



Horizons.

Our insights
on Today's Global
Dairy Business

September 2024

#09

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Market Direction

**Milk Production
Singing The Blues
in Europe but
gaining traction
in NZ.**

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Enter Sweater Weather

As the final days of summer slowly drift away, we welcome the cozy embrace of autumn. It's that time of year when the air gets a little crisper, sweaters come out of storage, and the scent of pumpkin spice fills our cups. While we bid farewell to summer's carefree moments, we look forward to the vibrant hues and invigorating changes that autumn brings.

In this edition of Hoogwegt Horizons, we're turning our focus to significant trends and insights shaping the dairy industry. Our 'Market Direction' section will explore the latest updates on global milk production, analyzing how recent shifts are impacting the market.

For those interested in the price dynamics, our 'Deep Dive' will provide a thorough examination of the rising milk powder prices, uncovering the key drivers behind these changes.

Our 'Quick Note' section will offer concise insights on two critical areas: developments in the whey and high proteins markets, and a detailed analysis of SGX Futures, penned by Bart Whiteley. These segments aim to provide you with a snapshot of the current market landscape.

We are also pleased to feature a 'World Comment' written by our talented Sanne van Welij, Senior Account Manager at Hoogwegt International, who will share her perspective on the latest global market trends. And in 'Hoogwegt Happenings,' we'll highlight our exciting new acquisition of Future Foods BV, showcasing our commitment to innovation and growth.

As we transition into this new season, we remain dedicated to bringing you valuable insights and updates to navigate the ever-evolving dairy market landscape. Here's to a season of growth, warmth, and continued success!

As always, Hoogwegt Horizons Editorial Team

Market Direction

Milk Production Singing The Blues in Europe but gaining traction in NZ.

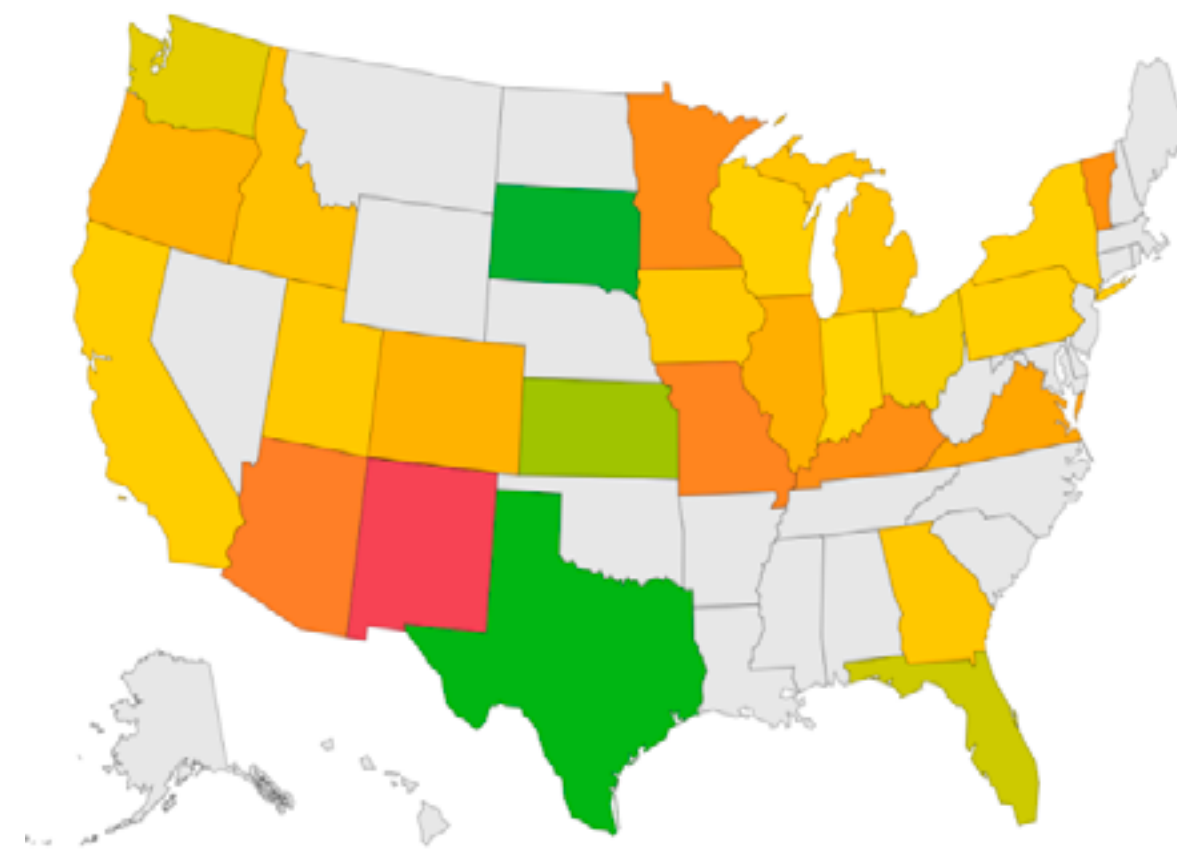
US Milk Production: July registered a -0.4% dip in US headline milk collections but positive from a solids perspective (1.7% YoY). Income-over-feed margins should be pretty darn good.

- This marked the 13th consecutive month of year-on-year declines in US milk production.
- Milk production per cow experienced an increase of 0.09% compared to July 2023, however, the herd size is still around 0.46% lower.
- Cow slaughter is still low, (YTD 301k less cows slaughtered) and has been low since September last year, but the replacement heifers still aren't flooding the US either as they're expensive.
- July 2023 was the start of the weak streak, giving a lower comparable basis from July onwards and a closer to neutral milk production growth figure.
- **US Milk Fat:** levels in July stayed above the 4% at 4.05%, which is pretty good.
- **US Milk Protein:** levels for July, the seasonal bottom, were at 3.20%, above the 3.16% from July 2023.

European Milk Production: Changes compared to the previous outlook: Heat wave eased but increased incidences of Blue Tongue reported. Mid-term outlook unchanged until further information on the impact of Blue Tongue is gathered.

Margins

- In July, the EU's weighted average margin reached 46.2 cents, with implied milk prices at 48.5 cents, representing a 10% year-over-year (YoY) increase. And with butter prices firming there is a reason one could see increases on the farm gate milk price, further improving the margin for farmers. On top of that, feed costs have dropped by 20% YoY, suggesting that overall margins are likely better than both last month and last year, from the income-over-feed perspective.



