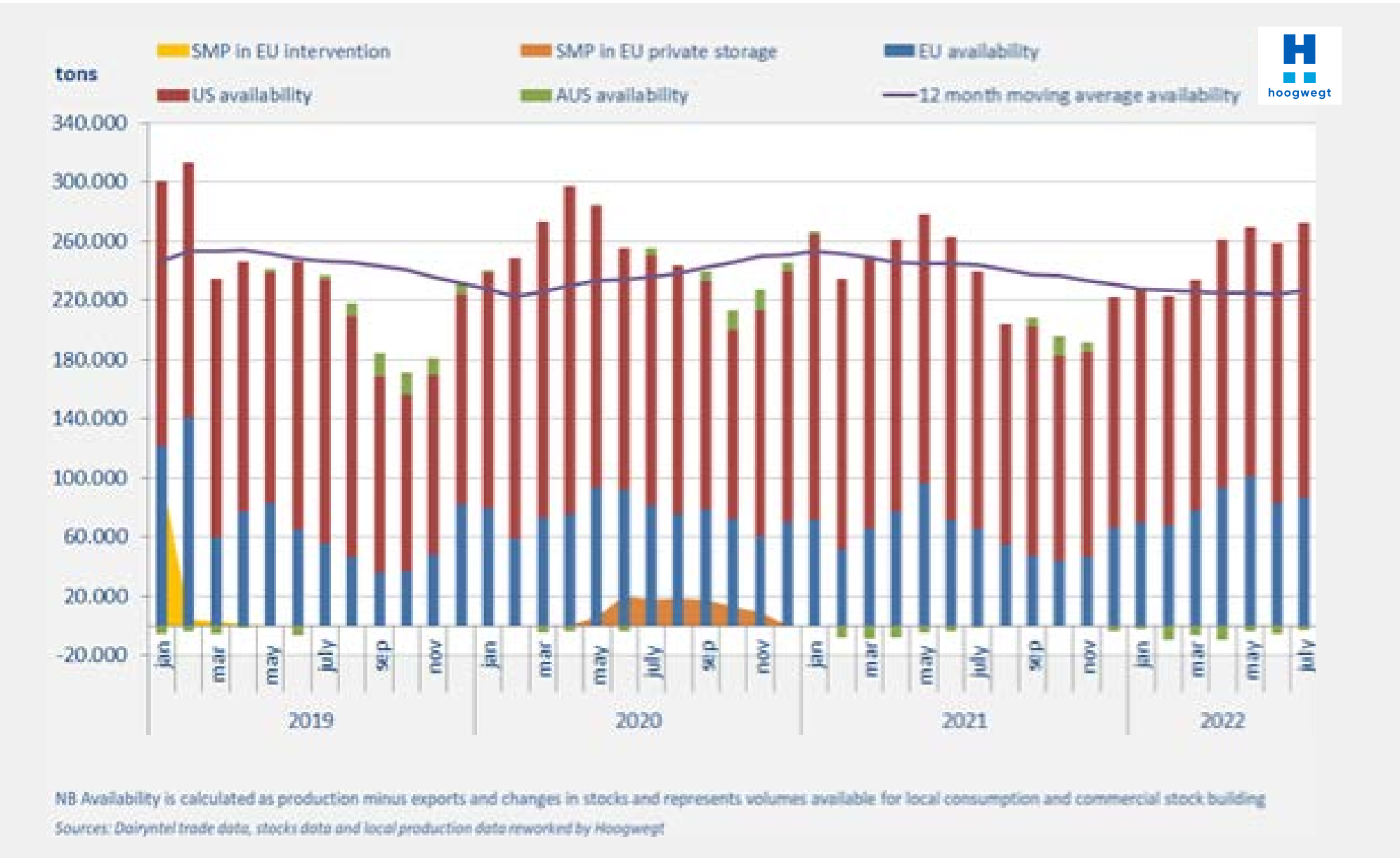
China’s August import data revealed that monthly import volumes remain below last year’s levels. Some categories perform well, like butter, AMF, lactose, fresh cheese and Infant Nutrition, but the big one – WMP – does not come anywhere near the volume that was imported last year around this time. Overall import demand – apart from China – is actually not too bad. Imports in SEA in general – and Indonesia in particular – are quite strong, the US also imports growing volumes and Mexico’s and Algeria’s import performance has improved recently. Against the backdrop of the elevated commodity prices import demand outside China does not disappoint. However, for the near term price direction Chinese import demand will remain the variable to focus on. The degree of recovery in the remaining months of 2022 will have quite a big impact on both the sentiment and the fundamental market balance. It will certainly also determine Oceania’s ambitions in alternative export markets.

