



# Horizons.

Our insights  
on Today's Global  
Dairy Business

June 2024

# #006



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Market Direction

## Global milk production:

## Crawling to neutral.

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# Editorial Note.

## Walking on Sunshine

As we enter into the Summer months, this issue of Horizons talks about global milk production working its way back to neutral. Read more about it in the 'Market Direction' segment.

We 'Deep Dive' into the European Milk Production over the last 10 years (from 2013 to 2023). We also explore a bit more on SMP/NFDM exports.

We also take a quick look at Whey and Bart Whiteley talks more about the futures market.

Senior Account Manager Pieter Kok features as Guest Writer for the 'World Comment' segment, talking about his wonderful years of experience in Dairy and the importance of personal connections.

'Hoogwegt Happenings' will feature our very own Leonie Lucas, Financial Controller at Hoogwegt Australia and her bid to raise funds to support Lifeline Geelong, Australia.

As always,

**Hoogwegt Horizons Editorial Team**

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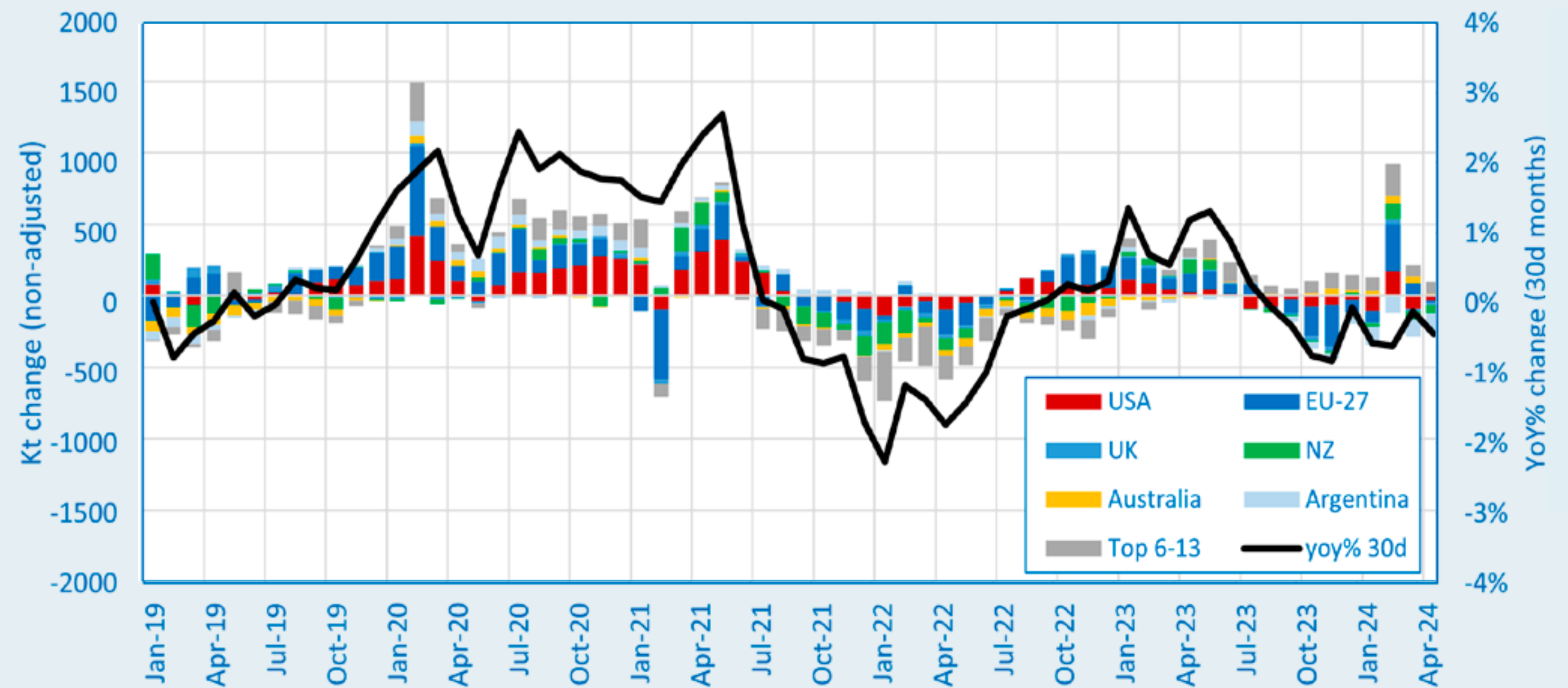
## Market Direction

