



Horizons.

Our insights
on Today's Global
Dairy Business

February 2023

#02

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Editorial Note:

For those celebrating the Lunar New Year:

恭喜发财 (Gong Xi Fa Cai) May the Year of the Rabbit bring about Happiness, Good Health and Prosperity!

And just like that, we are midway through Q1 2023.

As supply recovers, many are still waiting with bated breath on what China's reopening (post COVID, post Lunar New Year) would entail.

Would lower prices finally translate to lower farm-gate milk prices? Will the demand come (back) in fast and furious?

Join us as we explore this, and more in the February 2023 issue of Hoogwegt Horizons.

Back by popular demand, we have included two new segments talking more about the Whey Complex and a bit on the Futures Market, with contributions from our Global Whey (SWP, Lactose & Permeates) Lead John Kramer, and Joris Thys, Derivatives Trader (HTM).

Cheers!

Hoogwegt Horizons Editorial Team

Market Direction

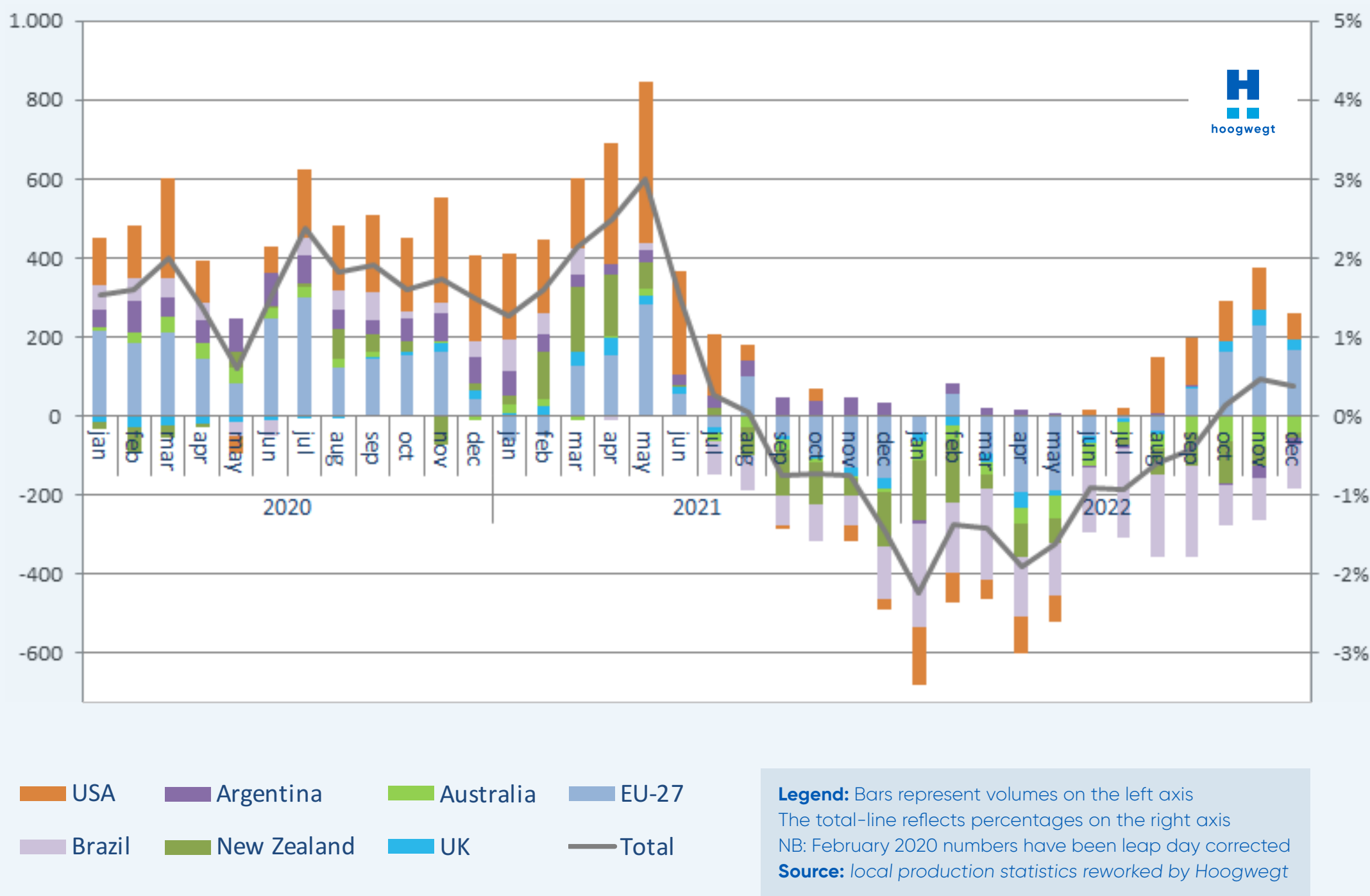
Global exportable supply continues to gradually improve.