## SMP: Availability improves but prices move back up again

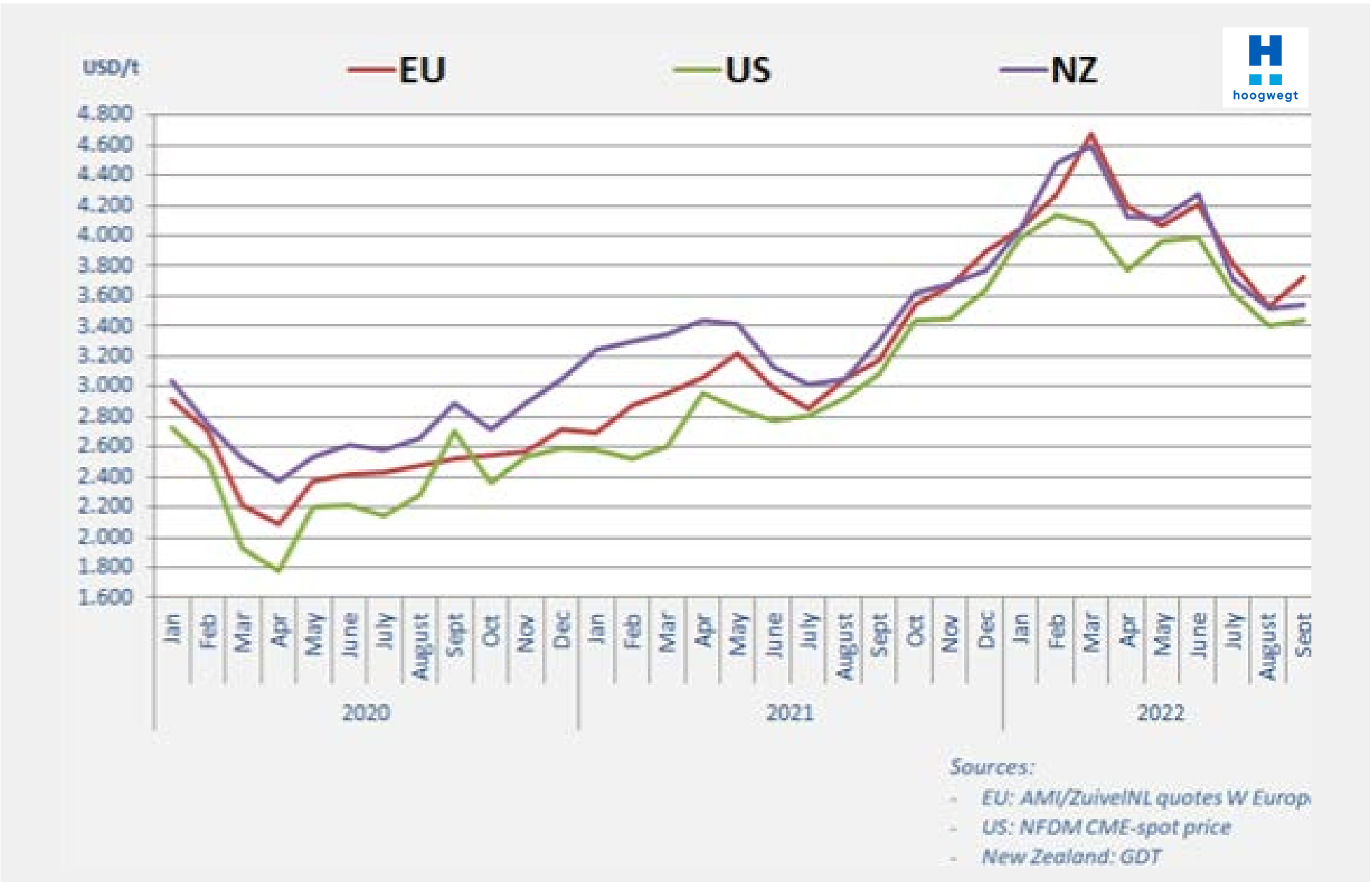
SMP/NFDM prices moved up in all major markets recently. Whether it is because of the uncertainty of gas supplies in the upcoming Northern hemisphere winter or because of the change in price direction in the Asia-Pacific market, buyers are apparently willing to purchase at higher prices again. Tight availability can't be the reason though, because availability in the regions monitored for the graph on the left – EU, US and Australia – actually started to improve again during the summer months. New Zealand

