



Horizons.

Our insights
on Today's Global
Dairy Business

November 2022

#06



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Northern Hemisphere Pushes Milk Supply to Higher Levels.

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Editorial Note.

November!

The real last month of the work year before things slow down into a bit of a lull going into the festive seasons of Christmas, New Year's and for some, Lunar New Year (which will happen in January 2023).

In this issue, we discuss plummeting prices in the markets (see our Market Direction article), we also revisit our Bulls vs Bears in our Deep Dive article.

Guest contributor Tomasz Maślona who is based in Poland, explores how the Russian-Ukraine conflict and the last three years of COVID have changed our way of doing business, bringing out the entrepreneurship and resilience within Hoogwegt.

On other news, we will be launching our MyHoogwegt Portal very soon (see Hoogwegt Happenings article).

Stay tuned!

Sincerely,
Hoogwegt Horizons Editorial Team

Market Direction

Northern Hemisphere Pushes Milk Supply to Higher Levels.

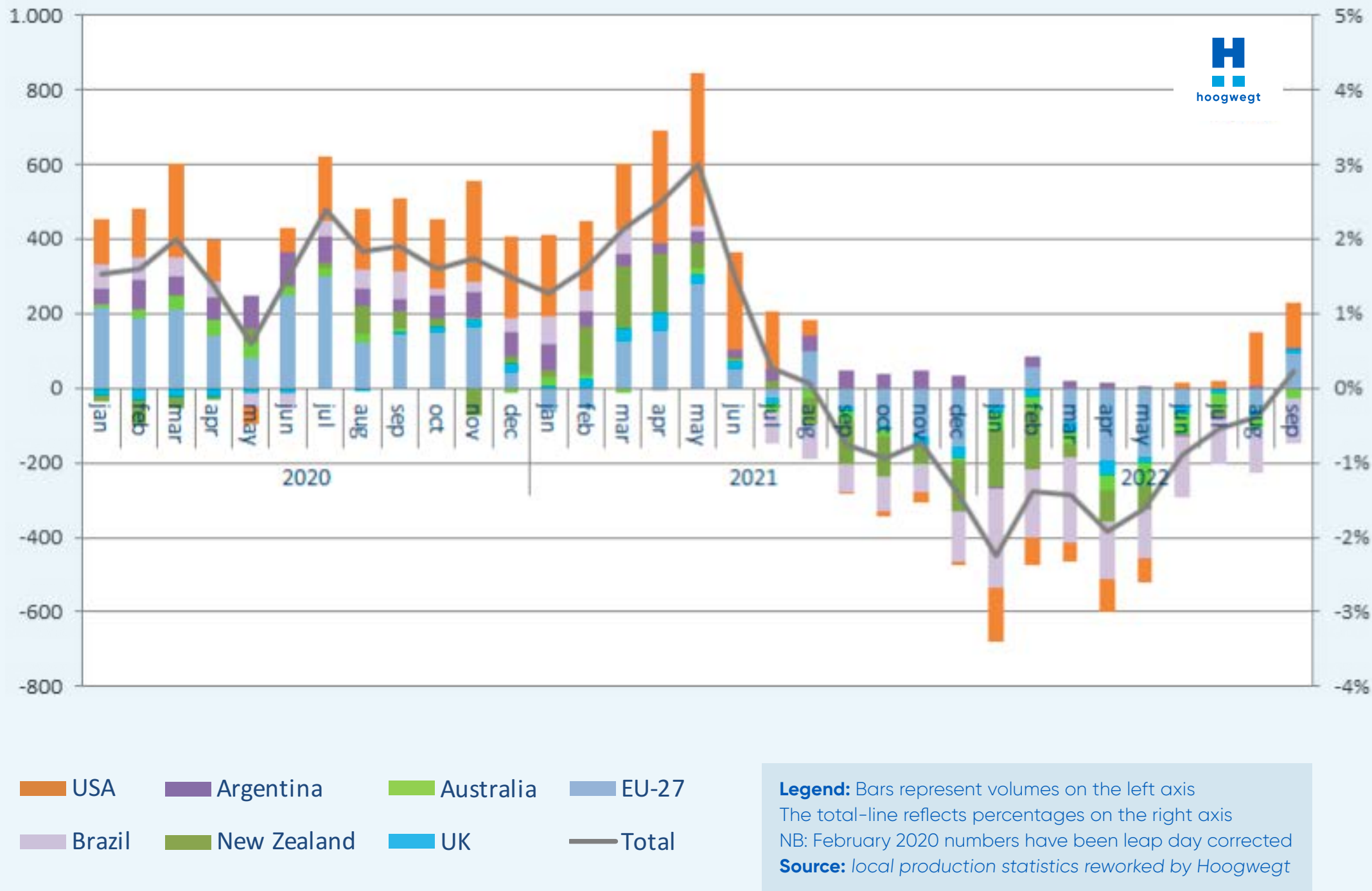
The Southern hemisphere is in the middle of the peak of their season but weather conditions are preventing a strong flush so it seems. Both New Zealand and Australia have not started the season very well so far. Weather has been very wet in spring and lack of sunshine hampered grass growth.

If we add the very high costs of inputs – fertilizer, fuel and labor – then the anecdotal comments about farmers actually scaling back their herds to more manageable numbers make sense. Milk production in Brazil is expected to end the calendar year at close to -10% year on year due to dry weather in the South and Centre of the country. Luckily Argentina’s milk production seems to be on a path to recovery.