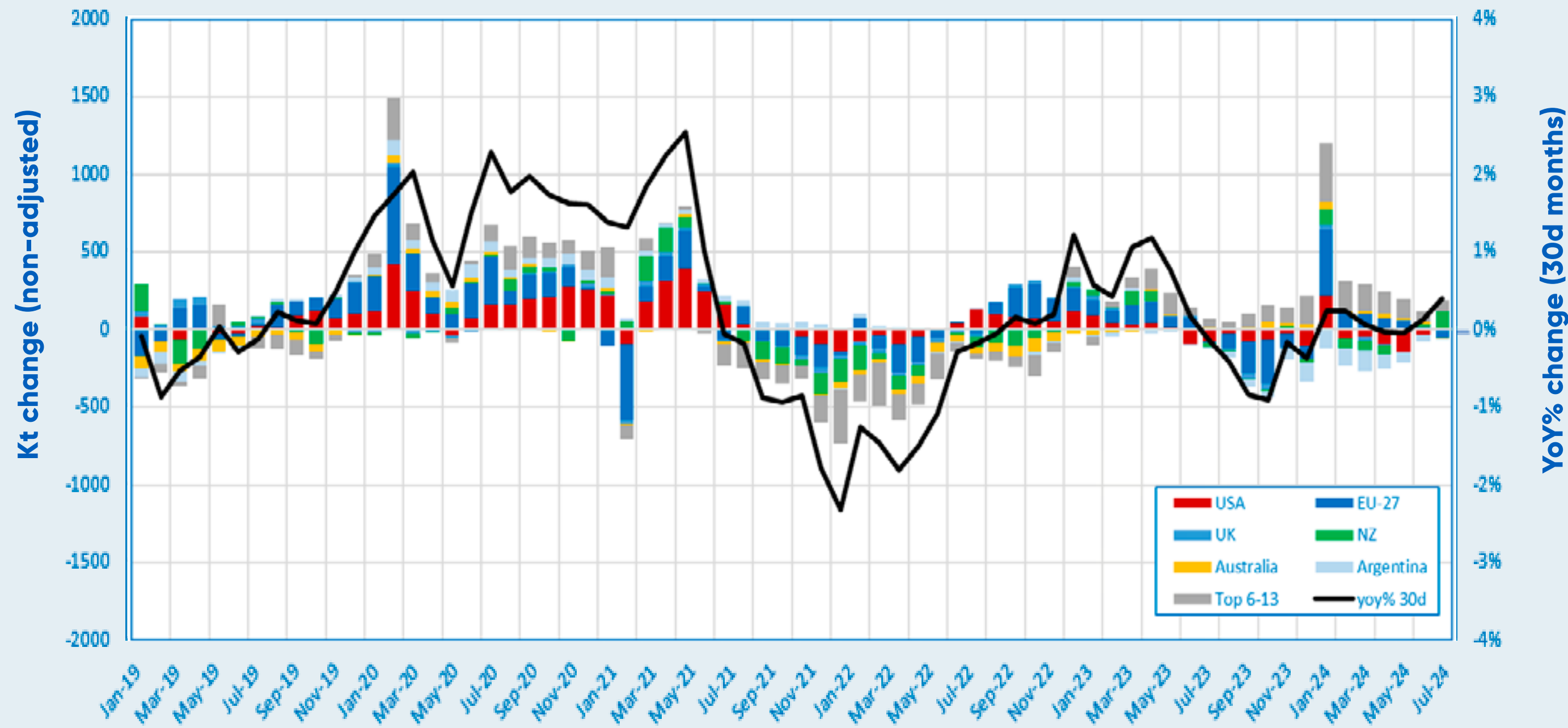
More On Blue Tongue

Until recently, we've assumed a mild positive milk production figure in Q3 (and even stronger milk growth in Q4), and mediocre to low solids in that milk, for Europe.

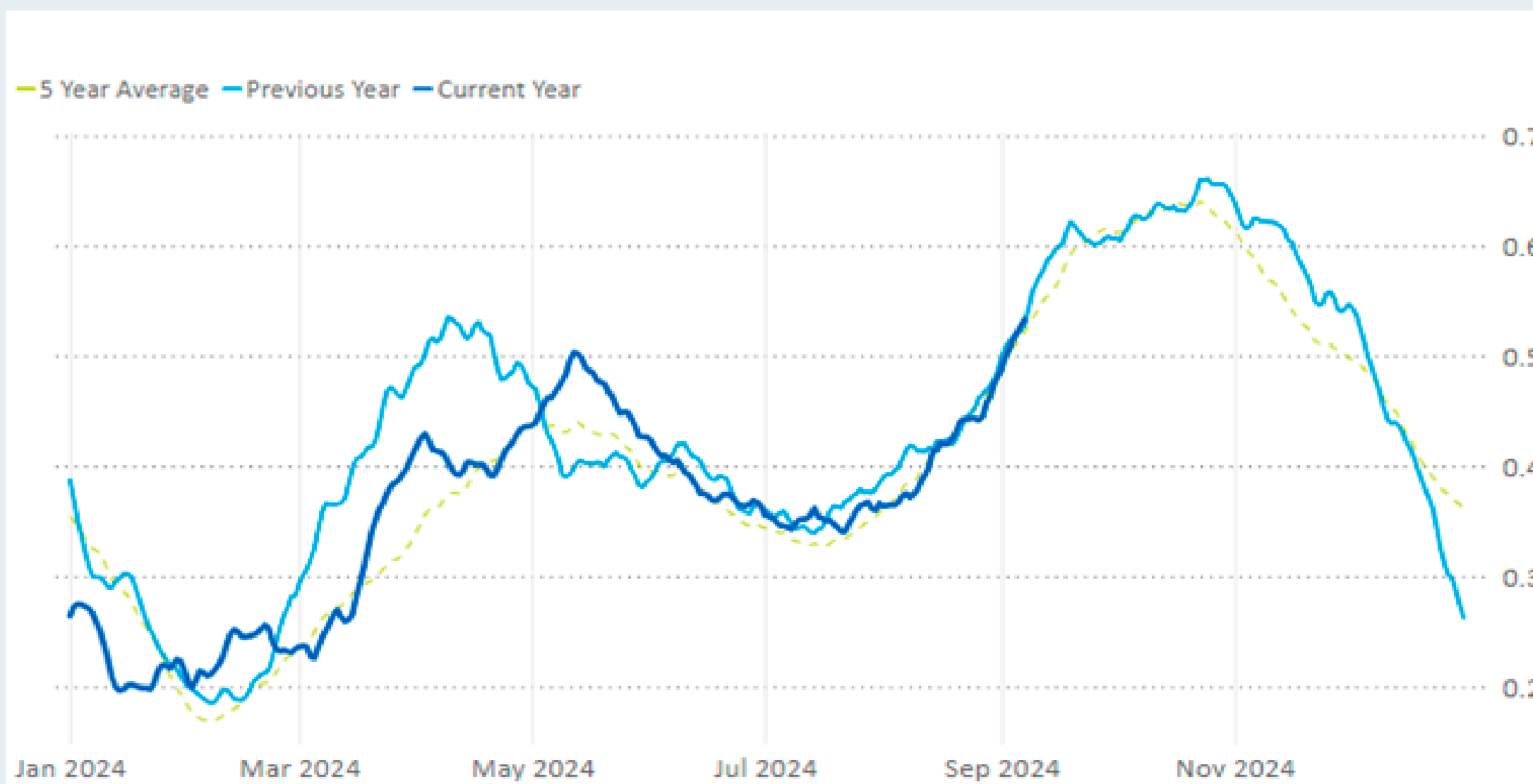
One can calculate the growth in milk solids growth, and we saw a bottom of the decline in August. Indicating that past August, around September/October, we should see the negative growth turn into a positive one, since we've been seeing milk production growth for a while now, outpacing the loss in solids.

On the other side, currently Blue Tongue Disease is active in NW Europe and we perhaps should estimate a 1 percent point penalty on European milk production per month. Blue Tongue is spreading but is so far only affecting The Netherlands, Germany, Belgium and parts of France, and when temperatures drop, the mosquito spreading the disease becomes inactive. But there is anecdotal evidence that cows that became sick have a lower milk output until the next calving. On top of that, the mortality rate is low, but even when it's between 0.5 and 1%, the herd could still be impacted. And as a nuance, it's not the flush but the lower end of the milk season.

