



Horizons.

Our insights
on Today's Global
Dairy Business

October 2023

#10



Page 3

Market Direction

Supply growth is on the verge of turning negative

[Read more →](#)



Page 7

Dairy Deep Dive: Is negative milk growth an argument for higher prices?



Page 11

World Comment.



Page 12

Hoogwegt Happenings.



Editorial Note.

Hoi!

Welcome to Q4 2023.

As we come into the last quarter of 2023, we once again explore the milk production numbers. Has the market finally done its job? It seems that we may see the year on year growth finally turn negative before the end of 2023. Join us as we explore the fundamentals in our “Market Direction” section.

We will also further “Deep Dive” into what exactly negative milk growth means for prices.

Read on as we discuss US CME NFDM, Butter and Class III Milk Futures with Adnan Mikati and read about our Middle East Specialist Geert Nijenhuis’ 8 year adventure within Hoogwegt.

We also round up our successful Food Ingredient Asia (FIA) Thailand 2023 tradeshow in our “Hoogwegt Happenings” section.

Enjoy!

As always,

Hoogwegt Horizons Editorial Team

Disclaimer

Horizons is a publication of Hoogwegt Group. Information is gathered from reliable sources but it cannot warrant the accuracy of any of the data in the report.

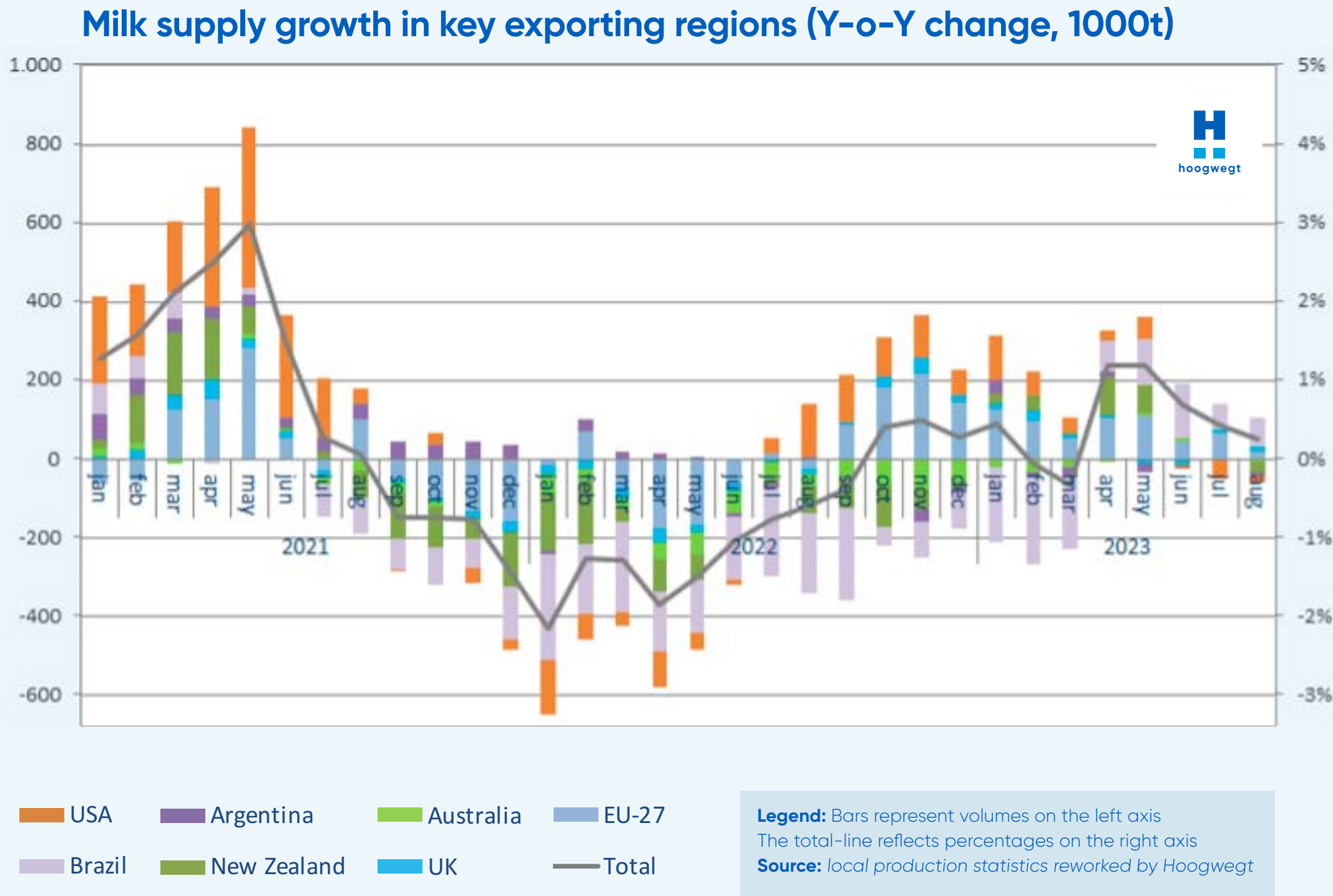
© Reproduction with permission only.