Milk production in the world’s leading export regions continued to improve in December. In percentage terms the supply performance is hardly impressive due to the weak overall performance of the Southern hemisphere, but in Oceania recovery may be on its way.

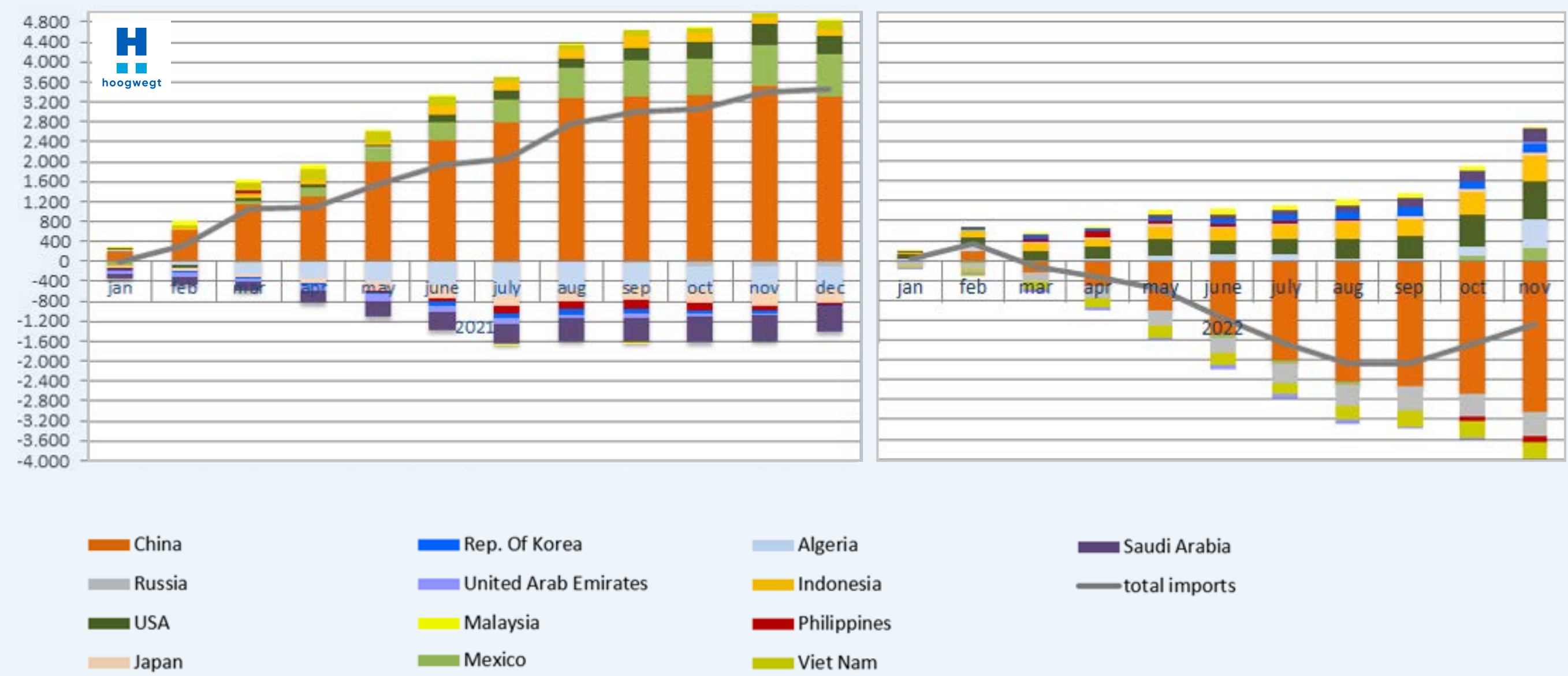
In volume terms December production in NZ was still marginally below last year but in solids terms last year’s production was surpassed by 0.6%. The US continues to hover around 1.5% above last year and in the EU almost all of the bigger production countries are now producing solid growth rates. The exception is France where milk prices haven’t seen the heights that milk prices had in the Benelux and Germany. Processors that have a strategic focus on commodities rather than retail sales have already cut their milk price by some 10% since the peak in October 2022. However, at the current rate of decline of commodity prices most of the milk still generates a significant loss in the market. This is creating a challenging financial dilemma as most processors in Western Europa are still eager to acquire new suppliers for the long run and therefore try to prevent being the first one to lower milk prices.