Milk Production Growth From Major Exporters, in 1000tonnes and YoY%



30 Days Average Pasture Growth Index in New Zealand



→ continuation

Yield & Solids

- Protein levels improved in June, and fat levels, which had been weak, also saw an increase. However, these gains occurred before recent heat waves and the spread of Blue Tongue disease since the latest European milk production data was on June.

Blue Tongue Disease

- Cases of Blue Tongue disease are spreading in North-Western (NW) Europe, potentially reducing output by 1 percentage point for the continent. Blue Tongue is spreading in NW Europe specifically and in those countries, the impact can be bigger than our estimation of 1% reduction.
- Temperatures in dairy-producing regions have generally dropped below 30 degrees celcius, with no major drought risks.
- Expected growth in dairy production is projected to be between 0.5% and 1.5% YoY for the second half of 2024.

New Zealand Milk Production

Changes compared to the previous outlook: from neutral to positive on milk production but to caveat this, New Zealand milk production has always been a casino when forecasting forward since it's very weather dependent.

- New Zealand milk production for July 2024 was up 8.4% year-on-year (up 9.2% on a milk solids basis).
- The just published number for August was even better: up 9.1% YoY for production, and up 10% on milk solids basis.

Farm-side

- Margin: Pay-out has improved compared to a year ago.
- Slaughter: June slaughter was low (-15% YoY), July slaughter was even lower (-28% YoY) erasing the somewhat stronger slaughter in months prior, and for the calendar YTD the slaughter in the past 7 months is now 13k heads lower than Jan-Jul 2023.

Short term

- Weather: Warmer than average temperatures in the South. Positive pasture growth compared to last season, and slightly better than the 5y average.

Mid-term

- Expected growth between 1% and 2% YoY in H2 2024.

From the top-12 exporters perspective, milk production growth is hovering around neutral. Note that margins are looking better, so eventually there might be a response.

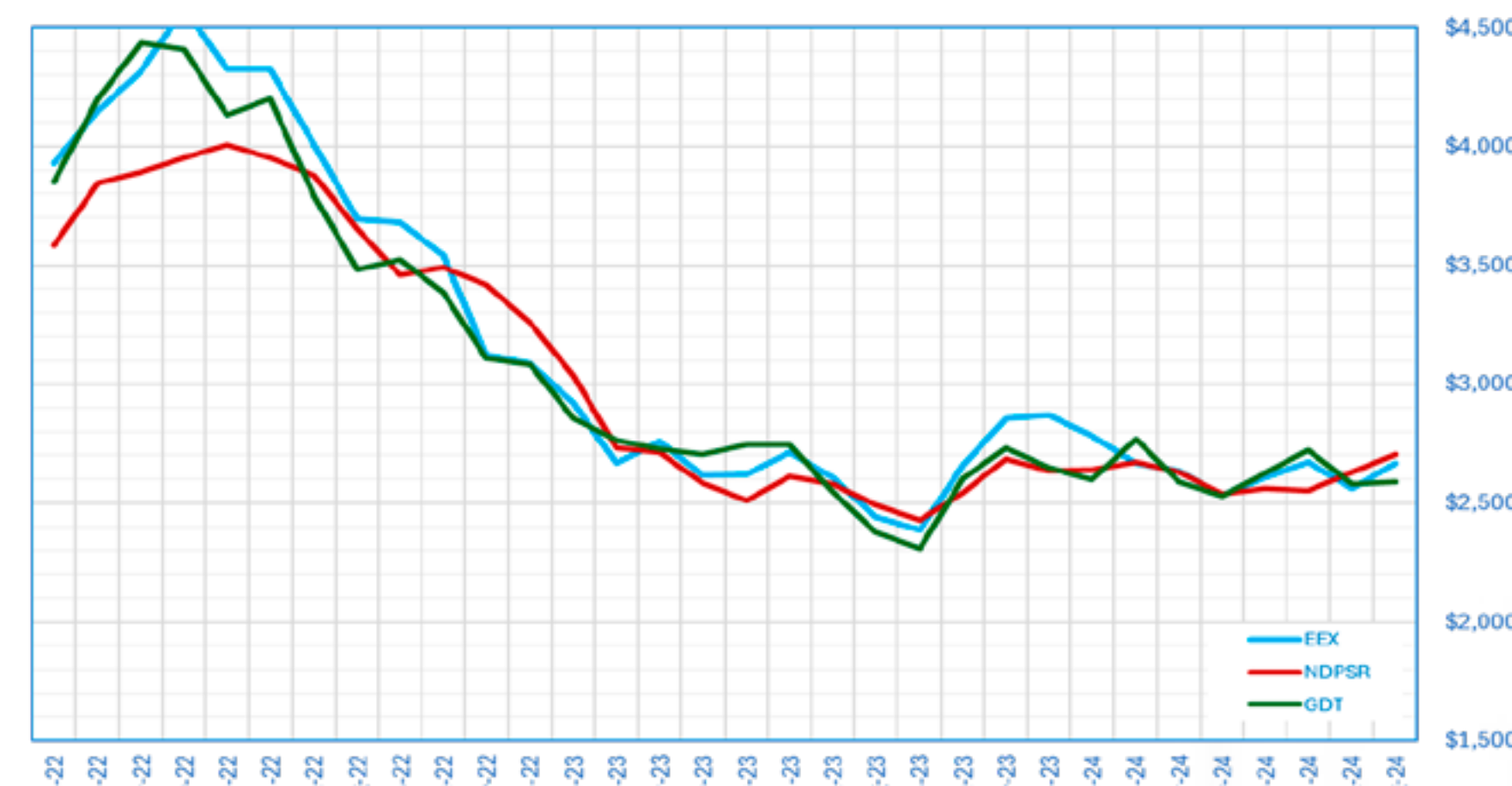
Dairy Deep Dive

What's Happening To SMP?