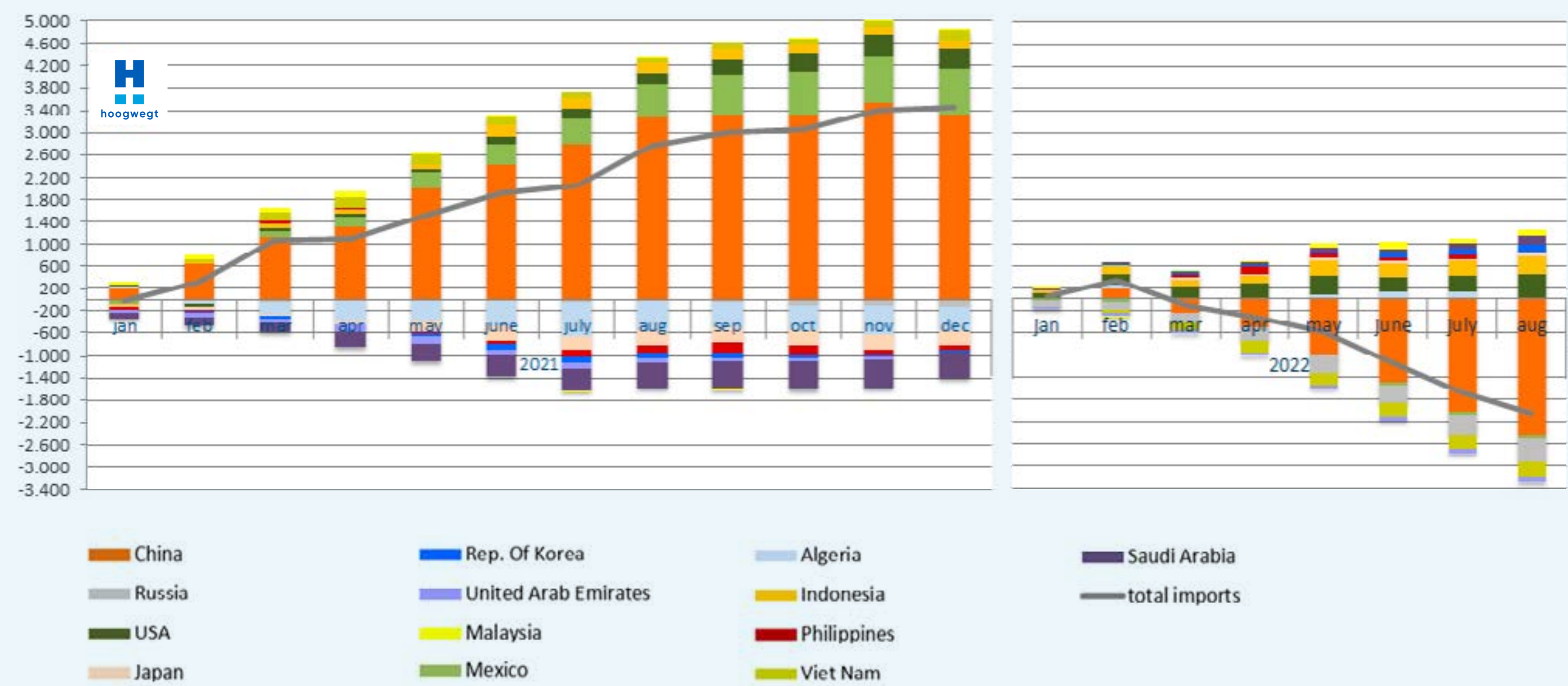
Despite being in low season it is nevertheless the Northern hemisphere where milk production is starting to perform convincingly again. The US continued to grow at 1.5% in September and if more countries follow the example of the Netherlands and Poland then the EU is expected to produce similar growth rates before the end of the year.