# Global milk production: Crawling to neutral.

**EU Milk production:** Latest official; March: +0.7% YoY. End of March production figures turned positive (+0.9% YoY) in Germany and France, April figures weakened again for the top-3. Europe margins should still be better than last summer but worse than last year. Feed costs and energy costs came down compared to last month. Interest rates could still be an issue, limit farmers invest in expansions. Last year we expected Europe to leave the negative territory and expected the mild growth we're seeing now but April figures weakened again for the top-3. The weak milk production from Q4 2023 should be easier to beat in Q4 2024 since margins are expected to be better compared to 12 months prior.

**NZ Milk production:** We expected negative numbers in Q2, that's the case but given the excellent conditions last year it wasn't that hard to predict. Latest official; April: -4.1% YoY. On a milk solids basis production registered a -2.6% figure compared to last year. Pasture growth is looking better than last year and the 3-year average overall. That's especially the case in the North, while the Southern Island is struggling. Note that NZ enters their winter (off-season) so in an absolute sense, these figures mean less.

Milk production growth from major exporters, in 1000tonnes and YoY%







→ continuation

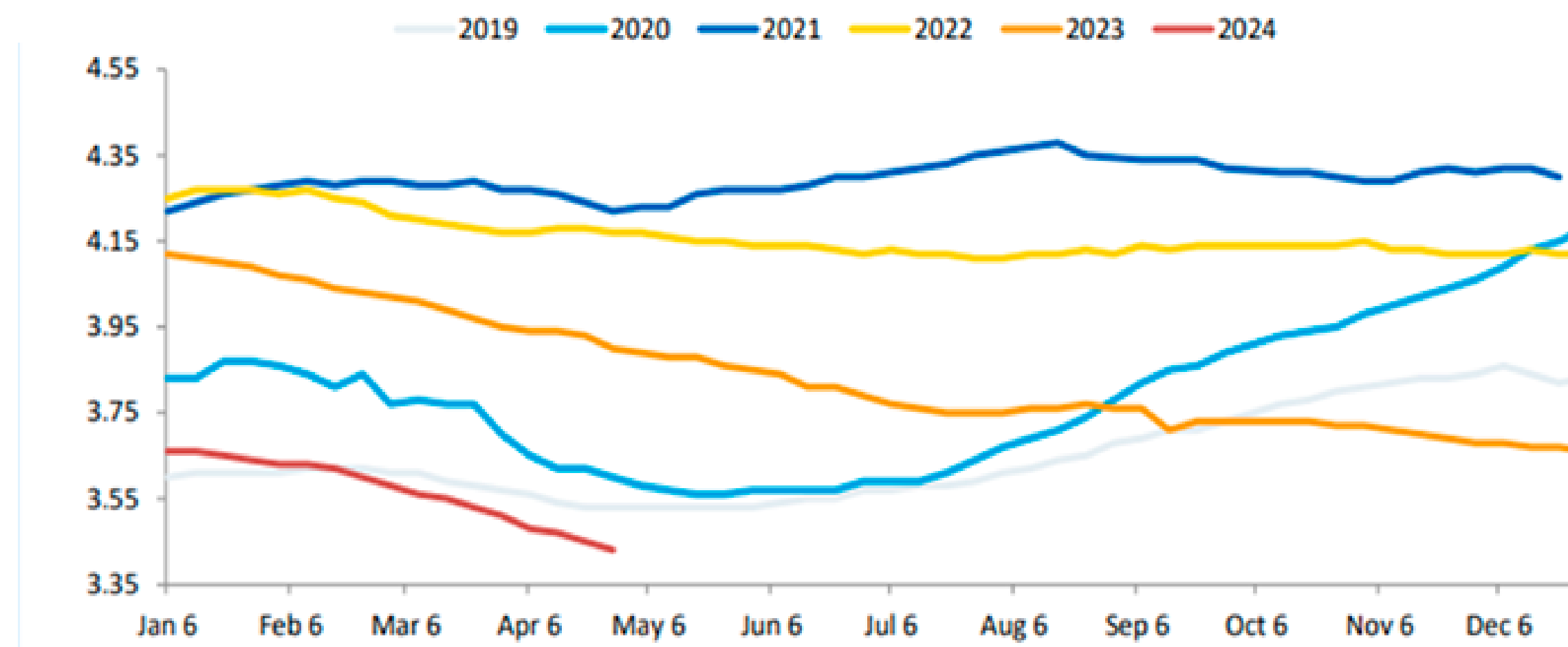
**US Milk production:** April saw a 0.4% dip in US headline milk collections. This marks the tenth consecutive month of YoY declines in US milk production. Milk production per cow experienced an increase of 0.4% compared to March 2023, while the herd size is still 0.8% lower.