can't be monitored because of lacking data but it is no secret that export availability out of New Zealand at the start of the new season must be much better than in previous years. The weak demand for whole milk powder in China potentially frees up a lot of milk for SMP manufacturing. Processing flexibility is not limitless but SMP processing capacity will most likely be used to the max as long as WMP demand remains lackluster.

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



Monthly SMP prices in the main export markets



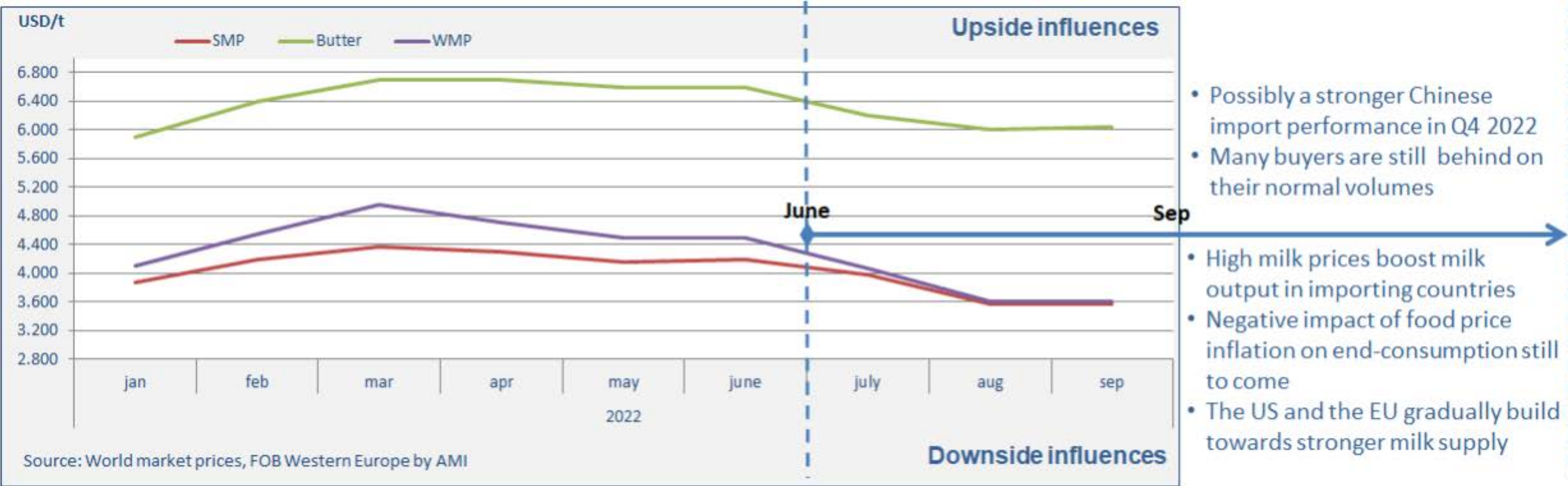


## Looking forward

It remains difficult to present a global view on prices as the direction will quite likely differ between regions. Oceania product appears to move back to a higher trading range. Even a moderate improvement of Chinese import buying in Q4 of 2022 should be able to add additional fuel to this development. But even if China's remains slow until the end of the year, the lack of competing export supply by the EU and the US should be able to pull Oceania prices closer to the elevated EU price levels. The EU will remain out of the export

game until probably the start of the new season. The recent supply weakness due to the heat and drought on the continent has temporarily killed the hopes of buyers for further EU price reductions. Still, in several regions indications of improving milk output are getting stronger so eventually the EU may require an export role again. US supply appears to accelerate ahead of EU supply, which makes it likely that the export ambitions may revive sooner in the US than they will in the EU. For now, however, local market dynamics still mostly dictate US price levels. ■