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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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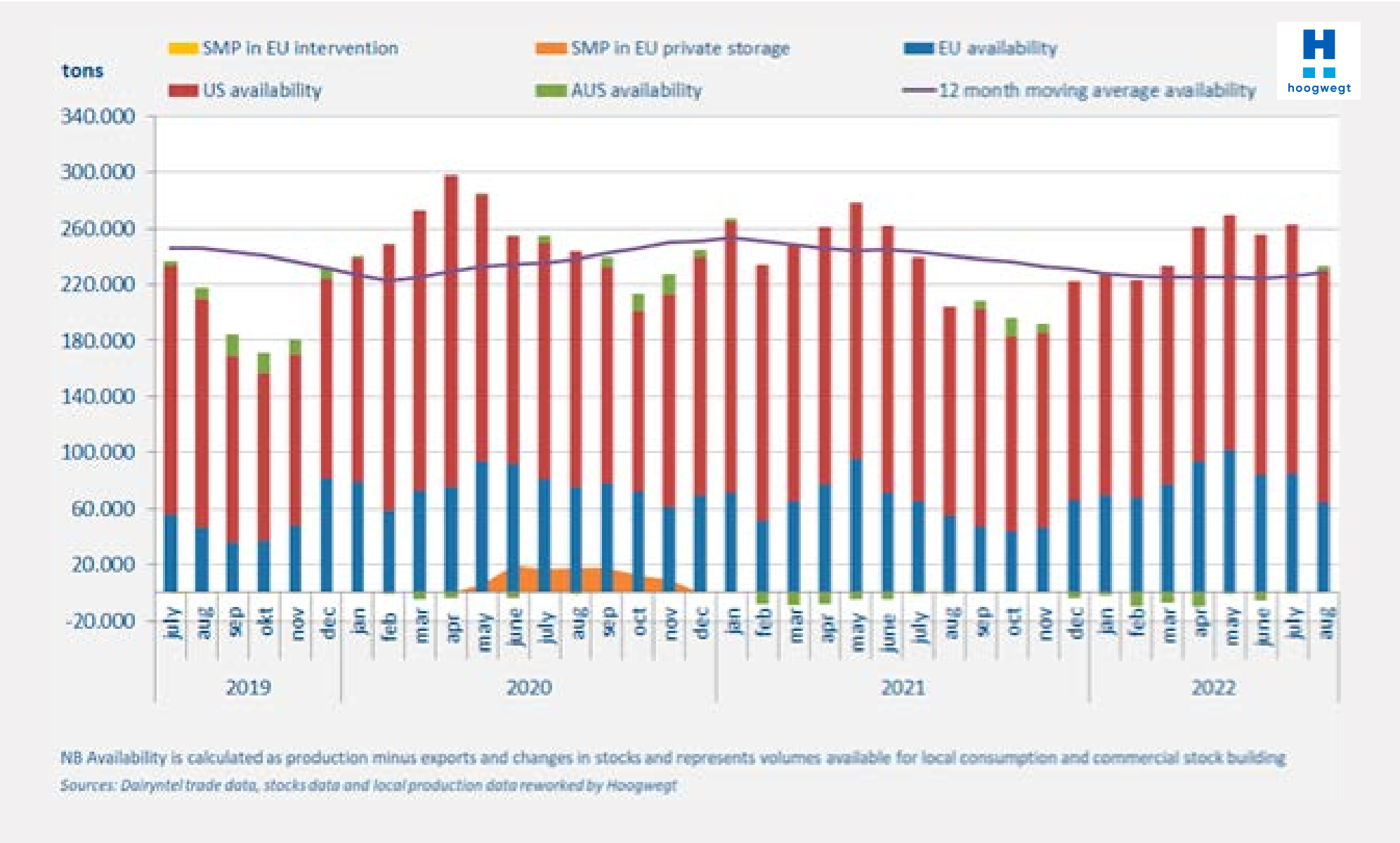
The combination of import demand and domestic consumption in Western markets will probably be the key driver of prices in months to come. Import demand remains on track for a subdued performance in 2022. China will probably end the year at an import volume just above the full year 2020 level but significantly below the record import level of 2021. The other major importers more or less balance each other out as most buyers will probably maintain a short term focus until export availability significantly improves at lower prices. Western domestic demand will most likely not be immune to the price rises that are underway or have already been implemented, but it is difficult to put a number on it as during the pandemic affected years we have more or less lost track of what “normal” retail demand and foodservice demand actually is.

SMP: Downward momentum appears to accelerate

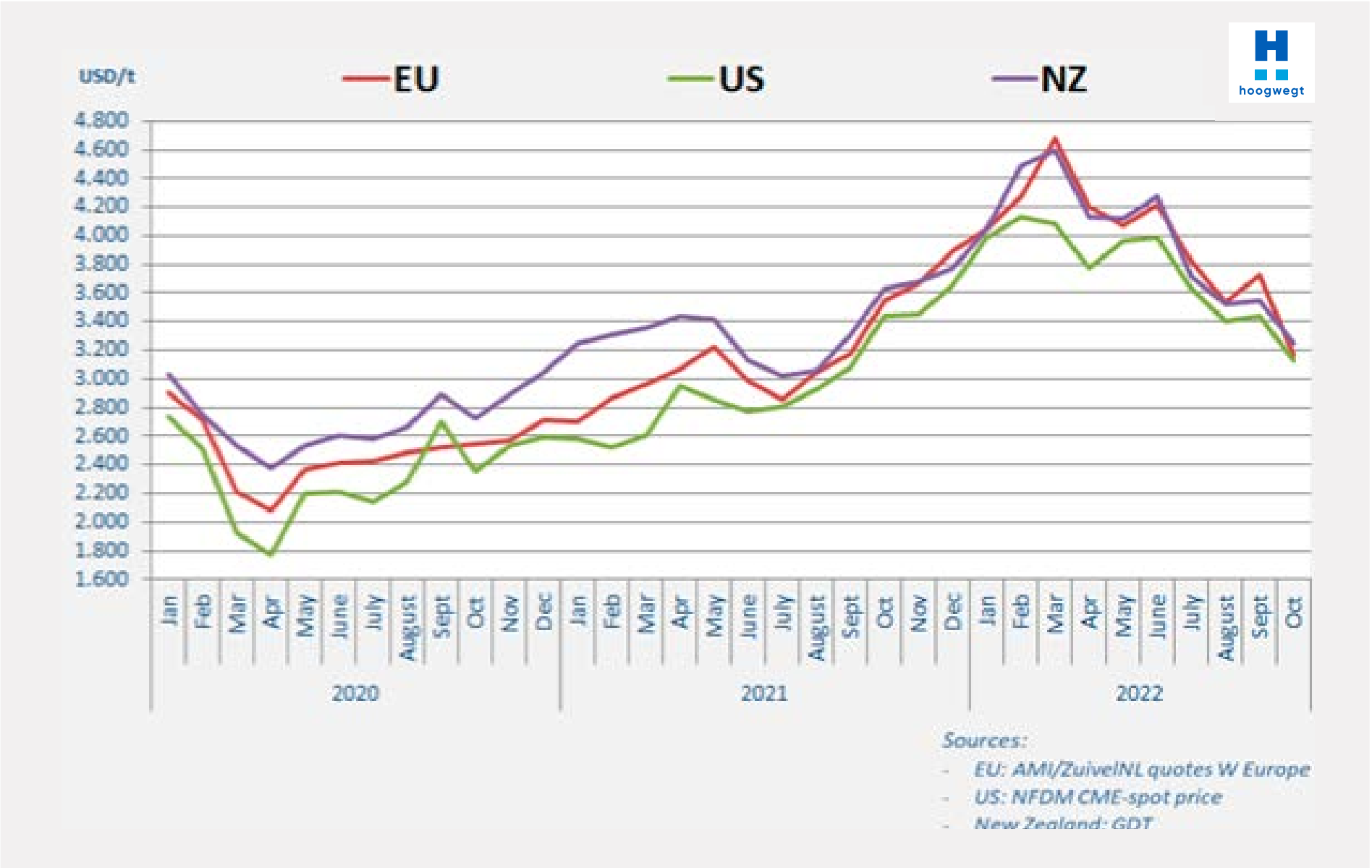
SMP/NFDM competition in export market is expected to heat up in months to come. All three of the major origins – EU, NZ and the US – have different reasons for a stronger export performance in months to come. Milk supply is not a challenge for New Zealand but the significantly reduced WMP volumes that are destined for China free up a lot of milk for SMP and butter exports during the current season. The US is the first of the major exporters where milk production growth is starting to surpass volumes required for the domestic