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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: Dairyintel trade data, reworked by Hoogwegt

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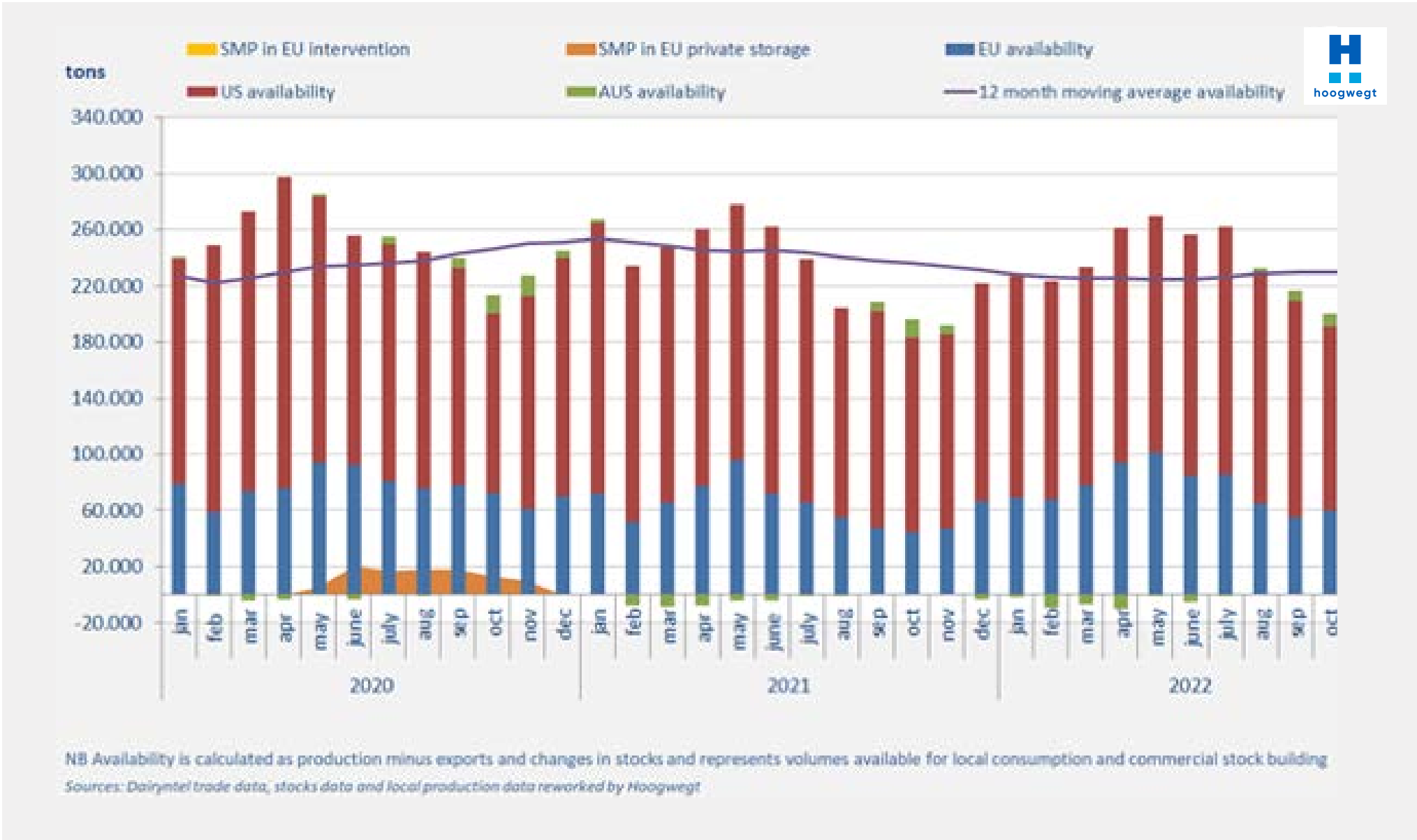
We still have one month to go but total import volumes by the 13 importers monitored for this report seems to be on its way to significantly reduce the gap with last year's import volumes in the final quarter of the year. Especially because initial reports suggest that China's December imports were quite a bit better than last year. The reduction of dairy commodity prices and the increased competition for export deals between the three main origins EU, US and New Zealand created an attractive market for the many buyers that are still significantly behind on their normal positions. The most active markets in terms of overall volumes in Q4 of 2022 were Algeria, the Middle East, Mexico. Indonesia and the Republic of Korea. Only the Philippines, Viet Nam and obviously China and Russia remain behind on last year's volumes.