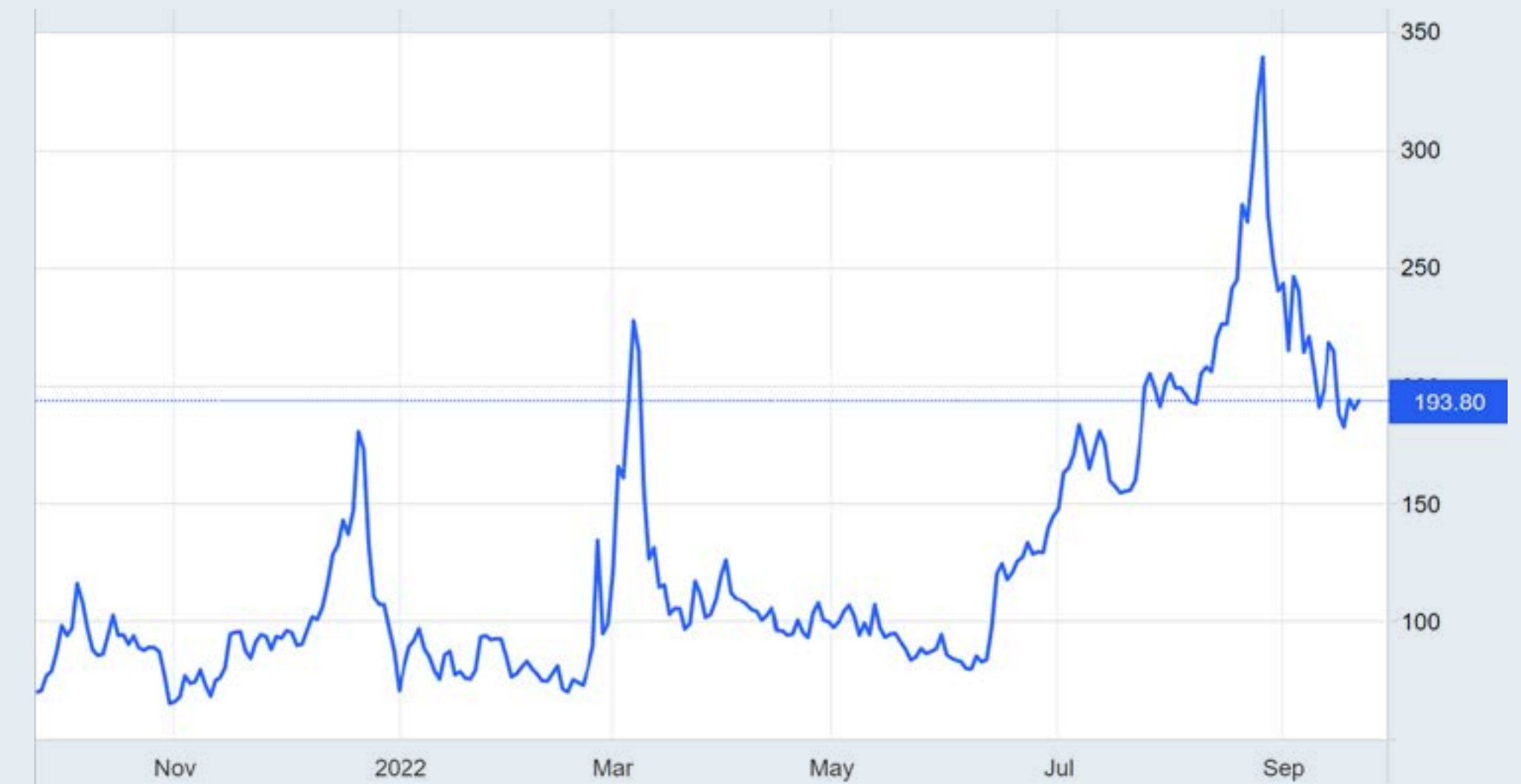
### Market Outlook for October – December 2022





# Dairy Deep Dive Winter is Coming.

Natural Gas EU Dutch TTF (EUR/MWh) 193.8 +4.019 (+2.12%)



From a historical perspective, overall SMP production from Powerhouse is pretty low. Production was lower compared to the 3 or 5 year average in most months in the first half of the year.