**Outside the top-3:** Argentina's milk production is still very negative (-16% YoY for April), while on a positive note, Australia keeps writing stronger YoY numbers (+2.5% YoY; April), as does Belarus, reporting 7.4% YoY growth in March.

**China:** Raw milk prices slid in April with escalating milk oversupply. The country's average farmgate raw milk prices in top ten producing provinces slid by -0.10 Yuan/kg MoM to 3.43 Yuan/kg in late month (-11.7% YoY), lower than 2019 level.

### China's Average Farmgate Milk Prices

Unit: Yuan/KG



\*Average prices in China's 10 major milk-producing provinces (including Hebei, Shanxi, Inner Mongolia, Liaoning, Heilongjiang, Shandong, Henan, Shaanxi, Ningxia and Xinjiang).

Data source: China's Ministry of Agriculture



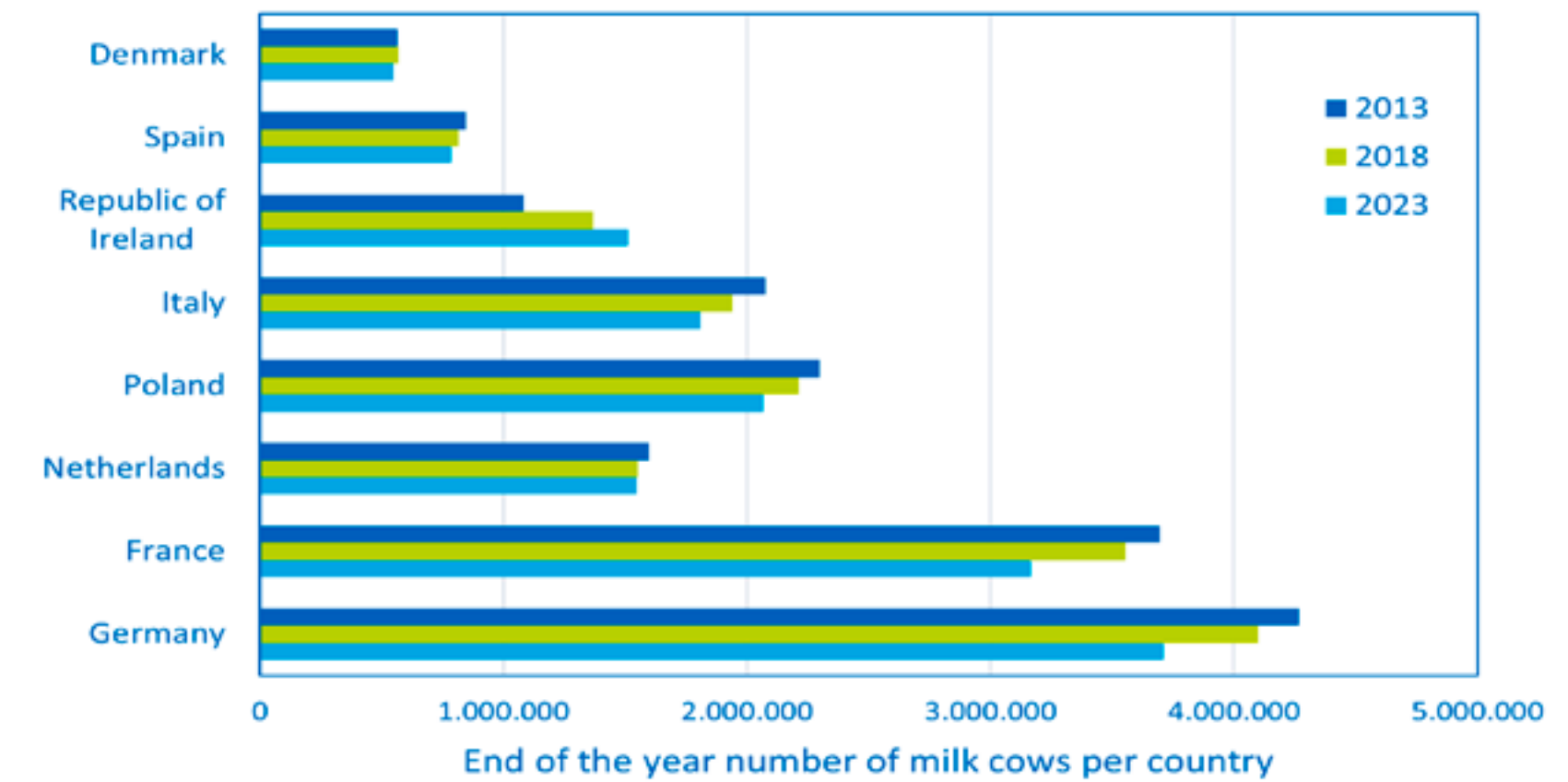
## Dairy Deep Dive

# W Europe's Dairy Descent: Leading the Drop in Cattle Numbers Across a Stagnant Europe.

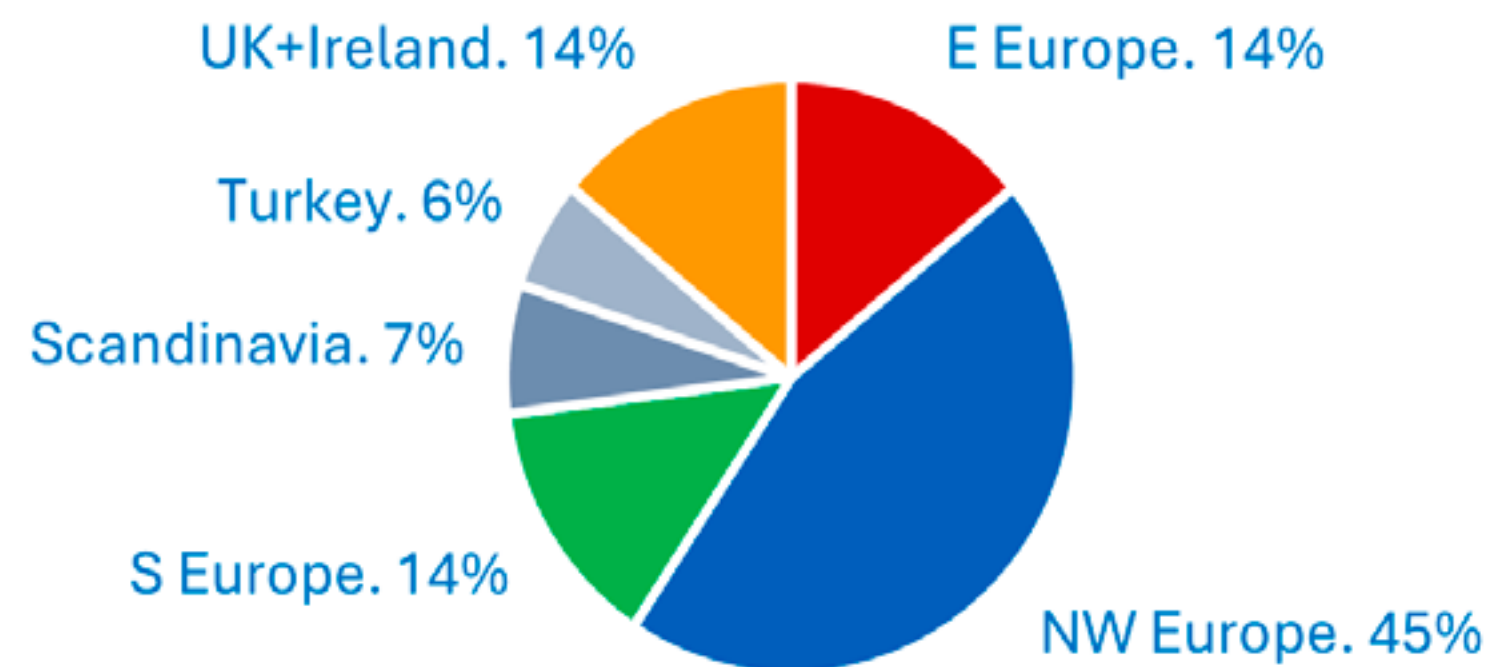
**In the past decade, the average decline in milk cows for the EU-27, was -0.9% YoY.:**