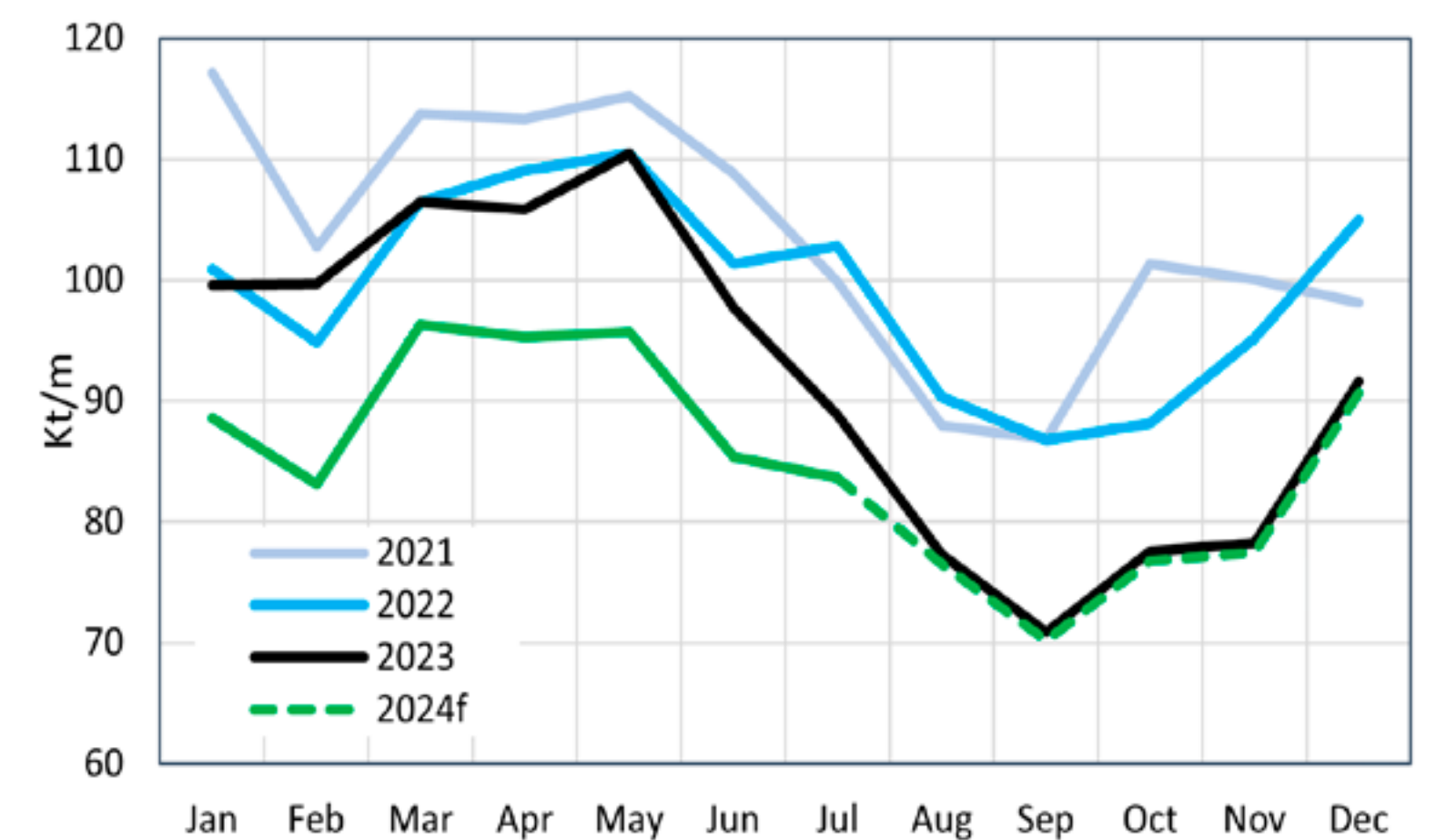
SMP/NFDM:

- **US:** Note that most investments are in cheese plants, some replace older cheese plants but some increase the amount of milk to cheese from 2025 onwards. California struggles with bird flu. NFDM+SMP in the US has been very low for almost a year now, wouldn't be too surprised if the US outperforms some of these very low months in Q4.
- **EU:** SMP+Butter valorisation is on par with Gouda, in some cases better. Mozzarella still has a better valorisation, but Cheddar is worse. High protein whey powders are also not cheap, so some producers have an advantage in the cheese production because of those. In May, the EU SMP Production was closer to neutral compared to last year. June as well, and during the second half of last year, production was weak (to arguably, very weak), so that may be beatable.
- **France** stands out with strong production, The Netherlands and Belgium also increased SMP production compared to 2023. So did UK.
- **Germany** is YoY negative. Ireland is still negative but passed their bottom. Poland had a very negative June production, which broke their 2024 trend.
- **NZ's** capacity to produce SMP is capped due to limitations in butter and AMF production, but we are expecting them to continue the strong production compared to two seasons ago.
- **Valorisation** is favourable for SMP+Butter/AMF in NZ.
- **We expected and saw a weak Q2.** All major export regions saw decreases compared to Q2 2023 except SE Asia. SE Asia is doing quite well compared to previous years.
- **Going forward**, we're expecting mild demand growth in Q3 and a neutral Q4, all compared to last year. Domestic use in the US so far is weak. We're neutral (at best) for EU domestic use, but the EC report later this month will reveal more.

SMP/NFDM Price Comparison In US\$/t



US NFDM + SMP Production in Kt/m

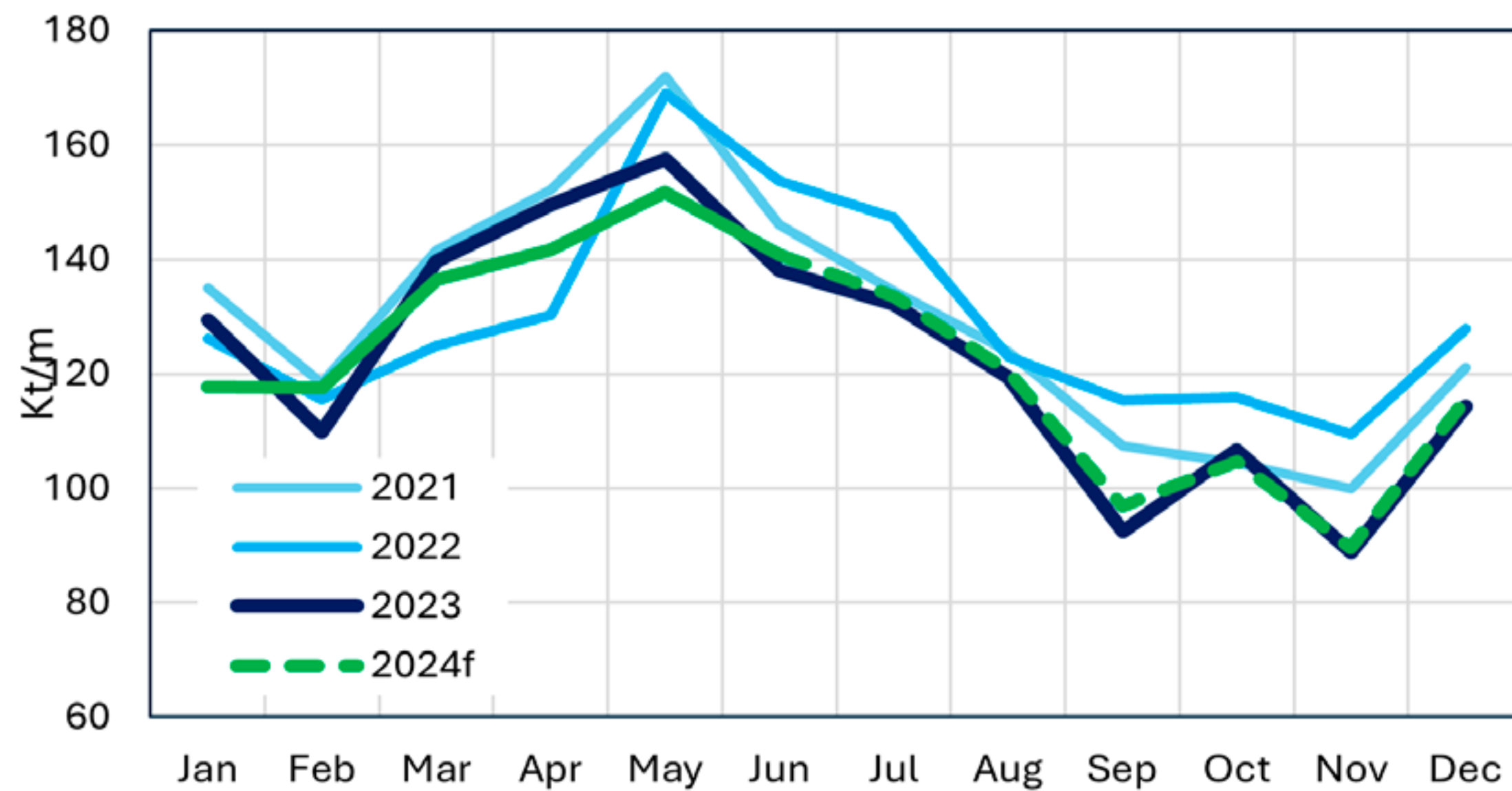


Summary

Some uncertainties in the short term. (Blue Tongue / Bird Flu) but overall rangebound with possible weakness in Q4 due to mild increase of milk production on strong margins. Products are a bit undervalued from the historical fundamental perspective given the very low stocks but we're assuming NZ's competitiveness is here to stay for now, adding competition to the other origins. NZ is more of a black box than EU and US, and their significance has increased for SMP.