SMP: Competition in export markets is heating up

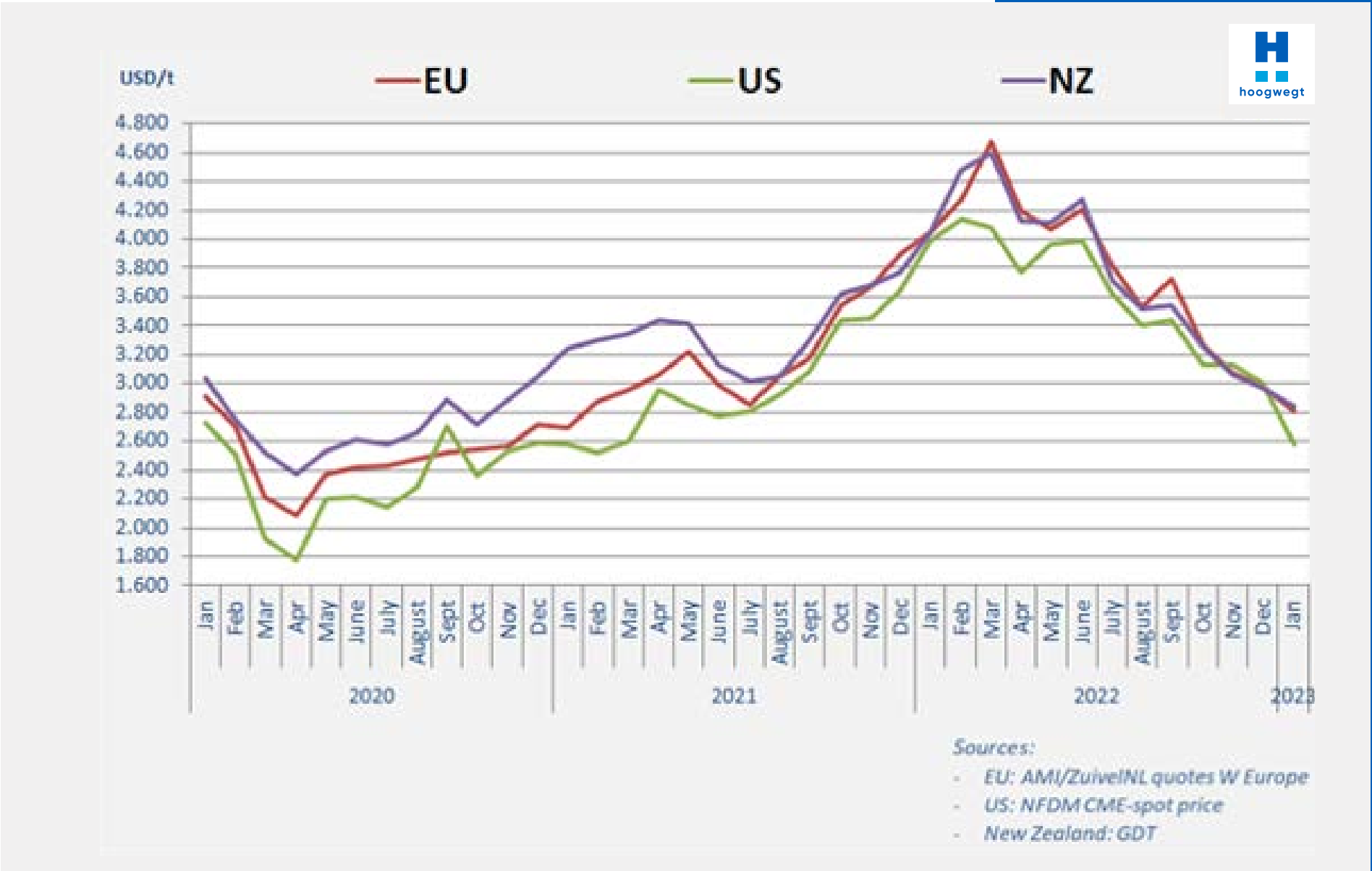
Despite improving global import demand in Q4 and subdued Southern hemisphere export supply, SMP/NFDM prices continued to decline throughout January in 2023. US prices appear to be leading the way down, with tailwind from a weakening US dollar compared to the Euro. Processors in all three origins have their own reason to aim for a higher share in global export markets but at the moment the pressure to sell seems to be the highest amongst EU processors. Availability data run until November but since then downward price