- It was neutral during the end-phase of the quota era (2015) the decline became stronger (averaging -1.4% since 2018).
- France and Germany both averaged a 2% decline since 2018.
- Ireland continued to add cows but are now facing limits due to derogations.
- The Netherlands added cows 2015 & 2016 but got rid of those in 2017 & 2018 and are facing reductions as well.
- Poland increased not only their yield but also their cows in the past 2 years and should be considered a grower in milk production. Already outpacing the Netherlands in volumes.
- The Baltics had a small decline of cow numbers (-0.7%), that was outpaced by their increase in yield per cow (Above +2%). The Baltics still are small in volumes but should be growers.
- Data from Eurostat.

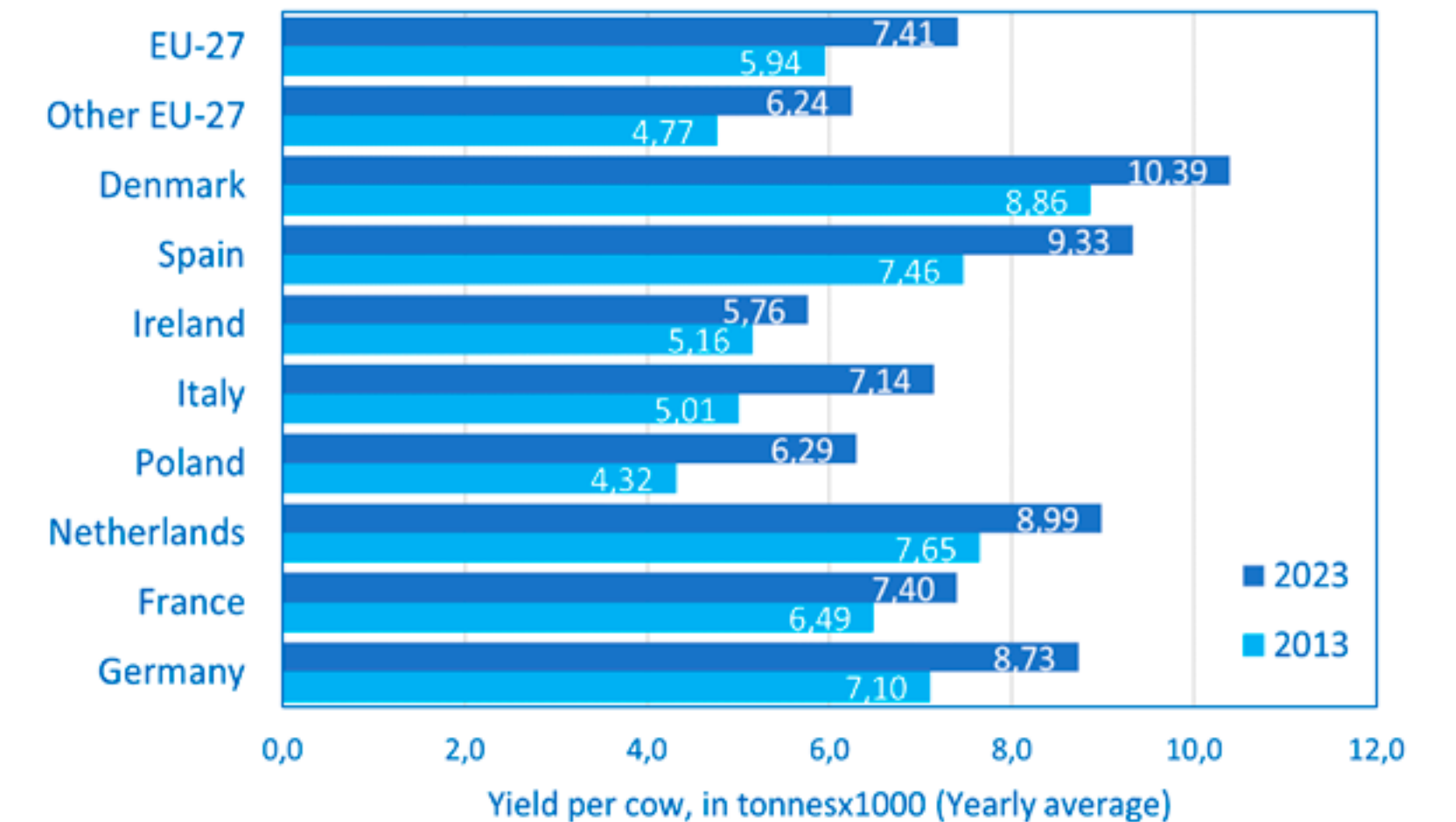
**Milk cows per country (2013-2018-2023)**