- Milk production is a mixed bag: the US still is negative in their June report with a smaller herd than last year.
- EU-27 was running positive, but Germany is showing weakness in their latest weekly reports and Blue Tongue has a negative impact on milk in The Netherlands, Belgium, Germany and perhaps France.
- SMP production is still relatively low in both regions.
- Demand has been weaker than last year in most regions, SE Asia excepted.
- US Stock level is still below previous years.
- EC reported EU SMP stocks to be lower than previous years as well, due to low production and ok exports.

EU-27+UK SMP Production



Bulls vs Bears...

Summary

Milk production is a mixed bag: in the US still is negative with a smaller herd than last year, EU-27 is crawling towards positive number. But SMP production is still relatively low in both regions. Demand in the first half feels weak, but H2 could see mild growth in demand.

On the bullish side:

- On the very short term the EU struggles with Blue Tongue. US herd size is still below last year.
- SMP (and NFDM) production and stocks in the US and EU are still low, and NFDM/SMP is a little undervalued from their stocks/use perspective.
- Expected global Import demand turned lower for Q2 and could be YoY-neutral in H2.
- Of all new dairy plants that are coming online in the coming year, cheese plants take a chunk of the milk, so that could and should affect the milk available for SMP in a negative way, unless we're seeing a flood of milk.
- Expensive milk fat affecting the value of milk. Inflation seems to ease which might improve consumption.
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On the bearish side:

- Domestic use feels weak.
- Global import demand for H2 is expected to be a little bit better than last year.
- Assuming slightly better milk production for H2 and in particular Q4 for US and EU. But the expectation is milder due to Blue Tongue.
- European exports are dependent on N-Africa, will their demand stay strong?

A Quick Note on... US Whey & High Proteins.

US Dry Whey Production

Dry whey production plummeted due to manufacturing issues, with only 60.6 million pounds produced on a 30-day adjusted basis—the lowest since 1986.

While production capacity returned in September, weaker output is expected to continue for at least another month. Smaller production kept stocks low, with July's inventory at 60.4 million pounds, the smallest for the month since 2012. From June to July, inventories fell by over four million pounds, while production dropped seven million pounds, indicating moderate demand.

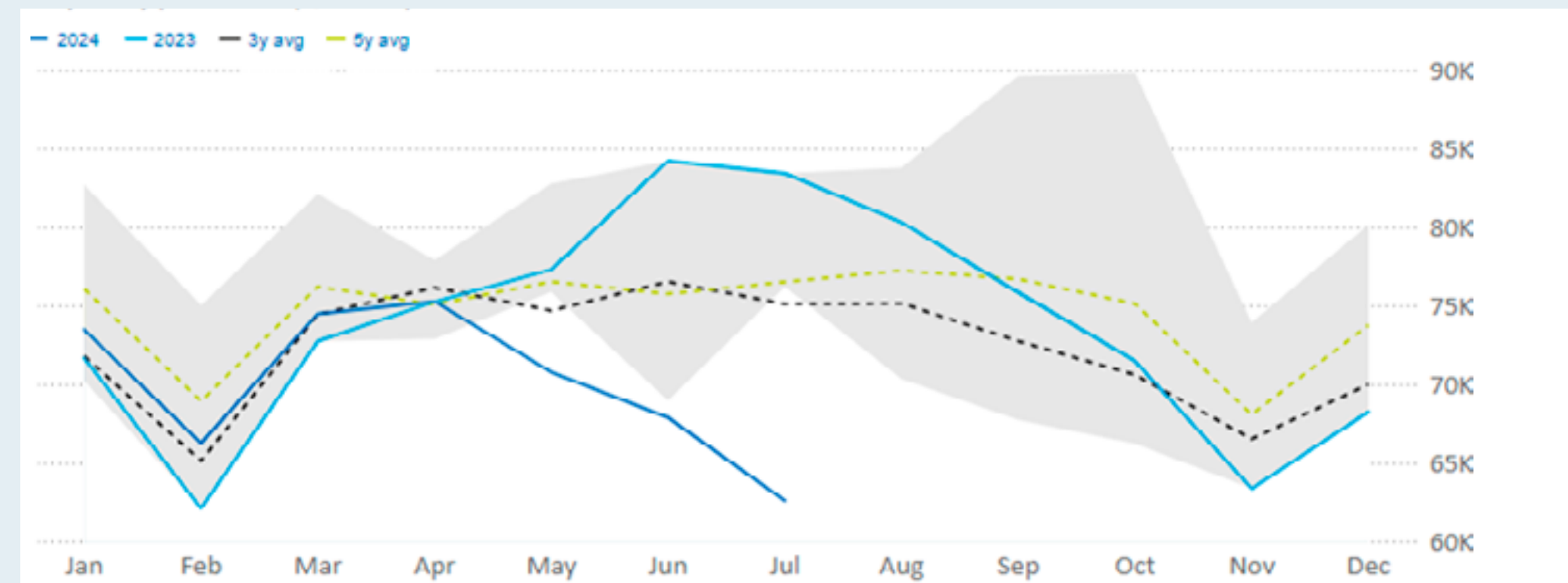
The USDA also revised June's production down by 8.577 million pounds but slightly increased stock estimates.

Demand side

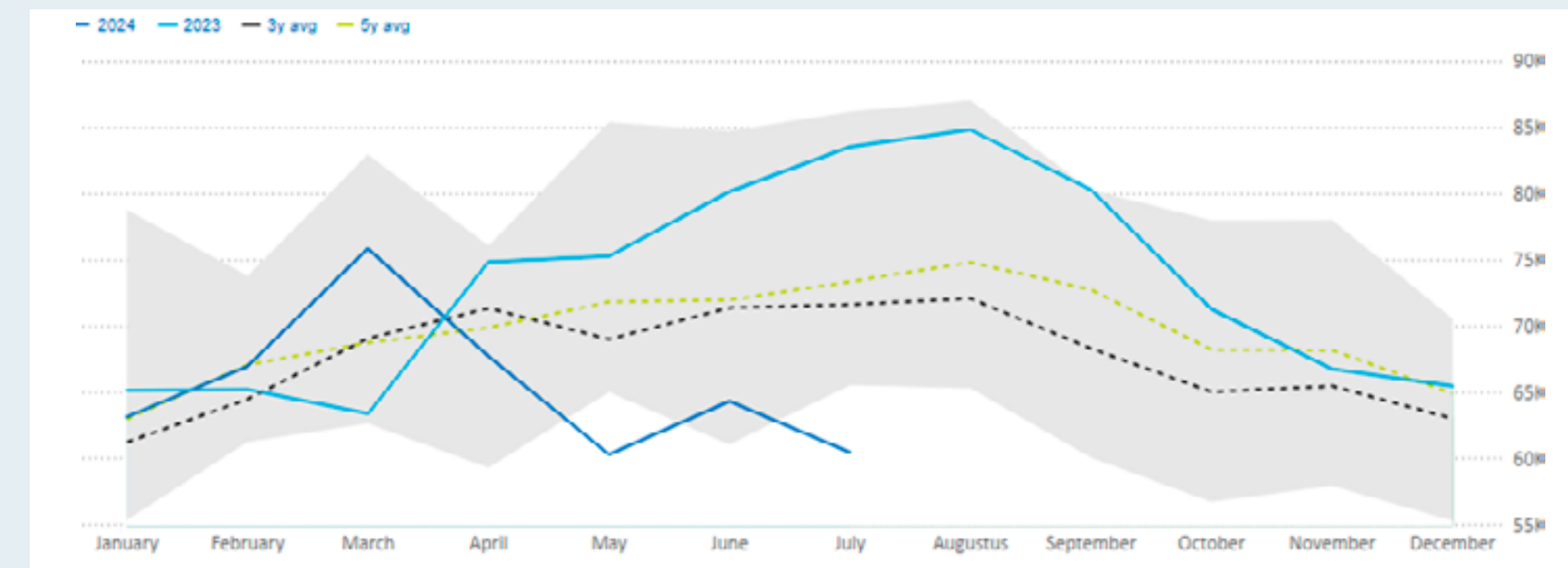
The whey complex saw year-over-year growth, with dry whey exports increasing in July but still lagging behind 2023's January-to-July totals due to weak demand from China. Despite the YoY rise, July exports remained lower than in 2022, 2021, and 2020. Meanwhile, sales of whey protein concentrate (WPC), both low and high-protein, have consistently grown in 2024, with every month showing YoY increases.