Market Direction

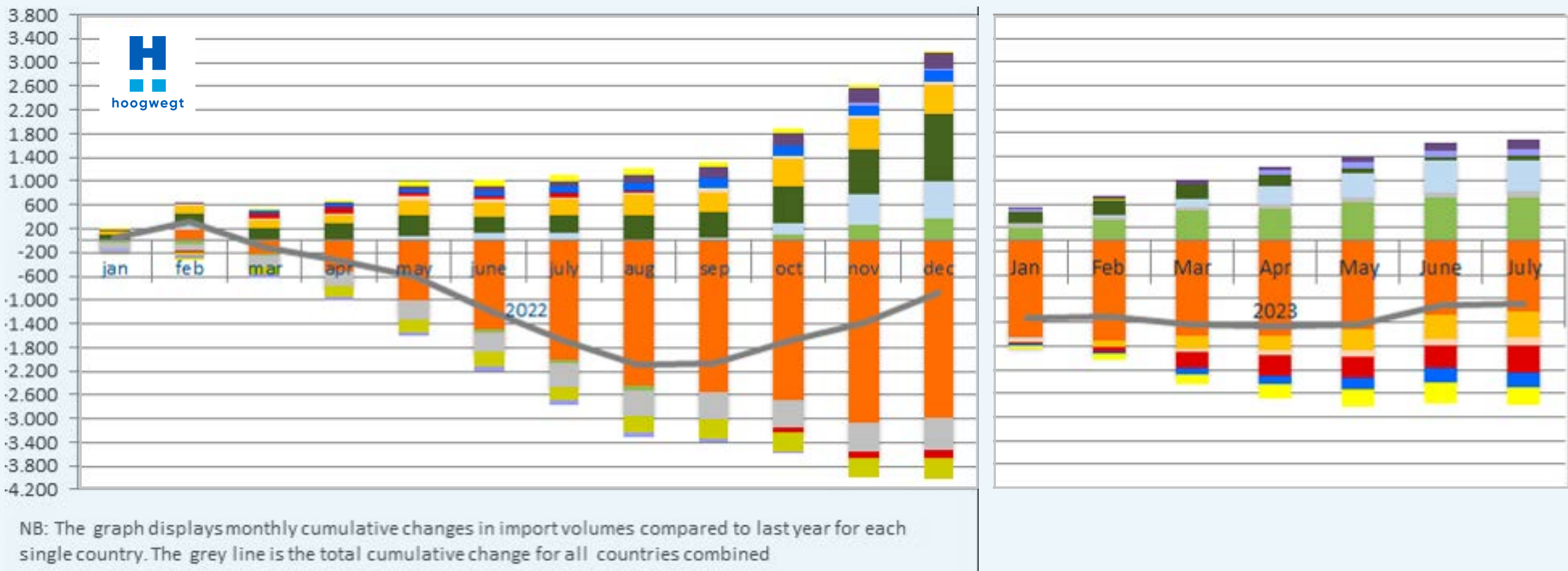
Supply growth is on the verge of turning negative

The milk supply graph suggests that we may see the rate of y-o-y growth turn negative before the end of 2023.

New Zealand kicked off the new season at -2% in August, so if this continues throughout the peak of the season then we may indeed see milk production decline compared to 2022 numbers that were not even very strong in the first place. Production circumstances are reportedly favorable in New Zealand but the milk price forecast provides little incentive to push for volume. Physical production conditions may be more challenging in Australia according to the Australian Bureau of Meteorology as they recently mentioned that El Nino is on its way and that Australian farmers should prepare for a hot and dry summer coming up. US milk production was negative in both July and August and the July 2023 cow number reduction reported recently is expected to continue into 2024. EU milk output also starts to trend towards zero growth. In the Southern part of the EU, August and September production turns out very weak due to the severe heat. Since growth in Northwestern EU is also diminishing, the EU as a whole drops close to zero growth in the final months of the year.



Imports by the big-13 importing countries
(cumulative change compared to previous year, total imports in 1000t of MEQ)