market. EU milk supply may need more time to build to higher growth rates but EU exports are currently fueled by a weak currency so the potential to engage in export competition is growing as the new season approaches. Against the background of improving export availability it is not a surprise that prices are converging at levels not seen since Q3 of 2021.

Production, exports and availability of SMP in EU, US and Australia¹⁾



Monthly SMP prices in the main export markets



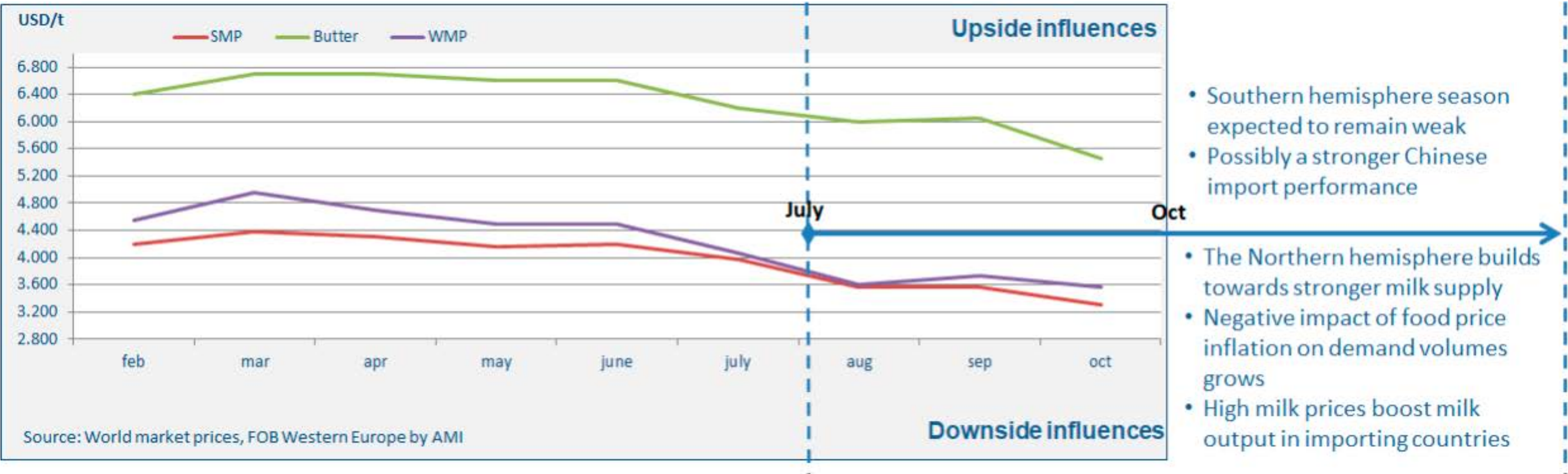


Looking forward

Market sentiment has changed and most market comments indicate downward price pressure for the near term. As understandable as this is from the perspective of the historically high prices levels, it remains difficult to find strong arguments for downward pressure on the supply side of the market. When looking at the market balance from a demand perspective however, it is realistic to assume that end consumption is bound to suffer from the high consumer prices. Especially as in most Western markets prices haven't even peaked at the retail level yet.