The same happened last year. **However**, for this year, in recent months, Europe surpassed last year's production for the same period. The difference between last year's summer and this year's is that during 2021's July, gas and drying costs were in no way the big issue that it currently is. Still, this year's production saw the upticks here and there.

Butter prices were resilient so the SMP+Butter combo (although not the most favorable in terms of valorization) is still a combination which is being used. Some producers made more SMP to be able to anticipate on gas shortages in the winter, and to allow them to still be able to fulfill their contracts. Like addressed in the last Horizons, production has seen some upticks, demand was a bit lower, so although we're sitting on low stocks, we see more supply than a year ago.

The Dutch TTF, an important index for natural gas price, peaked at around the 350 level at the end of August. Back then, the news was that Russia really isn't going to supply the European need for energy. Putin's latest escalations and the news that several French nuclear facilities needed extended maintenance and would thus be shut down for an extended period didn't cause a new spike - so far. Although volatile; 25 Euro's up, 45 down, but perhaps most of the bad news has already been priced in by now and the Russia-Europe gas flow can't be shut down much further.

In a sense, Europe is better prepared than last year. European gas storages are more filled compared to last year, demand is lower and more LNG-facilities are in place so the key indicator that's still open is winter.

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→ continuation

When winter does come, and if a cold harsh one happens, then it might force producers to decrease their production. How much they will be affected is hard to say. Some are hedged or have fixed contracts, but if you want to get a multi-year fixed contract these days, you sometimes have to pre-pay the entire contract. Some producers have alternatives in Diesel or Oil-facilities but most don't (and let's not forget they're not free either). If producers would send a percentage point less of the available milk to SMP for the winter months, it should translate to similar price increases that we have seen Q4 '21.

If winter is mild though, then producers have no nightmares and we're looking at oversupply at current demand levels. November temperatures in Europe (and don't forget Asia) can provide a key indicator. Lack of energy also affects Europe's economy on the longer term in a negative way.

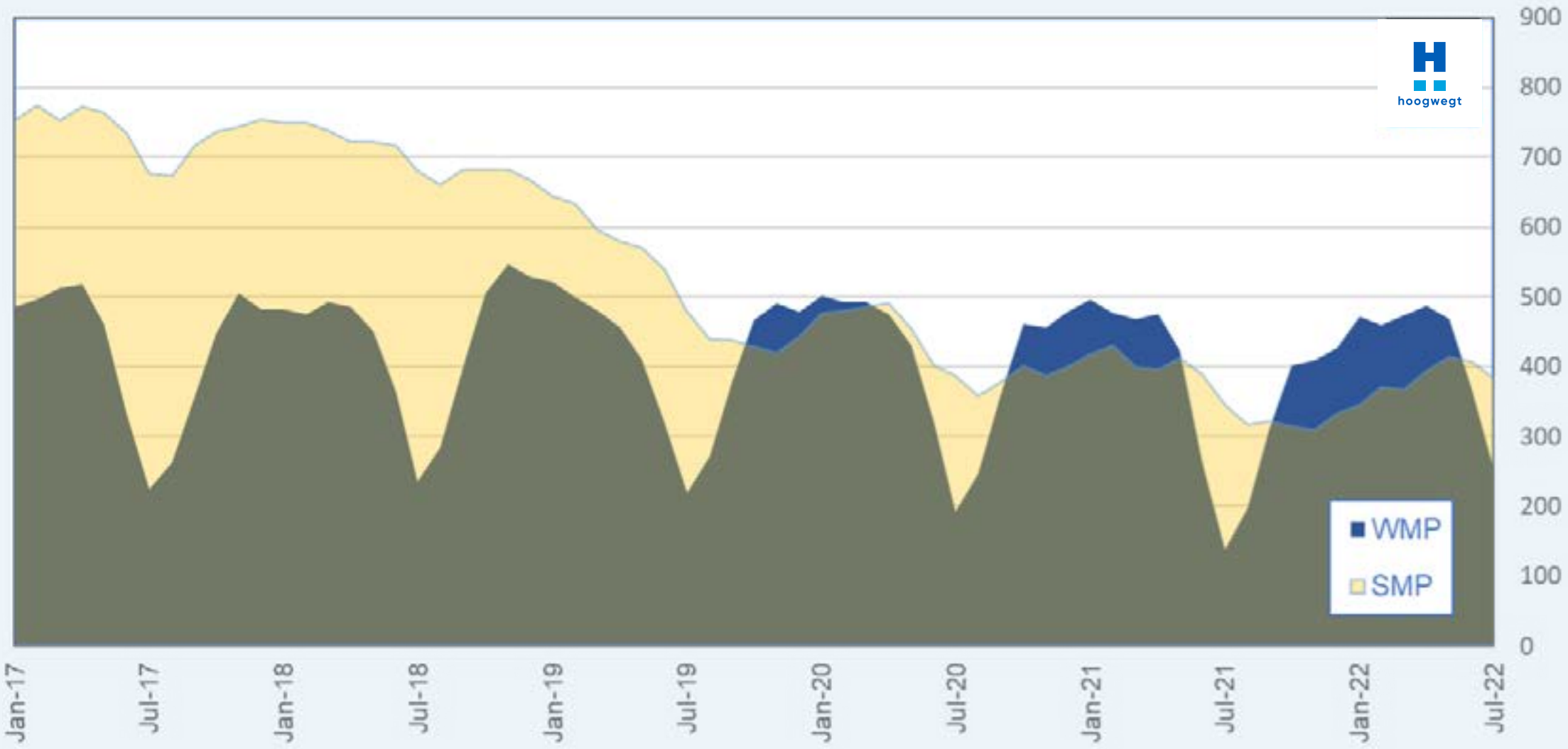
SMP/NFDM stocks are up YoY in the US, EU and NZ, US saw upticks in production after a negative streak that lasted months.