→ continuation

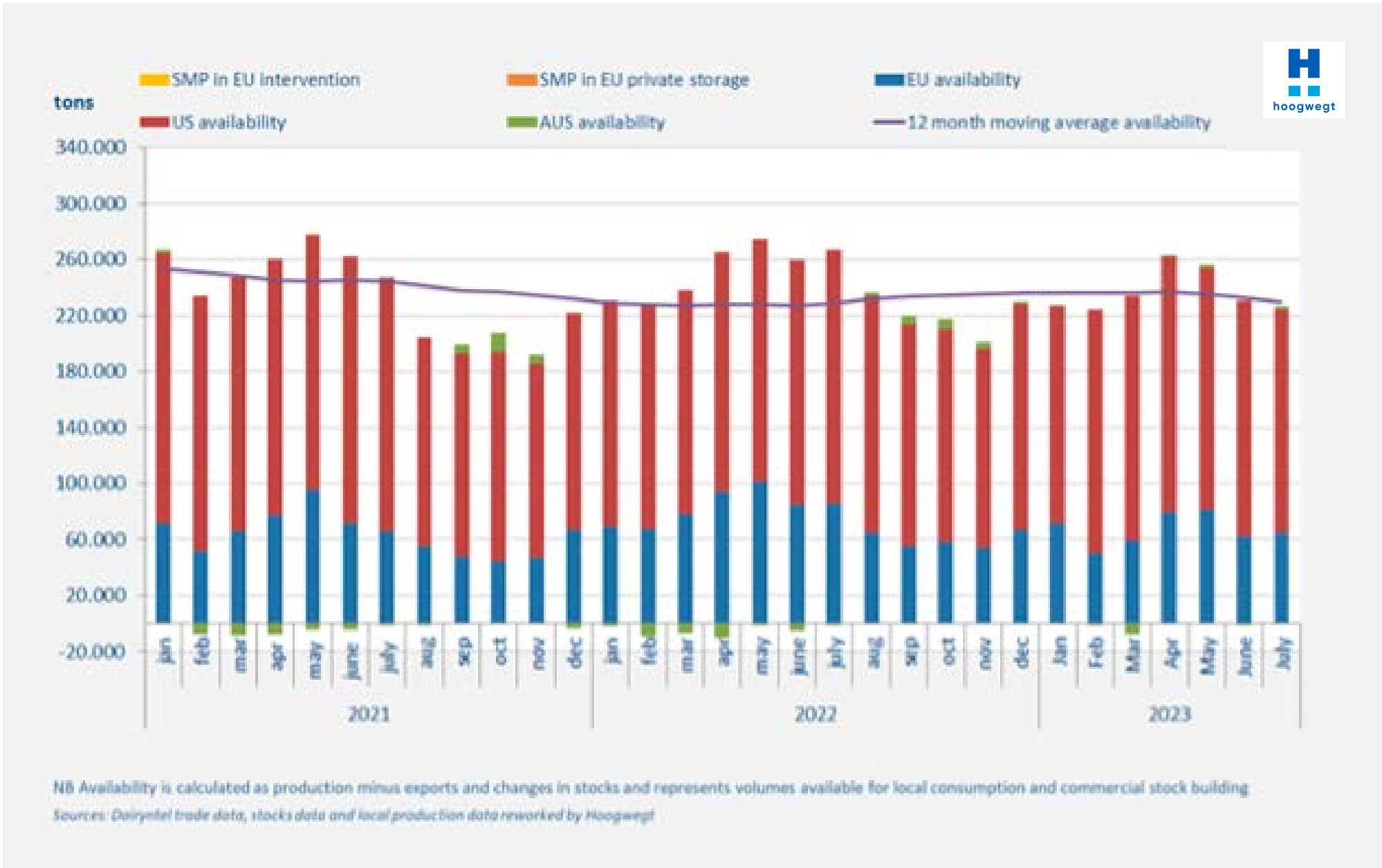
Imports by the top-13 importers combined continue to remain some 1 bn kg of milk equivalents behind on last year. China and SEA imports remain overall significantly behind on last year's numbers. August imports by China will not change this situation in a material way as both SMP and WMP import were very weak. More recent comments nevertheless suggest that buyers overall are getting a bit more active as prices were considered very favorable in August and early September. These purchases will likely manifest themselves in the Q4 import numbers so the gap with last year's full year import performance may still diminish. Interestingly, we may even see the US contribute to stronger global imports as the July fall in local milk production also triggered an increase in US imports in that month.