As long as supply fails to support the downward direction of prices, buyers as well as suppliers might occasionally be surprised – either positively or negatively – by the actual availability of product. Therefore a volatile ride cannot be avoided until we will get a clearer perspective on the market balance towards the end of Q1 2023. ■

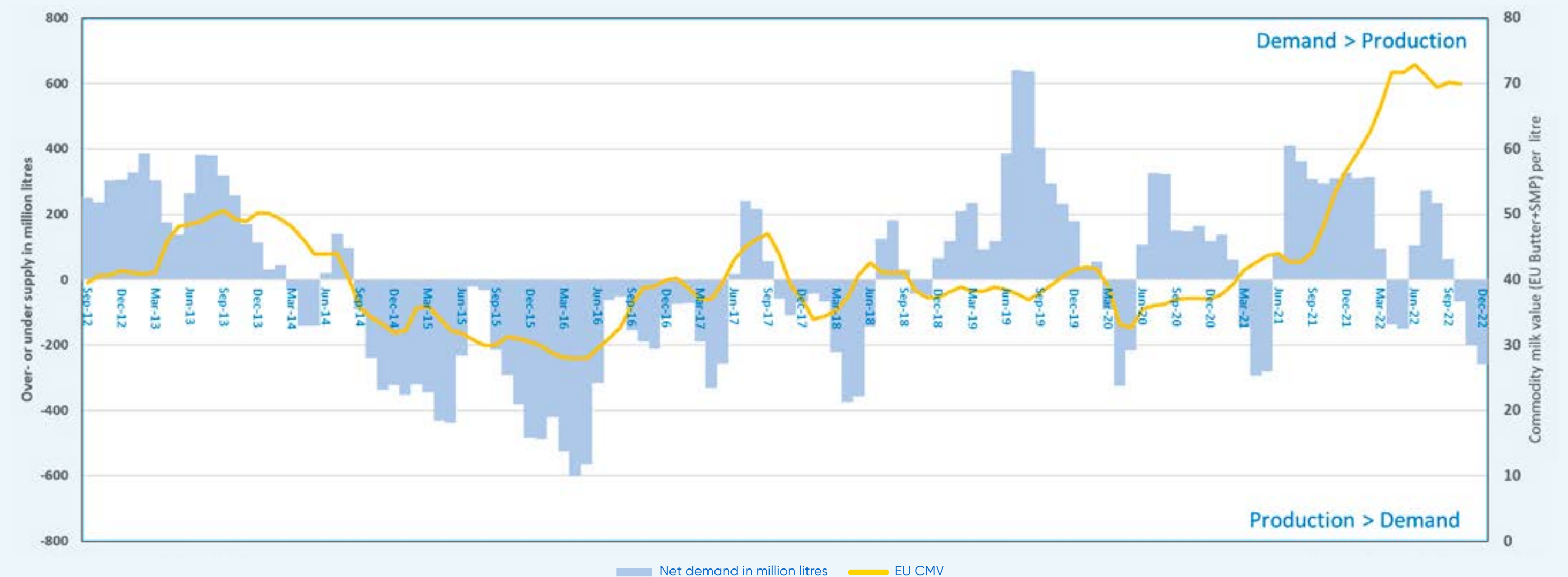
Market Outlook for November 2022 – January 2023



Dairy Deep Dive

More supply less demand?

Net demand in milk equivalent (in Mil. litres) vs. commodity Milk Value (EU SMP+Butter)



The growth ahead in the terms of milk production in the Northern Hemisphere is outpacing the losses from the struggling exporting countries in the Southern Hemisphere. Although the downside may be limited by the Southern Hemisphere, from September onwards, there should be more milk available compared to a year ago.

While domestic consumption in general took a turn South after the second quarter (due to raised prices); and global demand is also struggling (especially in the Asian continent), one could calculate it all back to milk.

With current projections of global import demand for dairy (described as hand-to-mouth at best and lackluster at worst), the outlook sees net demand exceeded by the exportable production of dairy.

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→ continuation

That’s an argument from the fundamental perspective for lower prices.

In the chart on page 7, the value of milk, calculated based on the European SMP and Butter (orange line with value on the right hand axis, in eurocents per litre).

- The bars are representing net demand (import demand minus exportable production).
- It doesn’t take existing stock-levels into account, but it does give one an indication for coming stock-building or stock-eating, calculated all back to milk.

Given the above assumption of slow Asian import demand, this is what we’re looking at... but note the Watchlist in the Bulls vs. Bears section.