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Dry Whey Production (1,000 lbs)



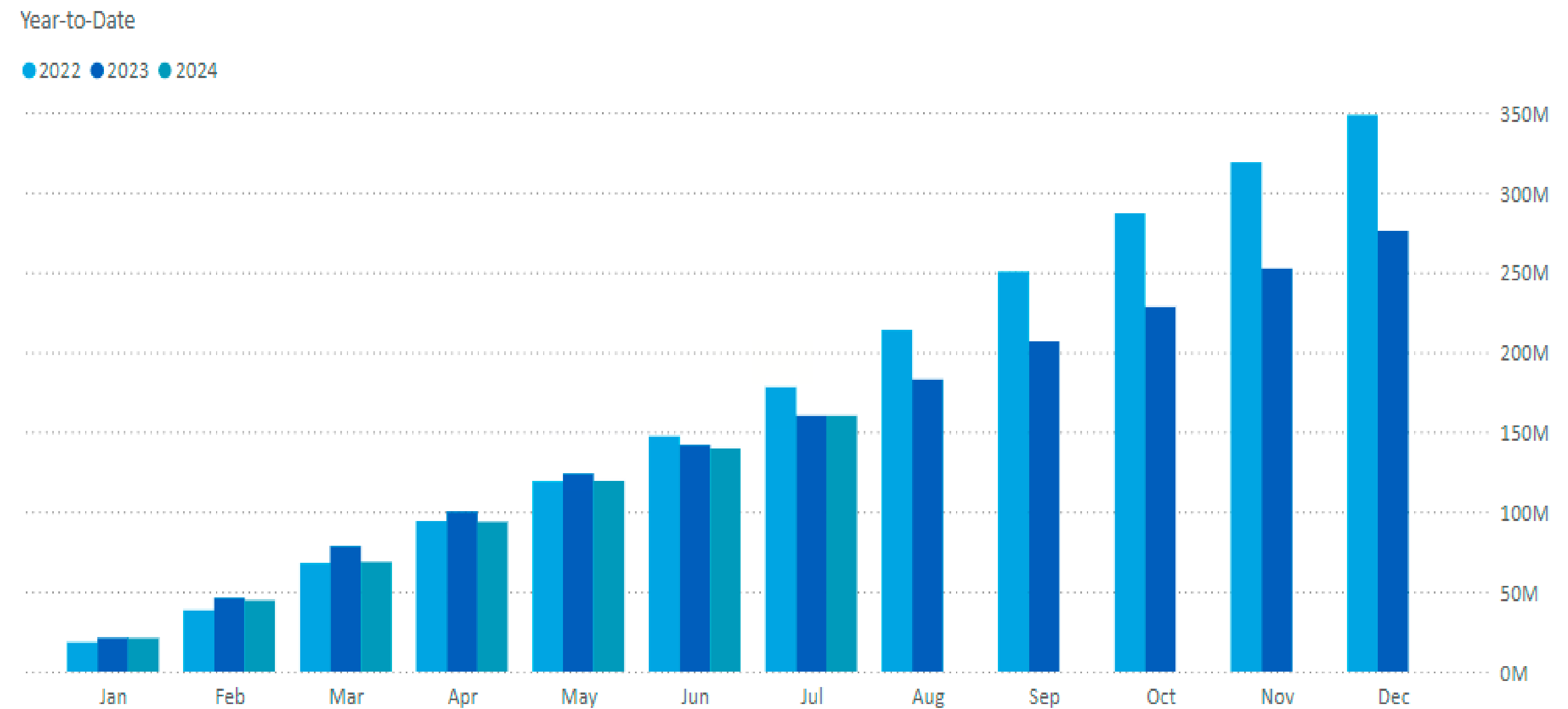
Dry Whey Stocks (1,000 lbs)



Market Comment:

As we look ahead here over the next 3-6 months, there is not a lot of expectation for the above Stocks and Production numbers to rebound. The High Protein demand for WPC/WPI has continued to surge with prices approaching the highs of 2022. This has put Sweet Whey production on the back burner for manufacturers even at today's higher price levels. We do know that there is a good volume of additional capacity coming online for WPC-80 and some for WPI in the coming 3-6 months. This will hopefully satiate some demand and help push excess Sweet Whey back production back into the fold. Expect continued strength from Sweet Whey pricing through Q1 '25.

Cumulative exports (Dry Whey; HS0404104000)



US WPC Production

Whey protein concentrate (WPC) production in the 25-499% range hit a historic low of 10.8 million pounds in 30-day adjusted figures, with data dating back to January 2003. This decline suggests manufacturers are focusing on higher-protein products like WPC 34, which has seen production drop for 11 consecutive months, with inventories at their lowest since 2013. As a result, WPC 34 prices have risen since August. Meanwhile, WPC 50-89.9% performed better, with nearly 28 million pounds produced in July, a 1.6% increase compared to July 2023. Although July production fell seasonally from June, demand for dairy protein remains strong. Stocks fell 31% YoY but were slightly up from June. Whey protein isolates also saw a production increase of 30% YoY but dropped 4.2% MoM. Annual inventories fell 27%, although stocks slightly rose from June, indicating a more balanced supply and demand.

A Quick Note on... Futures.

Demand side:

Year-over-year performance across the whey complex showed growth. While dry whey exports increased in July, they remain below 2023's January-to-July totals, primarily due to weak demand from China. Despite the YoY increase, July exports were still lower than in 2020, 2021, and 2022. WPC sales, both low and high-protein, have consistently risen on a YoY basis every month of 2024. Whey Protein Concentrate (WPC) ≥80% exports reached a record high in July, driven by a 1,5 Kt (+117%) increase to China. Exports also grew to Canada (+116MT), Japan (+46MT), and Brazil (+172MT) compared to the previous year.

Market Comment:

The market for high whey proteins hasn't shown us any bearish signals so far. Interesting to note here is the continuation of a growing price spread between the US and EU.