SMP/NFDM: Prices are bouncing back up as stocks are falling

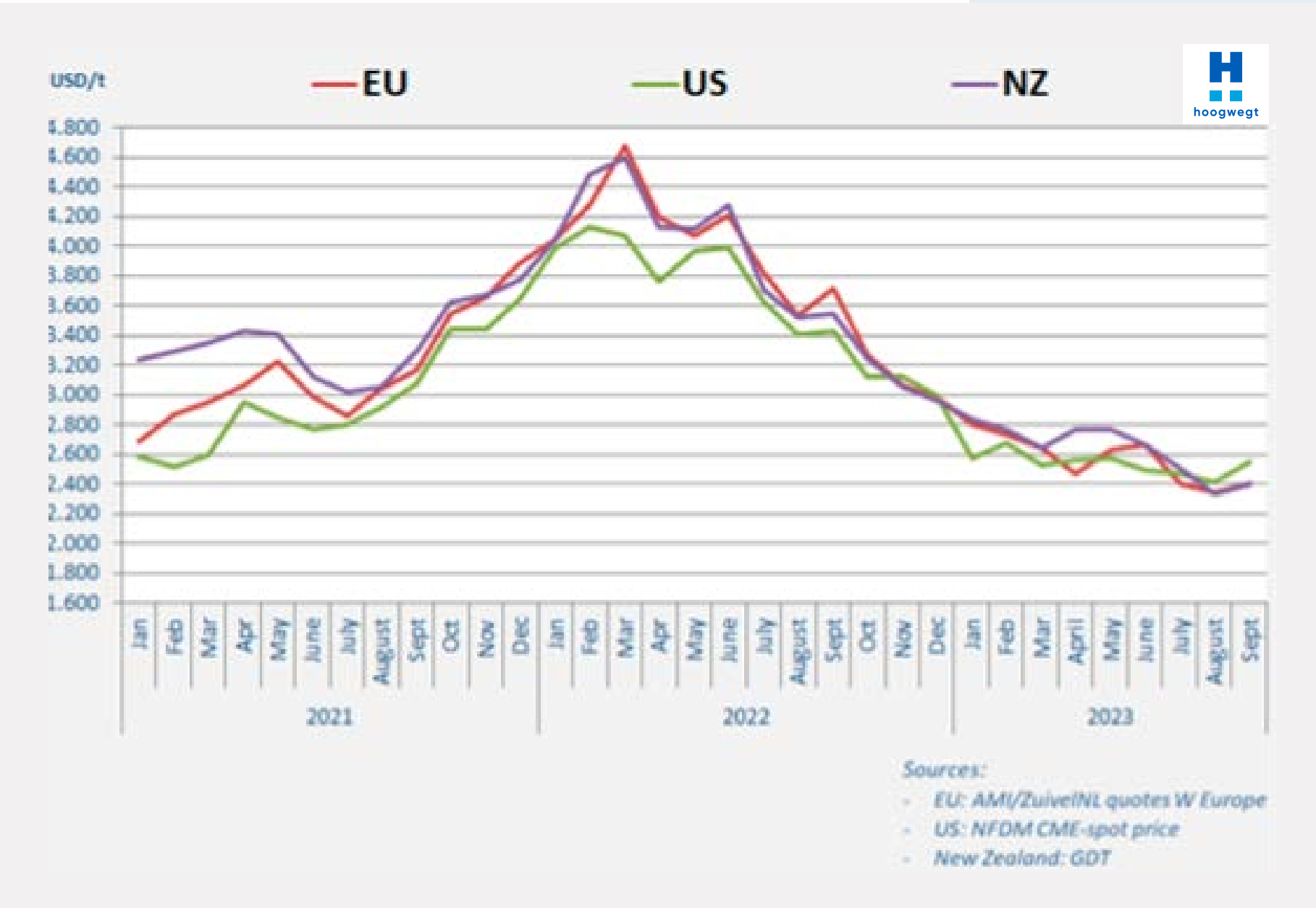
Strong EU exports over the January to July period and weak US milk supply will probably diminish the degree of export competition in the next couple of months. New Zealand will still have a lot of SMP and AMF to sell during in its peak production months in order to relief some of the sales pressure in WMP, but in the previous season NZ product was faced with stiff competition in the EU's and the US' core export markets in Northern Africa and Central America. This may no longer be

the case as export availability in the Northern hemisphere is quickly declining. Buyers also adopted a more forward looking approach, causing trade activity to intensify and prices to improve in recent weeks. SMP and NFDM prices dropped quite strongly during the months of July and August in all major markets but within just a couple of weeks most – if not all – of that decline has already been erased again.