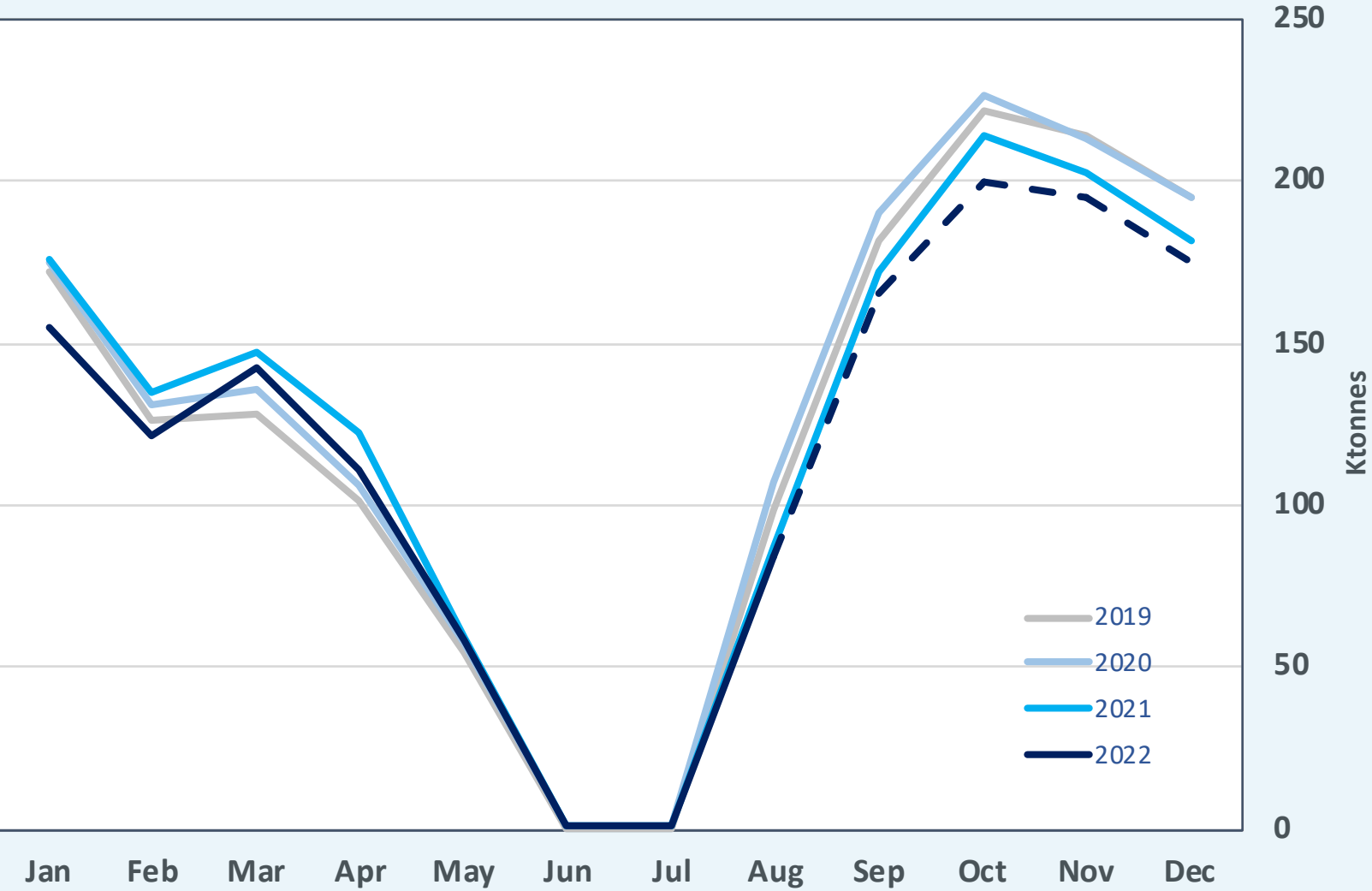
The impact of a ‘no quatum’-China in terms of shifts in demand is profound, especially for WMP as it would ease the usual Q4 demand peak to get powders into China before the first of January, while some of that demand will now be spread into Q1.

In the past Horizons issue, we discussed natural gas and the production of powders. We noted that Europe seemed to be better prepared than a year ago and that we might have seen the worst in terms of price (DutchTTF).

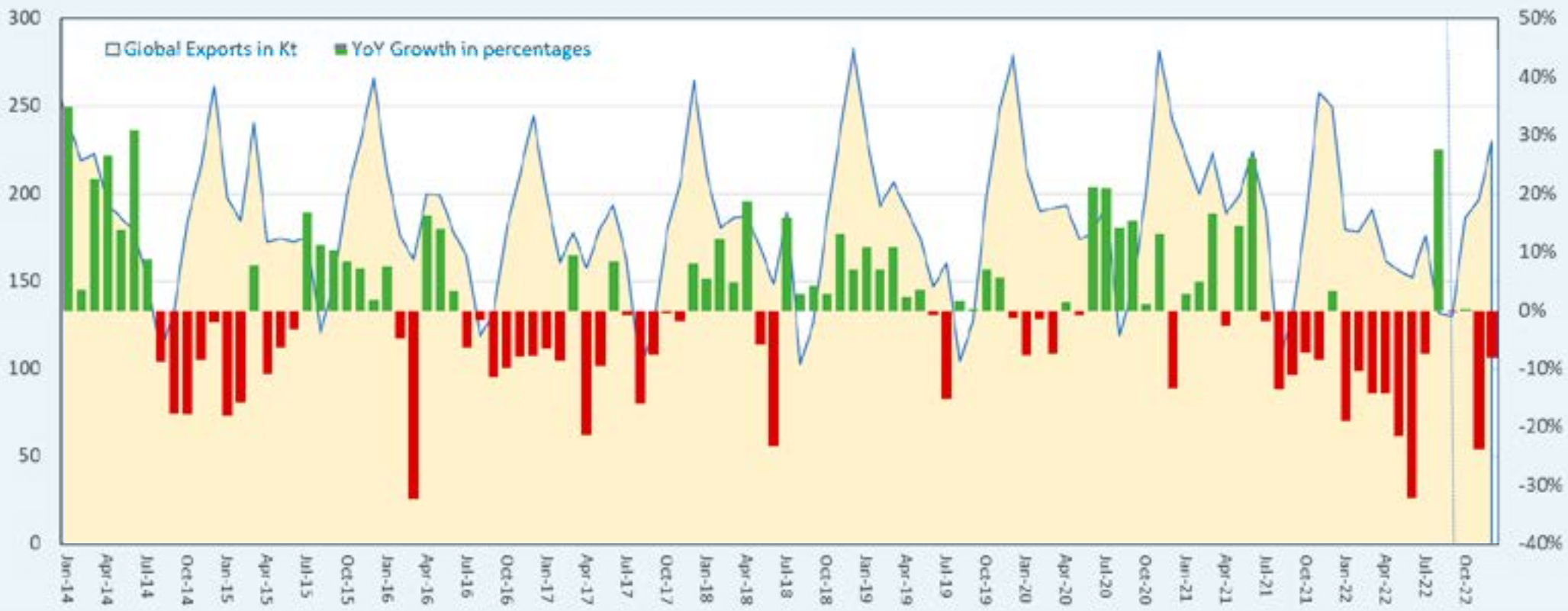
So far that seems to be the case as European storages still are pretty full and incoming LNG in combination with mild weather, gas prices eased and the Dutch TTF was only a third of what used to be.