WMP supplies in NZ are up from last year as well, in Europe the WMP production is still on the low side, like the stock levels. In terms of valorization WMP hasn't been favorable for quite a while. The first signs of the NZ Product Mix we spoke about in last issue popped up at the GDT volumes announcements.

Current expectation still is more SMP production coming from the Kiwi's at the cost of the WMP production. Adding to their already YoY-higher supply. As long as Asia is not stepping back in building stocks, NZ will be interested in selling their product in MENA, especially as they're competitive against EU.

[more →](#)

Top-12 Exporters Milk powder stocks (in Kt)





→ continuation

Quarterly stock level reports for the EU should be out just after the writing of this piece and it gives us a better opportunity to see where European DomCon (Domestic Consumption) is at, a drop is likely, but that's also comparing to pretty solid lockdown demand for most months and people switching to private labels instead of premium brands indicate that it's not going to be a complete crash in demand.

Global Import Demand for SMP/NFDM so far has been lower, but this is not a crash with levels still above 200Kt/month. Moreover, a lot of regions who bought hand to mouth and are still expected to continue to do so.

Chinese interest for powders so far has been low. According to the local sources, WMP still trades below GDT levels. China's milk production so far has been good, as such, so is their WMP production. With lower demand, China could stay out of the market for a pretty long time.

However, farmers are being confronted with higher feed prices, and China probably can't stay out of the market forever so we may have seen the worst. What to watch out for though, are also the quotas, as they may shift import demand from Q4 to Q1. Usually, there's a peak in Chinese demand before the 1st of January because of quota. If the quota remain to be off the table, it could shift some of the demand to when China actually needs it, which is past Chinese Lunar New Year (which happens end January 2023). And of course, any changes to the dynamic zero-covid policies, should affect demand.

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**As a quick round up**

US product still is the cheapest, when you're comparing SMP. In Europe, cheese supplies should be at their seasonal peak but still below last year. US cheese stocks should be close, or a bit higher compared to last year with consumption a bit lower.

Of course, inflation is still on the table, recession as well, and the dollar making pretty much every other currency with the exception of the Rubel and the Real looking weak.