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



Monthly SMP prices in the main export markets

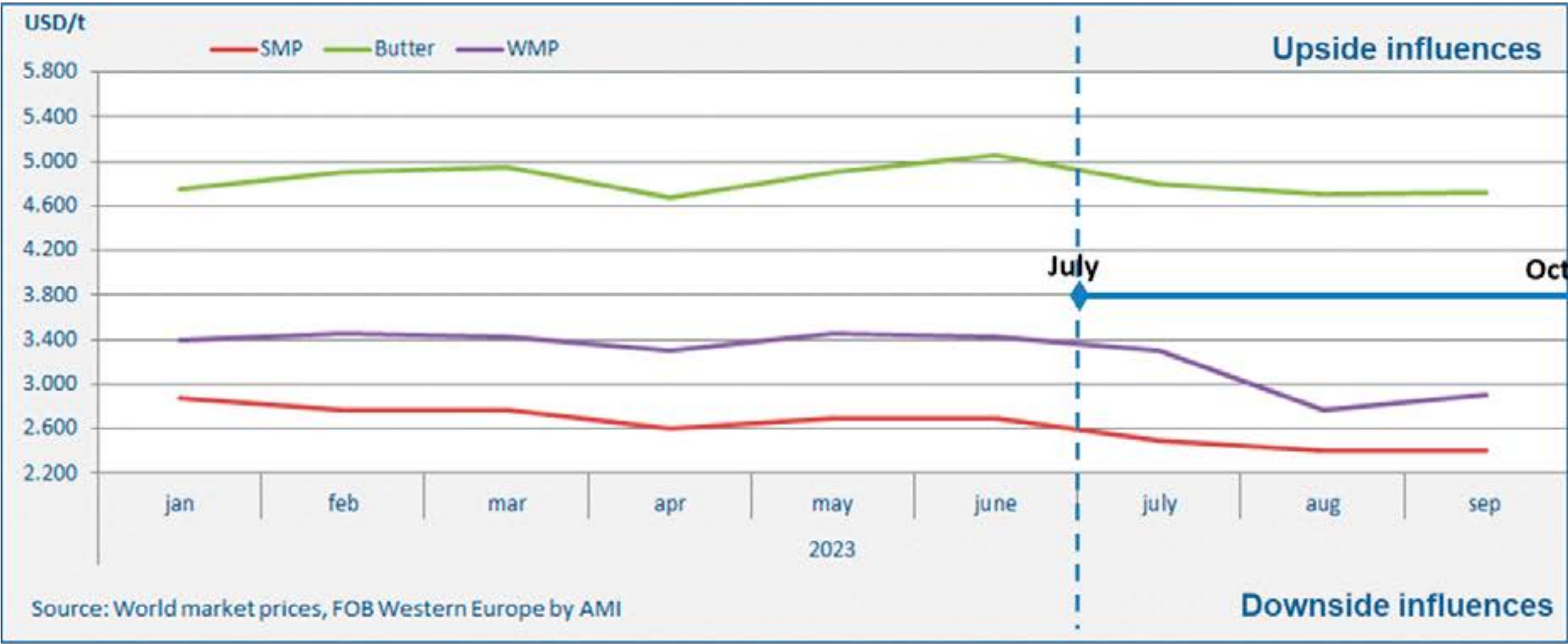


Looking forward

The start of September provided some initial signs of price recovery after the very bearish market sentiment in August and the resulting fall in milk powder prices in particular. The high spot milk and spot cream prices in Europe and strong buy-side activity in SMP after the early September GDT session indicated a change in market sentiment. At this point, it appears to be indeed a change in sentiment rather than a fundamental change in the

market balance but the near-term upward potential for prices to return to May/June levels is still significant. Buyers appear to acknowledge the unique opportunity of still favorably low prices at a point in time that milk production appears to weaken on a month-to-month basis and value chain stock levels – apart from local WMP stocks in China – appear to gradually decline.

Market Outlook for October - December 2023



- Milk prices in export regions are falling below critical levels
- Possibly improving Asian import performance in H2
- Retail price levels are easing
- Low commodity prices encourage buyers to build long positions
- Supply side stock levels have built up
- Macro economic headwind and inflation may slow down the global economy
- Questionable whether Chinese imports will significantly recover

Dairy Deep Dive

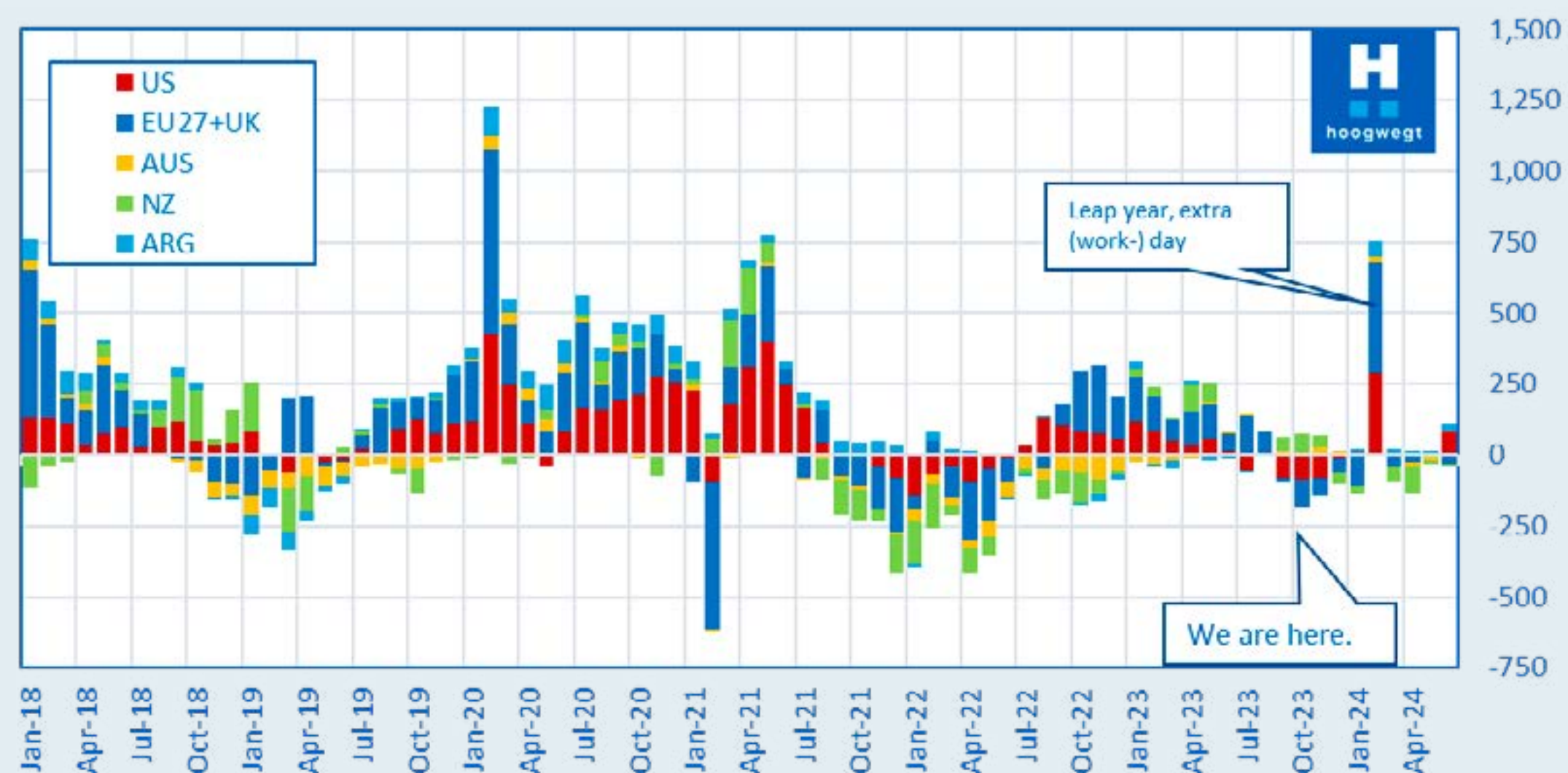
Is negative milk growth an argument for higher prices?