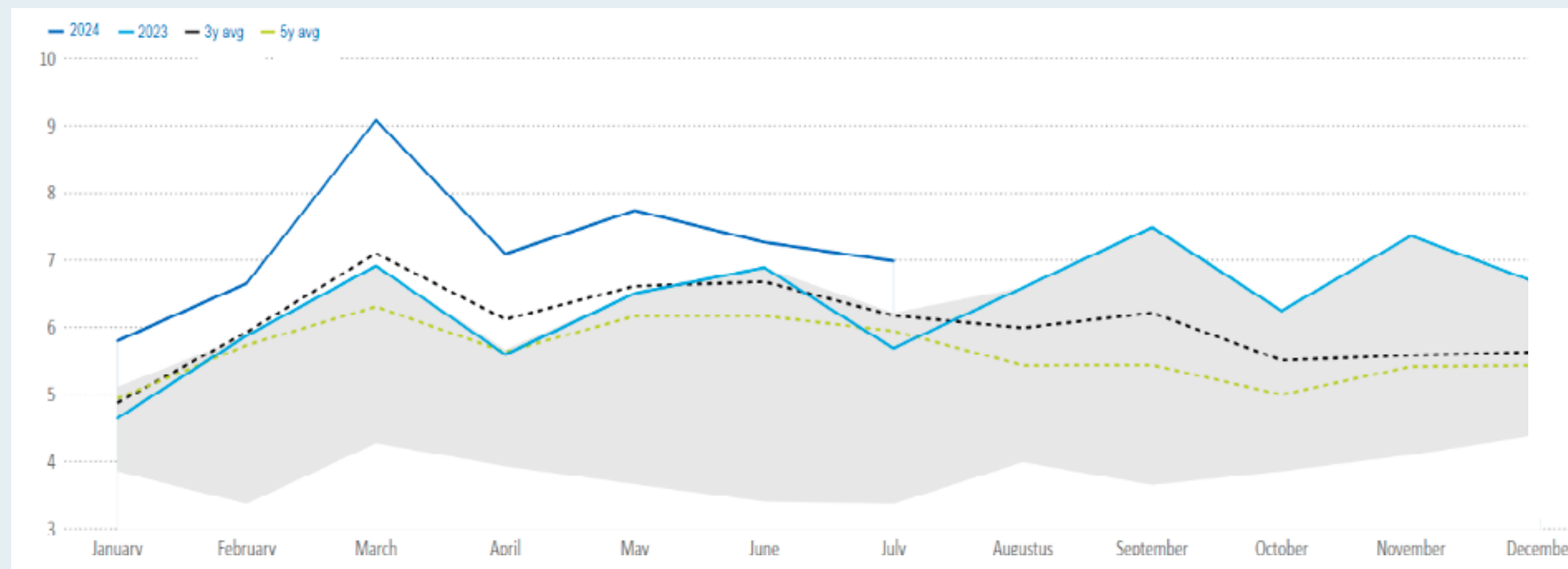
European WPC80 is now valued a dollar per pound higher than its American equivalent.

In the US, we see WPC80 instant being traded from the low USD 4.40 to the high USD 4.60, noteworthy is that WPC80 regular is trading again at its usual price discount of USD 0.15 – 0.20 per pound.

More movement can be found on the WPI market, prices for WPI keep on increasing week by week.

For a short period of time, it seemed that the demand from the export markets was slowing down a bit, however looking at that now, it was just a matter new price digestion. Prices between EU and USA are more or less equal and continue to increase further.