→ continuation

## Bulls vs Bears...

### On the bullish side:

- A struggling NZ milk production and governmental restrictions in both NZ and EU.
- Heat and droughts, lack of fertilizers have a negative indirect and direct effect on milk and milk contents.
- Producers are struggling with gas, and this can be an issue in the winter months, especially in cold winters. Therefore, Q4 and Q1 can see production shortages of SMP if things go forward like they are now, even with drops in demand. November temperatures as a first indicator.
- Regions (MENA, SS Africa, SE Asia) are not sitting on much stock.
- Changes in Kiwi product mix leads to less available WMP.
- How long can China stay offline?

### On the bearish side:

- Recent milk production from the US better than expected.
- Continuous low demand from China. With spill-overs to SE Asia while other regions might still buy hand to mouth but won't build huge stocks at current prices.
- Recessions and still firm prices lead to drops in demand. Especially when your slice of cheese is optional (unlike in the Netherlands where it's pretty much mandatory).
- Exports from US, India, Turkey and NZ are competitive and something to watch, as they could compete with Europe's trade shares more than usual. NZ has availability and is looking to increase their SMP production at the cost of WMP. US is relatively cheap with products available and easing transport issues, so problems for EU products?
- No quatum (China) spreads usual Q4 peak into end of Q1.
- Fresh consumption closer to pre-pandemic levels.
- Cash-flow and liquidity issues and strong dollar weakening others.





# World Comment.

## People are great....

That is the main reason that has propelled me to working for more than 30 years at Hoogwegt.

I started my education in Food Technology and that was also when I met my wife.



She was a farmer's daughter and on the weekends, we often went to her parents' farm. There, in the mornings, I enjoyed waking up early, bringing the cows from the grass land covered with morning dew, to the milking parlor.

I enjoyed everything about farming: Feeding, helping out when a cow gave birth, fertilizing the soil, and of course my wife – who has supported me throughout my career.

Logically, I specialized myself in Dairy Technology. It was education, coupled with the farm experience which made me

decide to start working as a trainee at a cheese company. I worked in production companies and got involved in product development. That was the time when I started meeting people outside the factory walls – product developers, suppliers of equipment and ingredients, and clients. I loved it and I started looking for a commercial role which would allow me to see more of the world and interact with more people.

At Hoogwegt, I was able to start as a junior and I met fantastic colleagues – motivated, energetic and with enormous drive, open in the communication, transparent and straight-forward in their approach.

Hoogwegt gave me freedom, responsibility and allowed me to travel around the globe. It allowed me to visit many countries and really see and experience the world. The world for me is the people and I love meeting people in all these different countries and having talks about our business and personal lives.

Sure, nowadays we can communicate efficiently and 24 hours a day by mail, social media and better, we can have video calls. Despite that, for me, there is nothing more stimulating than a personal face to face meeting where you sit around the table and where together we exchange thoughts, explore creativity, find solutions and new opportunities. These are the valuable moments where I learn and understand interests, concerns, drive, motivations and passion. When I have the chance to spend time together, it always makes me experience that every person has something interesting to tell. These meetings prove to me that people truly are great.

Today, I am responsible for Hoogwegt's subsidiary Havero Hoogwegt that handles Dairy Ingredients; Milk and Whey Proteins, and all sorts of special dairy proteins that we develop and produce ourselves for applications like ice cream, yoghurt, chocolate and cheese.

It is a special year for my colleagues and me because this year, we celebrate our 100th year Anniversary. We do this under the slogan **"100 Years of Successful Partnerships"**. Why? Because it is successful partnerships (not just between business entities, but more importantly, the many people involved), that give the Havero Hoogwegt Team our success!

For that, we are grateful and thankful. You can find more information about our 100 years of history at Hoogwegt's website and LinkedIn. <https://hoogwegt.com/news-overview/2022/09/havero-hoogwegt-100-years>

I look forward to meeting you!

**Freek Jan van der Puij**  
Managing Director  
of Dairy Ingredients





# Hoogwegt Happenings.

## Finally! Trade shows are back in full-force in South East Asia!

Hoogwegt, Havero Hoogwegt and Meelunie combined forces and had our first Food Ingredients (FI) Asia Booth since 2019!

Earlier in September, we welcomed buyers, suppliers and industry peers to our FI Indonesia Booth. It was a wonderful change back to face to face meetings instead of the zoom calls which were synonymous with those COVID times.

We look forward to seeing everyone at our next upcoming Trade Show – **SIAL Paris, 15-19 October 2022!**