pressure continued to build further while milk production continues to strengthen. Although we have seen a pick up on demand in January from Middle East, Latin America and even Bangladesh, buyers are well aware that their options are getting very attractive. Still as long as the downward momentum sustains, buyers can wait and see. Adding in the long Lunar New Year holidays in many parts of Asia, which inevitably paused purchasing for a week (or two), we see prices falling to levels not seen since early 2021.

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



Monthly SMP prices in the main export markets





Looking forward

Prices for a lot of dairy commodity prices are reaching a point where market participants are asking themselves: how much further can prices fall. Prices of milk powders, whey powder and the main commodity cheeses are about to return to the familiar price range of the 2015 – 2020 era. However, is it realistic to assume that everything will return to the old normal in 2023 and remain there. After all, value chains are still relatively empty – apart from China possibly – export supply in some of the key export regions in Oceania

and Europe has reached its sustainability limitations and inflationary pressure seems to decline. The critical factor in the global market balance and the direction of prices will obviously be China in months to come. Some degree of recovery of Chinese import demand after the weak 2022 performance could very well turn the current fall in dairy commodity prices around. However, stagnation of import volumes at the 2022 level makes a scenario of prices landing in the range of the old normal quite likely. ■

Market Outlook for January – March 2023



Dairy Deep Dive

NZ WMP: Are We There Yet? Close to the Bottom?

Cow Slaughter in New Zealand

Publisher: StatsNZ



2019 2020 2021 2022



The dairy world eyeballed GDT 324 to get a sense of market direction on the demand for WMP in the context of China's rushing through their change in the midst of their COVID-peak.

It was a bit of a lackluster GDT with pretty flat prices, Cheddar being the exception. Prices were up just 0.1% for WMP. GDT Pulse 14 (a week later) saw WMP prices gaining 0.95%, settling at US\$3200/t. A result priced higher than where the January 2022 WMP future settled a week prior, but a little lower than where the Feb '22 contract, is priced, at US\$3210/t.

On the supply-side, NZ is facing some structural issues; we saw dairy cow slaughters up significantly at the start of the season. From Jul-Nov 2022, the sum of slaughtered dairy cows was 217,305. 38,000 more compared to Jul-Nov 2021.