As our first article mentioned, we're on the verge of negative milk production growth. The US has been writing negative milk growth for a few consecutive months; Europe is getting closer to neutral milk production growth with strong comparable months upcoming; The Kiwis' recording three negative months in a row with their worrying number from August (-2.1% YoY). The question is, what does that do to the value of milk and dairy products like SMP/NFDM?

To answer that question, one has to take a look at milk production going forward. What stands out is that most farmers from the exporters' side and farmers from major importers are looking at tight margins at best.

US milk producer margins dropped below the contraction line (25th percentile or lower) in Q1, and rightfully indicated that farmers would work their way to herd contraction. Currently, we're still there but closer to some light at the end of the tunnel on margins. Slaughter rate indeed has been strong since May and is now easing a little bit but the herd is still negative and the margin shouldn't leave much room (if any at all) to increase production compared to last year when margins were ample.

Milk production YoY change, top 5 exporters in million litres and Forecast



→ continuation

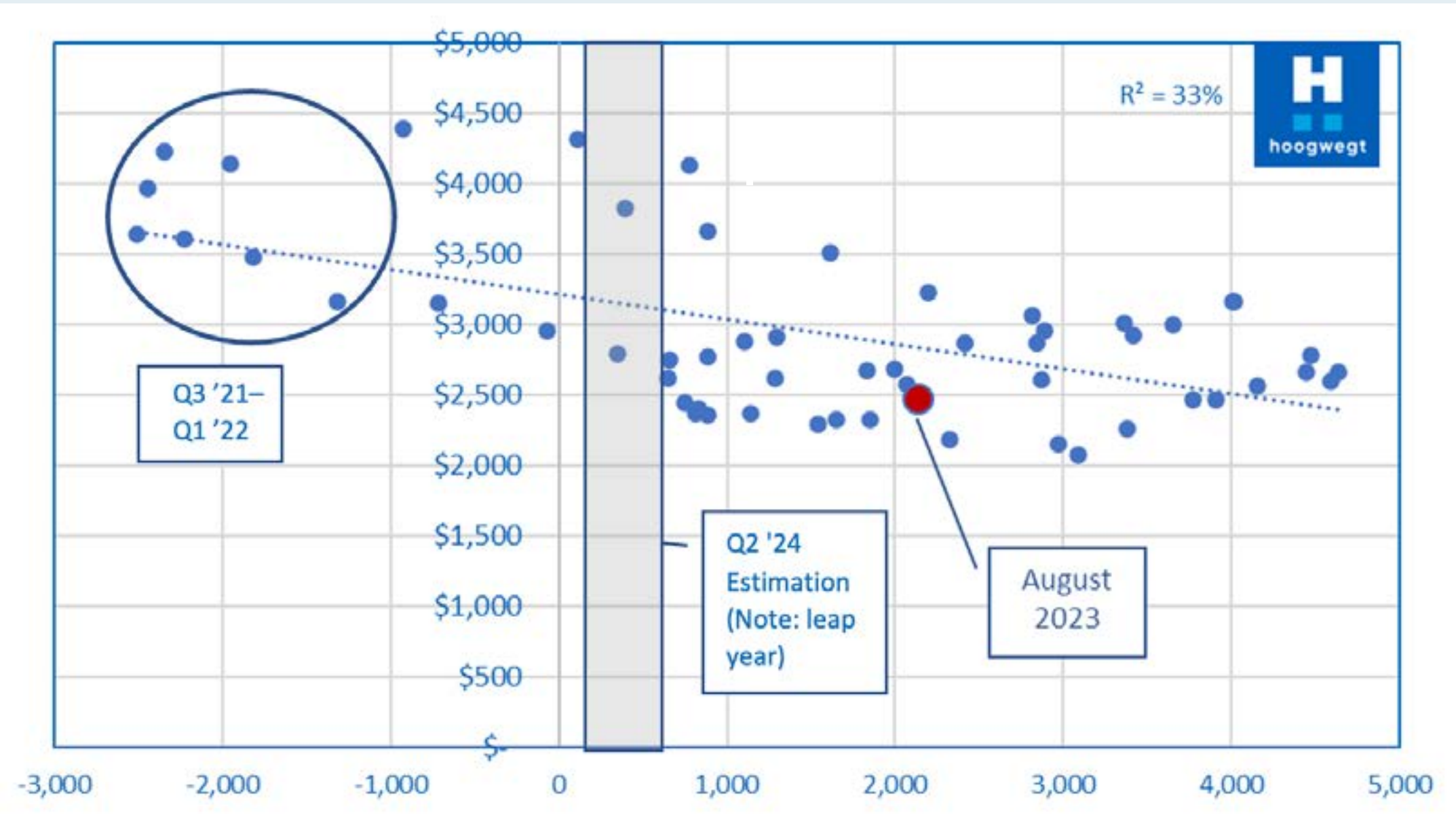
Europe isn't looking much better either. Hard to beat comparable months for Q4, margins being either below or just a little bit above the break-even point (depending on country and farm-size) won't leave much room for supplement feeding. Unsurprisingly, Europe's outlook isn't great for Q4 in terms of milk production.