WPC 80 (HS:350220) Exports, US, 2024



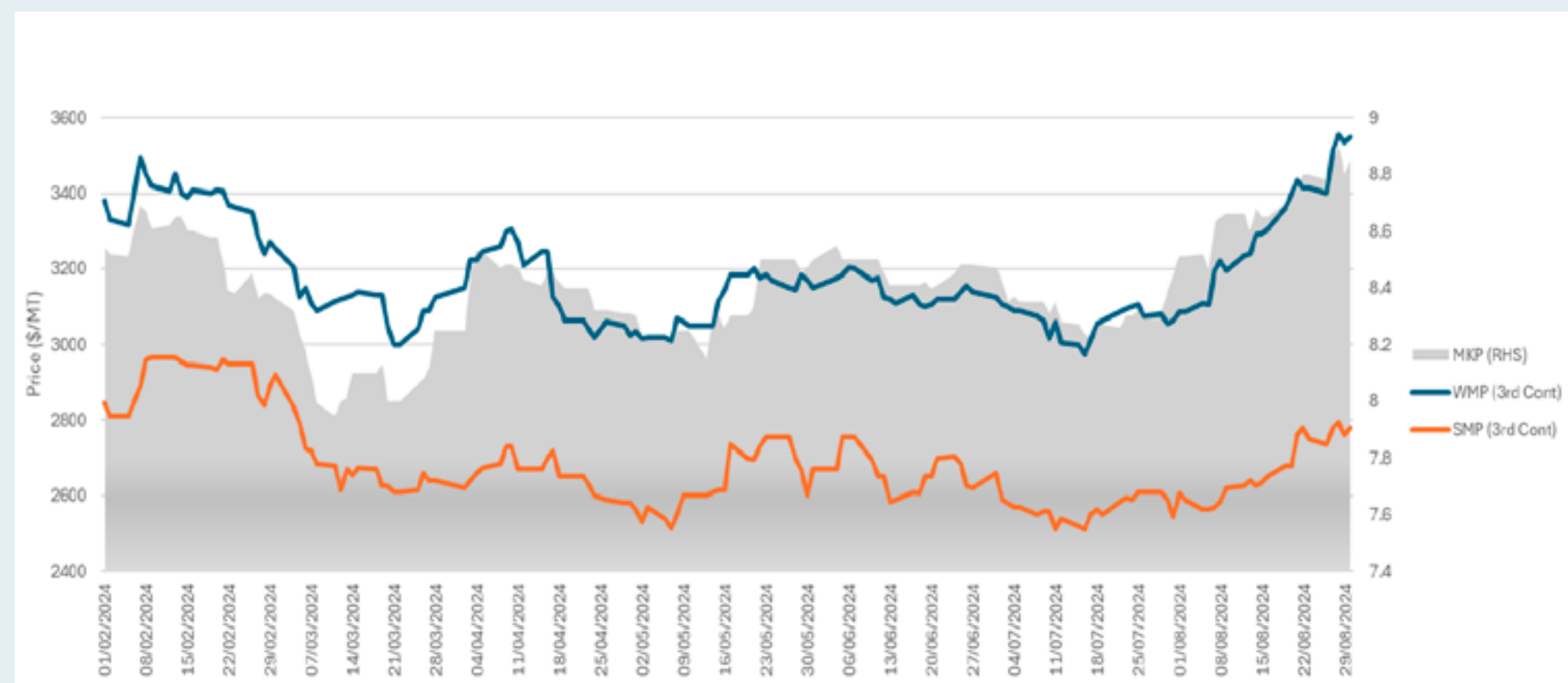
Futures

By: Bart Whiteley, Derivatives and Export Trader, HTM/APAC

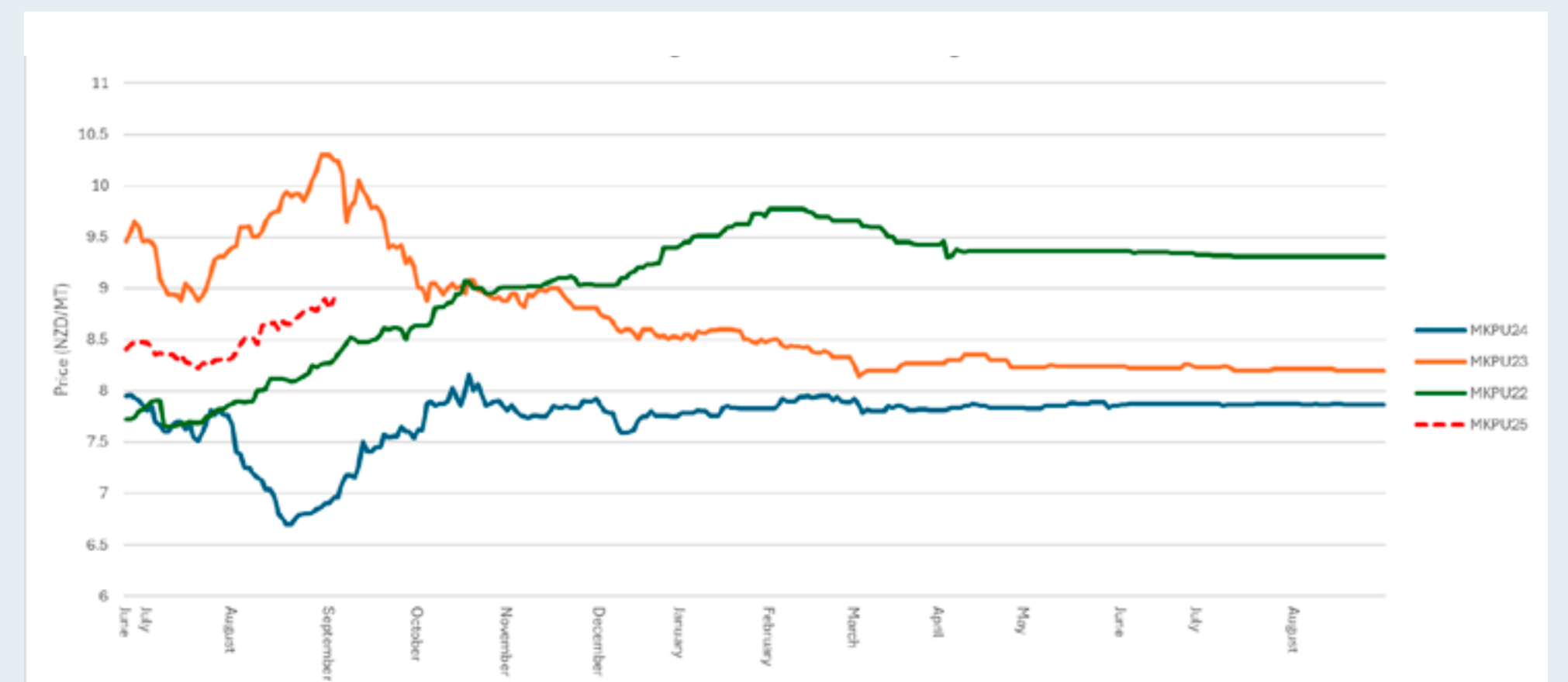
Following on from last month's topic of milk, let's have a look at New Zealand where a clear milk price and milk price formation makes it a lot "easier" to interpret than other regions. Today we will only focus on WMP & SMP prices, and their relationship with the current milk price.

Last season, WMP accounted for 61% of the milk price, SMP 23%, Butter 9%, AMF 5% and BMP 2%. Therefore it is unsurprising that a steep rally in WMP over August (+15%) has flowed through to MKP. What is interesting is that MKP has only rallied 6% in August, and is now looking undervalued compared to the basket of commodities that increased at a weighted average of 12%. The price rally we have seen in the last month is perfect timing for New Zealand farmers, as the NZ peak volumes start to be priced at these higher levels, locking in a stronger MKP price. By the end of December, more than 60% of this season milk price will be locked in, so the coming months will be important. With WMP supported for the short term, and SMP/Fat in New Zealand at a large discount compared to the EU and US, the downside begins to look limited for MKP.

SGX WMP, SMP & MKP Prices



SGX Milk Price - Changes to Seasonal MKP throughout the Season



World Comment.

Sanne van Welij
Senior Account Manager
Hoogwegt International



I started my journey at Hoogwegt on September 1st 2016, just after finishing Law School. I joined the European team of Hoogwegt International, buying and selling dairy commodities in the Netherlands, Belgium, Germany, Austria, Scandinavia and the UK. What surprised me most was being the first woman who started in the Commercial Department at Hoogwegt. The responses from colleagues, suppliers and customers were very positive. I was thrilled to start this adventure.

8 years later, so much has changed. Not only did more women join the Commercial Department, but we moved to a new office, welcomed many other colleagues, said goodbye to some, survived Covid together, and, for me personally, I took on a new challenge.

3.5 years ago, I became Key Account Manager for several Multinational companies. This brought on a couple of firsts for me: it was the first time I dealt with companies of this magnitude, the first time I got closely involved with sourcing products globally and the first time I started selling products for exports (Middle East, Africa, South East Asia and Australia). A whole new world opened. In a short period of time, I learnt a massive amount, not only from these customers, but perhaps even more from my colleagues. I worked together with

more colleagues from our offices overseas, learning about the various production regions and worked closely with our logistics colleagues, who know all the ins and outs regarding shipments, transit times, congestion etc. etc. It was challenging at first but it turned out to be a great learning curve.

One of the things I love most about working at Hoogwegt is that initiatives are not only welcomed, they are encouraged. An example of this is Market Moo. Jurgen Elfrink, our Global Market Analyst, and I have started a monthly video podcast to share our view on the market in a different way rather than sending an email or a pdf. Every now and then, we invite a colleague as a guest speaker to broaden the range of topics we discuss. We have had a colleague from our Cheese team and a colleague from our Ingredients team join us, which also helped promote our podcasts within Hoogwegt. Overall, the idea of starting a podcast was met with enthusiastic responses internally and external feedback has been unexpectedly positive. This creates such a warm environment and motivates ideas and initiatives.

If you have any questions or comments for our Market Moo, please reach out to me (s.vanwelij@hoogwegt.nl) and we will be happy to see what we can do!

It is interesting to see how quickly you can get to know (and love) the dairy market. There is never a dull moment. Currently, there is a lot of activity in the market on the fat side. Cream and butter have been extremely firm; prices have exploded to record high levels. Q4 is still partially uncovered, but buyers are hesitant to step in. After all, how long will prices remain at the levels? There are several things to consider. On the one hand, contents (fat and protein) in the milk have been low within Europe, there has been a good demand for cream, and Blue Tongue disease is threatening the milk production in Northwestern Europe. On the other hand, seasonally speaking, there is a drop in demand for European fat around November, there might be a drop in demand due to the high prices and buyers might look to other regions for their fat demand. Which factors will have more of an effect? Only time will tell...



Hoogwegt Happenings.

Hoogwegt Group recently took an exciting step that will strengthen our innovation capabilities. Earlier in July, Hoogwegt Group acquired Future Foods BV.

Future Foods BV is a business-driven Research and Development company offering development of sustainable food products to the industry. They do so by combining extensive knowledge of extrusion and hydrolysis with in depth knowledge on proteins.

We are very proud with this acquisition since it will allow Hoogwegt to make a step up in our capability to innovate and therefore to boost our Meelunie and Dairy Ingredients growth strategy!

Welcome to the Hoogwegt Group!