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→ continuation

NZ is looking to ratify environmental policies that may restrict dairy production, and of course, NZ had a bad first half of their season (on top of a bad season last year). It's not all red, as recent weather has been good, and the pasture growth index looks more favorable than 12 months ago. December Milk Solids came in positive, and we could see some green months in terms of milk production in Q1 (over bad compared to a year prior).

But from the WMP Production perspective, the Kiwis still have an incentive to apply changes in the product mix which means less WMP and more SMP (and fats). Not only due to retracting milk production in the first half of the season, but even if we are seeing a slightly positive milk production at the start of the second half.

NZ relies on exports, and in particular to Asia. The symbiose between China and NZ on WMP stands out, and if one would plot the 12 month rolling average on Chinese WMP import demand, it shows how far the 2021 demand was above the trend, and how far below 2022 was from the trend.

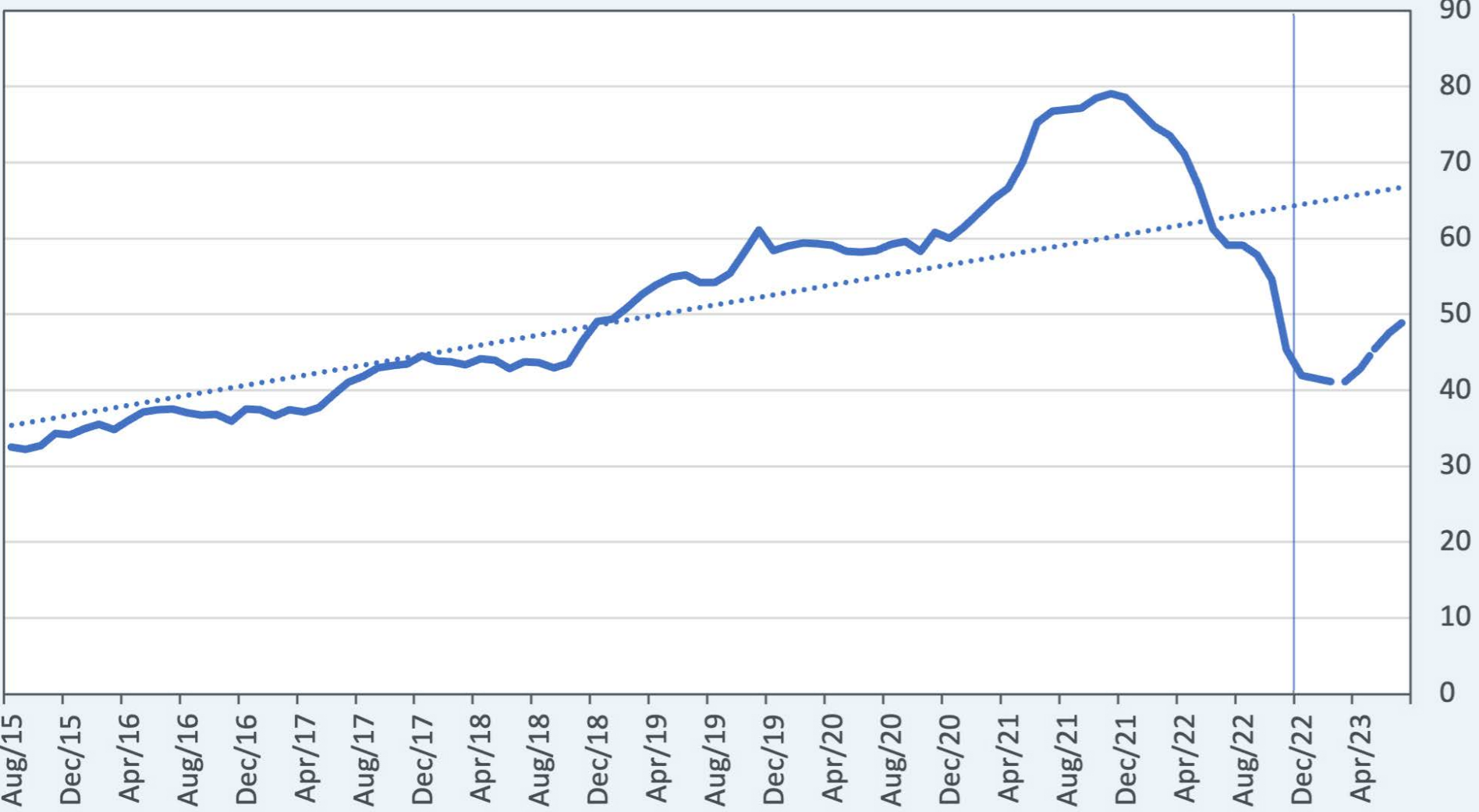
We probably won't return to the import demand trendline anytime soon because it would need huge stock buildings from China and I wouldn't bet on that. Also note that local production in China seems pretty good and it's projecting growth over growth. Thus, local WMP Production in China is also assumed to be good.