NZ being in the red for three consecutive months now too, is adding to the negative milk growth for the exporters. Local production in China has been quite strong in H1 but dropping milk prices give them the same incentive to increase slaughter. There's a small nuance, China also has replenishment cows coming of age, so the herd size there could form some base. All in all, with global (exporters') milk production already flat to very mildly negative in July, it's not looking better on the short term. A mild but continuous negative milk growth is not an outlandish thought. While it might not be as bad as 2021, a -0.5% growth rate out of the top-5 is reasonable and might even be moderate, even if NZ still writes a mild green spring. Not as bad as 18 months ago (Q3 '21 – Q1 '22 saw strong contraction in milk production)

For SMP/NFDM milk production growth could give you a partial explanation of changes in the price for a dairy product. In case of SMP/NFDM, plotting the 12m rolling total milk production out of the Top-3 exporters explain a third of changes in price. The same goes for other dairy products. Of course that still leaves enough room for other explanations (demand, sentiment/error, etc.) but it is an interesting indicator.

In the end, if it's all milk, so is negative milk growth an argument for higher prices? History says yes, but it also is only part of the puzzle. Specific dairy products provide their own supply and demand and their effects shouldn't be neglected. Besides, let's not forget how fast the US can rebound on increasing margins; and the fact that Europe has been hovering above the negative. They'll still need to drop in to see what condition their condition is in.

Change in milk production (absolute, 12m rolling total) in USA+NZ+EU vs average SMP/NFDM in US\$/t (USA+NZ+EU)



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 fair, and did China return?
- Prices are still relatively low; this should attract some buyers. SE Asia is probably on low stock levels for powders.
- NZ Milk production just wrote a third negative consecutive month.

On the bearish side:

- Domestic consumption in Europe is still struggling,
- Recessions, inflation, leading to drops in demand.
- SE Asian demand still seems to be low. While others who bought might have enough for now.
- Butter stocks in Europe are relatively high, also compared to SMP stocks.
- NZ's current product mix continues to be a bearish argument, next to the bullish ones out of the Northern hemisphere. And since their product mix is historically still pretty new, it's harder to catch.

Things we watch:

- Geopolitical turmoil and governmental policies.
- Gas, if winter weather in Europe and/or Asia is cold then Europe is not out of the woods yet on gas.
- NZ next season; Cows, slaughter, payout prices and product mixes
- SMP and Butter correlation, given their different stock levels.
- High cocoa and sugar prices giving issues for multinationals to sell volume, that affects their need for SMP.
- Volatile currency rates and foreign exchanges.

A Quick Note on...

Futures

By: Adnan Mikati, Director HTM Americas

CME NFDM Futures

Through the majority of 2023, CME NFDM futures have faced a long-term downward trend. From April to August, the final announced prices for NFDM remained confined within a tight 3-cent band. As we approach the end of September, the market is showing some signs of life with a three-week rally, albeit within a broader downtrend. Despite this activity, a substantial recovery still appears distant due to strong resistance at higher levels. A near three-year low was hit at the beginning of September, with CME Spot at \$1.0575/lb. This price is now the significant support to monitor, while \$1.20/lb has consistently demonstrated its role as a staunch resistance. The converging movement of the moving averages underscore the waning momentum and the possibility of a trend shift.

The forward curve has consistently been in contango throughout the year, maintaining broad intervals. Though it transitioned to this contango structure in Q4 of 2022, hopes for a price rebound remain, especially as indicated by the more favorable prices further out on the curve. While production has already receded, with milk output falling below last year's figures in July and August, the market still anticipates a demand resurgence.



Internationally, NFDM pricing remains crucial. Though the U.S.'s NFDM is still priced below the EEX SMP and SGX SMP markets, the discounts aren't as significant as past benchmarks or the three-year average. This smaller differential might challenge the U.S.'s competitive edge in exporting to regions like SE Asia and China.