more →

NZ WMP Production in Kt



Total global monthly WMP exports (Kt)



→ continuation

We saw increased production of SMP in the EU compared to the numbers of last year, leading to more stocks due to simultaneous lower demand. Current German weekly reports indicate that the German SMP production significantly increased in the past weeks comparing with last year. Of course there is milk growth, which is an argument for relative and absolute increase of SMP. But the recent dynamics in SMC also give reason for current increased production. There is also some light for Top-3 exporters as current competitive exports from Turkey and Indian seemed to have eased, while in the past year their exports quite often exceeded the double digits in kilotonnes.

European WMP supplies are currently still pretty low, although if valorisation gets better we might see an increase after a long streak of low production.

That's currently doesn't seem to be the case yet. Given the struggling NZ Milk production and possible changes in product mix, the WMP Production in NZ should be lower.

But so is the Asian demand. And currently the drop in demand outweighs the decrease in milk production and NZ WMP, projected below with NZ WMP Production plotted in the first chart and the so far lacking WMP demand in the second chart, with currently no news on China re-entering the market in any significant matter. Something to keep watching of course.

[more →](#)



→ continuation

Bulls vs Bears...

On the bullish side:

- A struggling NZ milk production and governmental restrictions in both NZ and EU.
- Regions (MENA, SS Africa, SE Asia) are not sitting on much stock.
- How long can China stay offline?
- Recent trade data for India and Turkey show that they are exporting less, because of seasonality but reportedly also to 'limit' their inflation.

On the bearish side:

- Recent milk production from the US better than expected, EU growing.
- 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.
- Better availability in terms of supply compared to 2021.
- No quotum (China) spreads usual Q4 peak into end of Q1.
- Fresh milk consumption returning; down to pre-pandemic levels.
- Cash-flow and liquidity issues.
- Recent GDT saw decreases across the boards.
- Fundamental over-supply in other dairy products.

What to watch

- Strong dollar skewing trade shares and US competitiveness versus others.
- Winter and gas crisis (Key indicator: Temperatures in Europe (and Asia) November onwards).
- UKR/RUS conflict going into a winter and has question marks all over the place.
- Asian demand and Chinese Covid-policies.
- Changes in the NZ Product mix (more SMP Production at the cost of WMP).

Tomasz Maslona Commercial Director Dairy Essentials East Europe



The Financial Year 2022/23 is my sixteenth year at Hoogwegt. When I joined in 2006, I was struck by the company's open and inspiring culture right from the start. I enjoyed the dynamics of the business and the autonomy of work, feeling the support of the people around me. This entrepreneurial climate has

accompanied me over the years, when I played various roles in the organization. From a Junior Whey Powder Trader, through a Liquids Director, to CEE's Commercial Director today.

Over the past 16 years, the world has changed rapidly along with the growing access to information, the development of the Internet, new tools, approaches, and market trends. The dairy market was no different and has evolved significantly during this time. Continuous consolidation of supply and demand, development of risk management tools, sustainability and compliance as the foundation of the business.

Whatever happened before 2020, however, was only a prelude to the great change that had taken place in the last 3 years. In January 2020, I was buying plane tickets to the Tokyo Olympics for my 40th birthday. I was excited to go and I was already counting down the days to start. I didn't have to count for long... 😊

We all know what happened next – the world stopped for a moment. When the Covid pandemic broke out in Spring 2020, everything looked surreal at first, but then we had to adapt to

World Comment.

the new reality. Over the past 3 years, we have changed our lifestyles, the way we work, live, travel and communicate. The world has changed in ways we would never have imagined.

More broadly, it has become clear over the past 3 years that further globalization is not the only scenario for the future. The world is heading in the opposite direction today. Severe lockdowns that disrupted supply and freight have forced companies from many industries to shorten their supply chains, look for alternatives nearby, and change their business approach.

The Russian aggression against Ukraine that shook the world in February this year, followed by the migration, energy crisis and the growing tensions between China and the US over Taiwan have sparked concerns about the growth and stability of the world economy in the coming years, as well as the future of world trade.

High inflation puts pressure on consumption and demand and ultimately leads to more poverty and potential unrest. As the cost of capital rises, debt becomes a problem, and problems with liquidity and profitability begin to grow in many sectors of the economy. It looks like a serious crisis is just around the corner and there will be more turbulence in the future.

All of this is a great challenge for all of us as we need to adapt to the new environment and redefine our business models to stay ahead of the competition and prove that we are a leader in the Dairy industry. However, I am convinced that we will show entrepreneurship, creativity and resilience once again to become better at what we do – which is to bring vision and value to the market.

Hoogwegt Happenings.

Hoogwegt adds a Digital service!