However, post Chinese New Year festivities, import demand could look better than last year, so we could trend parallel to the trend-line and it would still mean increased demand from last year, on the back of lower NZ WMP Production.

Projected in the dotted line below, it doesn't mean that prices will skyrocket again, but it could mean we're at or close to the bottom.

more →

Chinese WMP Imports 12m rolling average



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Bulls vs Bears...

On the bullish side:

- A struggling Southern hemisphere in general.
- Regions (MENA, SS Africa, SE Asia) are not sitting on much stock.
- China's change in paradigm and easing restrictions, low demand on the short term but everybody is eyeballing when China's back and through the Covid-peak.
- Prices dropped; this should attract some buyers.
- Low stocks on buyers' side and short coverings.
- No quorum (China) spreads usual Q4 peak into end of Q1.

On the bearish side:

- US, EU growing milk production. NZ may see some green.
- Local Chinese milk production still looks good. But note the Bulls on China.
- Recessions, inflation leading to drops in demand.
- Better availability in terms of stock level compared to 2021 at producers.
- Fresh consumption closer to pre-pandemic levels.
- Fundamental over-supply in other dairy products.

Things we watch:

- A lot of unprecedented things: No quorum and reopening China, NZ Product mix changes.
- Volatile forex skewing trade shares. Volatile input costs.
- UKR/RUS conflict going into a winter and has question marks all over the place.
- Shipping costs have eased further but China's Covid-situation could mess up supply chains.
- Possible stock building by China, although that may be a bit further down the calendar.

A Quick Note on...

Whey

By John Kramer, Global Head Whey

- Compared to the previous Jan23 edition, the overhanging bearish mood has not changed, only price levels have, prolonging their nosedive.
- Milk pay out prices and actual market values paint a picture of profound discrepancy: Combined Skim Milk Powder and Butter EEX futures represent a milk price of around 35 cents a liter whereas farmers are still receiving 20 cents more.
- First signals for farmers that the party is near closing time are present with monthly downward corrections of 5 cents by producers.
- Milk processors are in a catch 22 where they need to lower prices strong and fast, but at the same time, fear losing farmers and milk.
- At current price corrections, it will be well into Summer 2023 (barring no extreme weather) before any correction in output occurs.
- We are climbing to seasonal highs and production is now 4 to 7 % higher in the various EU member states as compared to last year 2022.
- Basically, only number 2 producer France is still well below 2022 levels and not likely to catch up speed anytime soon.
- The whey markets stepped down, further affirming high output versus ongoing lower demand. Feed prices crossed another barrier and are now below € 700 | Mt basis Central Holland deliveries.
- Export markets are basically quiet except for some Japan Feed volumes. EU Food markets approaching € 800 FCA levels and producers are likely not stopping there.
- The major whey absorbing WPC 80 | WPI markets are depressed, taking big steps down week by week and are now at 50% of their previous record highs from not that long ago. Price protection by directing more liquid whey to SWP (Feed) seems unavoidable.
- Question at stake is: At what levels will markets halt their south-bound trip and make a perk up?
- Contrary to SMP, we are not far from cost price levels for SWP so some bouncing back can occur when indeed the € 600 is at the horizon, a level not reached since September 2019.