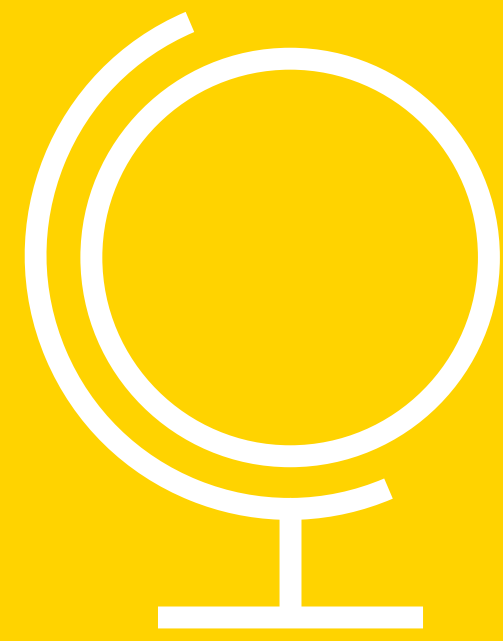
Butter

For the first six months of the year, butter was contained within a 10-15 cent range. However, since mid-June, it's embarked on an impressive uptrend, surging past both medium and long-term moving averages. As of time of writing (September 25th), butter is on the brink of touching its 2022 peak, driven largely by seasonal demand and stock reductions during lower milk production periods. With the CME Spot breaking the \$3 threshold, the immediate resistance is at \$3.20—a level that has historically been tough to maintain. Firm support exists at \$2.60, with a subsequent level at \$2.30. The forward curve is notably backwardated, illustrated by the nearly 30-cent difference between the third and sixth contracts. This is typical in bullish and tight markets.

Class 3 Milk

Mid-July witnessed the Class 3 market breaking its extended 10-month price decline. However, volatility has dominated since. The third continuation contract plummeted below \$15.50, only to rally afterward. Despite this, it couldn't consistently breach the \$19 barrier. As it stands on September 25th, technical indicators suggest a fragile market, with momentum leaning bearish. Key support resides at \$17.20, but once breached, \$16 appears to be the subsequent target. Formidable resistance remains at \$18 and \$19, presenting challenges for upward moves.





Geert Nijenhuis
Senior Export Manager
Dairy Essentials
Middle East Africa



My journey with Hoogwegt started 8 years ago. The commodity trade sector was very appealing to me. This, in combination with typical Dutch dairy made me very enthusiastic to start as a trader. I really enjoy the high level of independence. I would liken being a trader at Hoogwegt to running my own dairy shop with the aim to sell the different dairy products in 'my' countries.



The entrepreneurial culture within the company is electrifying. If you come up with a great idea, that could be beneficial to the team as well as our business partners in the long run, it would be easy to find support within the company.

From the start, I've been active in the Arab World. Egypt, the UAE and Lebanon were my main markets. Although geographically close, these are very different markets, each with its own challenges and opportunities.

Throughout the years, I moved to other markets, being Saudi Arabia and Yemen. I am currently responsible for a team of four traders, covering the Arab countries and more. It's great to see the team grow – deepening relationships with our partners as well as gaining more knowledge on the market. In turn, we share our international knowledge and local experience with our business partners, to support them in making the right decisions for their own business.

I believe that the Dairy industry will become more and more transparent. More people and companies see the added value of helping each other out, collaborating and sharing what

World Comment.

they find important to their business. This way, we evolve into an industry culture of sharing, challenging and helping each other out in the best possible way. This is a change that I highly appreciate and support.

Very recently, two terrible tragedies happened in Morocco and Libya. We wish all the people of Morocco and Libya all the support they need, and a speedy recovery from these horrible disasters.

The Dairy market today isn't very easy to predict. If we zoom into the MENA region, things look quite promising. Most countries in and around the Gulf-region show healthy economic circumstances. Consumer demand is doing great, and companies are much more optimistic than two or three years ago. On the other hand, Egypt continues to struggle with the accessibility of foreign currency and the Algerian derogation system isn't making it easy for companies to import. However, recently there are slight signs of optimism.

On the dairy demand side, most (unanswered) questions come from Asia. South-East Asian countries are confronted with a significant decline in consumer demand. Many expect that this will be temporary. But this temporary slowdown is quite persistent. And so, doubts come in to play if these countries will return with the same demand as before.

China's economy is not growing in the same pace as before and local production is growing and professionalizing, and hence, the need to import might (continue to) slow down. But last GDT showed more activity with Noth-Asian buyers. For now, it seems that buyers are making use of relatively low prices to cover their demand, but it is something to keep an eye on.

Hoogwegt Happenings.

September has been a blast!

Team Hoogwegt (Hoogwegt Dairy Essentials / Havero Hoogwegt Dairy Ingredients / Meelunie) participated in the Food Ingredients Asia (FIA) Thailand tradeshow.

Over 3 days (20th to 22nd September 2023), we welcomed buyers, suppliers and potential partners at our lovely booth at Queen Sirikit National Convention Center (QSNCC) at the heart of downtown Bangkok.

We hope to see you again at our upcoming booth at Anuga Cologne, 7th to 11th October 2023, Hall 10.1, Stand B061-C060!