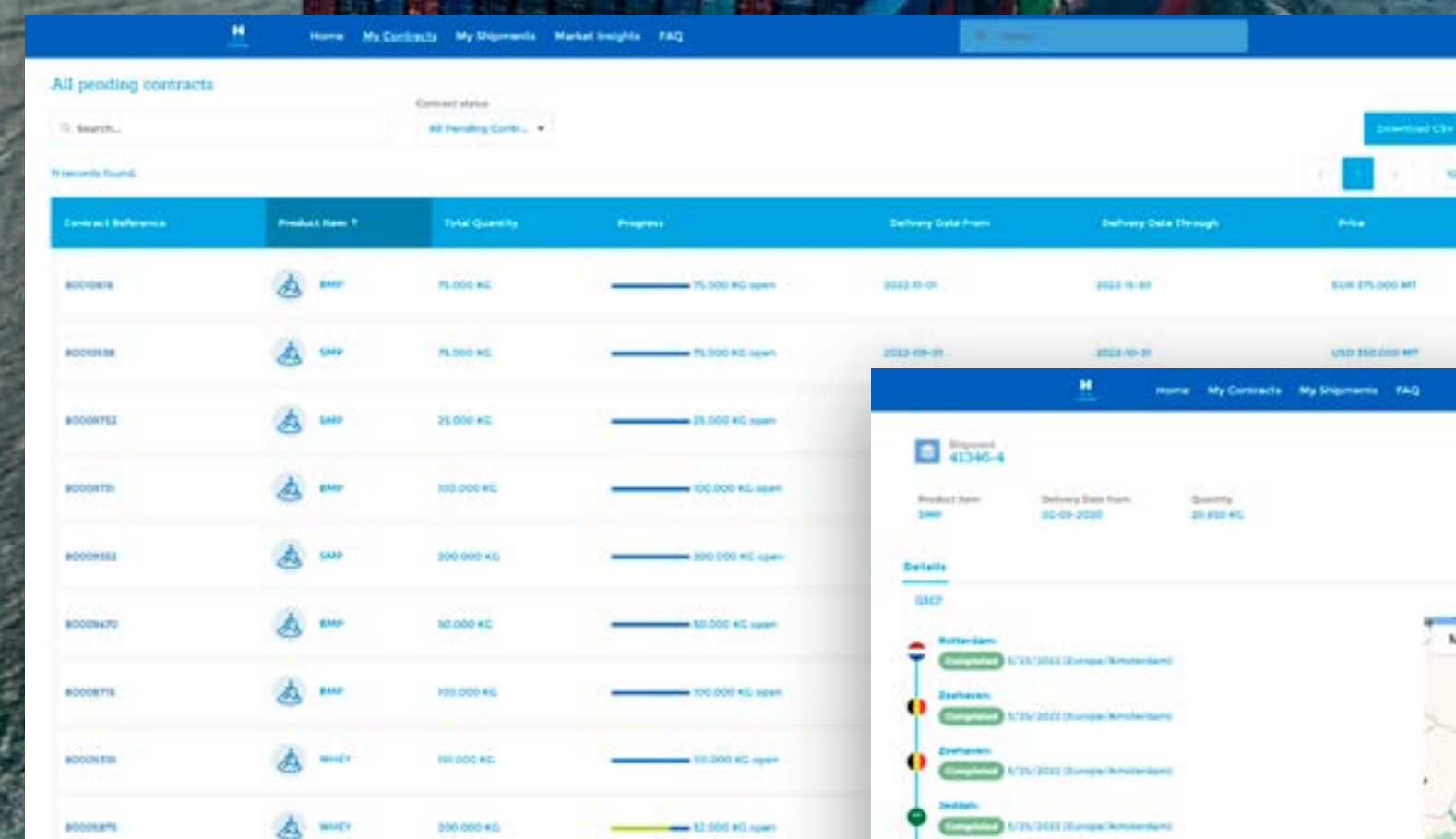
Check on the shipment status of your order at Hoogwegt – whenever you want, wherever you are.

That is what the new **MyHoogwegt** Portal has to offer. Immediate insight in past and current contracts, shipment track & trace information, expected times of arrival of your shipments; it's all available to you, **real-time**.

The MyHoogwegt Portal is not intended to replace our personal contact with you, but is an addition to that. It is an “always-on” source of customer-specific information in a new digital environment.

We are nearing the MyHoogwegt launch. By the end of November, we expect to go live.

Keep an eye on your mail, as more information and login details will follow soon!



The screenshot displays the 'All pending contracts' section of the MyHoogwegt portal. It features a search bar, a 'Download CSV' button, and a table with columns for Contract Reference, Product Name, Total Quantity, Progress, Delivery Date From, Delivery Date Through, and Price. The table lists several contracts with their respective quantities and delivery dates.

Contract Reference	Product Name	Total Quantity	Progress	Delivery Date From	Delivery Date Through	Price
8000868	BMF	75,000 KG	75,000 KG open	2022-01-01	2022-01-01	EUR 175,000 MT
8000868	BMF	75,000 KG	75,000 KG open	2022-01-01	2022-01-01	USD 150,000 MT
8000872	BMF	25,000 KG	25,000 KG open			
8000872	BMF	25,000 KG	25,000 KG open			
8000882	BMF	200,000 KG	200,000 KG open			
8000882	BMF	200,000 KG	200,000 KG open			
8000870	BMF	50,000 KG	50,000 KG open			
8000870	BMF	50,000 KG	50,000 KG open			
8000875	BMF	100,000 KG	100,000 KG open			
8000875	BMF	100,000 KG	100,000 KG open			
8000880	BMF	100,000 KG	100,000 KG open			
8000880	BMF	100,000 KG	100,000 KG open			
8000875	BMF	200,000 KG	12,000 KG open			