- The turning point for now would have to come from strong fresh demand from Asia (hopefully) starting next month (post Lunar New Year), but for now, it remains a challenge to ponder on bullish arguments entering the market place anytime soon.



→ continuation

Futures: EEX

By Joris Thys, Derivatives Trader, HTM

- EEX futures traded lower across the board over the end of year. The market has been having to deal with overall higher than anticipated milk supply that simply had to move into commodities.
- Indeed SMP, Butter, Whey and Cheese futures have been moving lower to the lowest levels not seen in a year. Together with this, there has been a contango developing in the futures markets showing the markets' need to pay for storage.

- Butter futures are facing similar difficulties with Q2 now around 4300 EUR/t, making European butter now competitive in international markets. This hasn't happened in a while and might call for some additional demand.
- The other world benchmarks on CME and SGX are showing similar price patterns with continued weakness. Exception is the SGX whole milk powder that bounced a little from the lows after last weeks' GDT.
- The dairy world eyeballed GDT 324 to get a sense of market direction on the demand for WMP in the context of China's rushing through their change in the midst of their COVID-peak.



When looking at the longer term SMP price development, one can see that the post-covid rally has been undone, with EEX notation now at 2652. Prices have traded below 2000 in the 2015-2019 era, but that was the intervention period. Given the longer term fundamentals, it is difficult to see this scenario repeat itself and it might be prudent to start buying scaled down at current levels, especially if one expects China to come back into the market.

Roland Wientjes Global Technology Director Hoogwegt Group



On April 1st 2012, I started my career at Hoogwegt Group after a series of interviews pertaining to a role of "Green Field Technology Manager".

With my background having a PhD in (food) physics, as well as experience in dairy research and after being a Food

Applications & Dairy Market Manager at Kerry Ingredients, it was quite a step for me to join a family-owned trading company.

And what a great step it was; I did not regret a single day since I started. Hoogwegt is an organization that feeds me with energy. Every day is different; the dynamic is high, and the ability to have direct impact on results is great.

11 years ago; my first trip and project was to evaluate the technical capabilities of a whole milk powder production plant in New Zealand. Since then, I participated in many projects. Here are a notable few:

- Growing our market share in dairy proteins by establishing cooperations with whey protein producers like Polmlek and First Milk.
- Increasing our market share in whey powder towards sweet and condensed milk by understanding the needed functionality of whey powder and moving from a trial and error approach towards a focused selection of suppliers to offer to this market.
- Co-operating with both OCD and A-Ware on supplying whole milk powder, skimmed milk powder and cream as well as with Peti Protein on exclusive blending for Hoogwegt.

World Comment.

- Building of a plant protein facility in Denmark to make us frontrunners in supplying high quality plant proteins.

In the meantime, I have become responsible for leading the technology group (5 subgroups) that support our total business by helping our commercial and logistical teams to establish new business as well as to maintain existing business and secure food safety.

In practice, this splits up into:

- Looking for opportunities to increase our product portfolio and market outlets Currently we focus on permeate in its potential to replace milk and/or whey powder.
- Innovating next generation of markets and opportunities. Including evaluating our ingredients for new applications like 3D printed food.
- Standardization of processes and documentation to manage the increasing market demand for documentation.
- Claims handling; guiding the process between customer and supplier while validating correctness of quality claims.
- Food safety; assuring that what we do is safe and legal.
- Production; Developing and controlling production of ingredients thereby adding more value to the chain.

As you can see, the field technology is broad and since I started, it has never been a dull day.

Going forward, I see plenty of opportunities for Hoogwegt in our journey forwards, and I am proud to be part of our organization.

Hoogwegt Happenings.

We are pleased to announce that we just introduced the newest feature on MyHoogwegt: Market Insights.

These valuable insights are available to all MyHoogwegt members – free of charge. We aim to zoom in on different products each episode.

We will publish Market Moo; a monthly dairy market outlook video.

In the first episode, Jurgen Elfrink (Global Analyst) and Sanne van Welij (Senior Account Manager) talk our customers through the milk production, supply and demand for the coming period, zooming in on SMP.

For further information on how to be our MyHoogwegt member, please contact one of our friendly Export and/or Account Managers!