**2023 European Milk production in mt**



**Production per cow, 2013 vs 2023**



**Summary:** Milk production is a mixed bag: in the US, it is still negative with a smaller herd than last year, EU-27 is crawling towards positive numbers but very slowly and France and UK wrote negative numbers during flush. SMP production is still relatively low in both regions. Particularly Chinese and Mexican demand currently (Q2) feels weak.

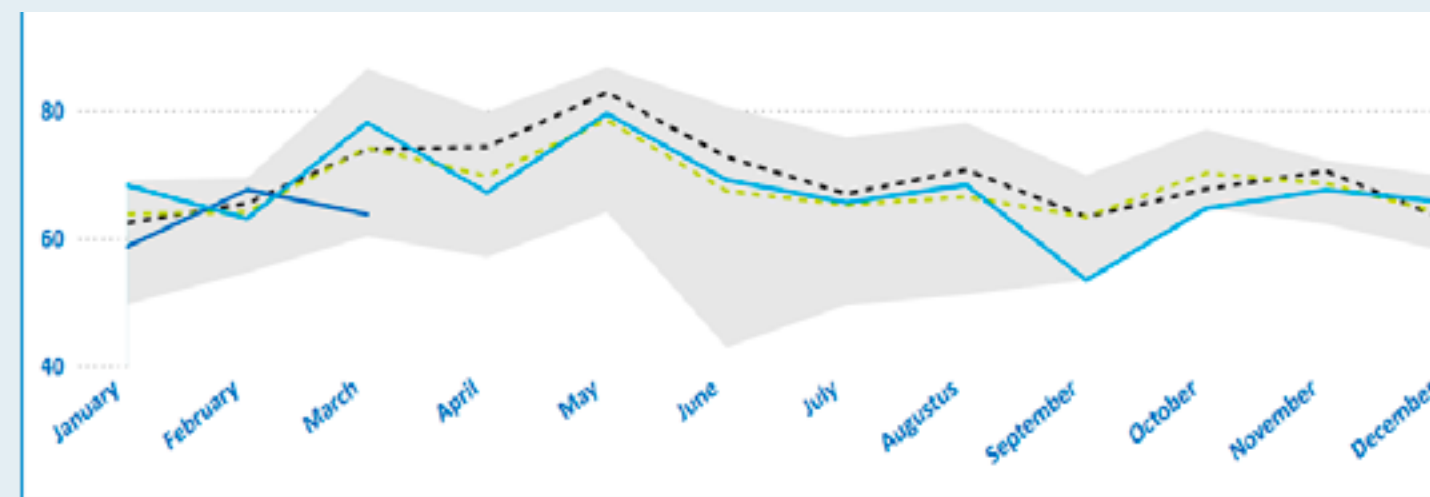
**US SMP Exports:**

US SMP exports experienced a decline in performance, with a year-over-year decrease attributed to reduced shipments to Mexico (-37% YoY or -15,700 MT). March 2024 witnessed the lowest volumes for the month since 2020. Despite this, demand from Southeast Asian countries displayed positive trends, suggesting some potential for growth in the upcoming months.

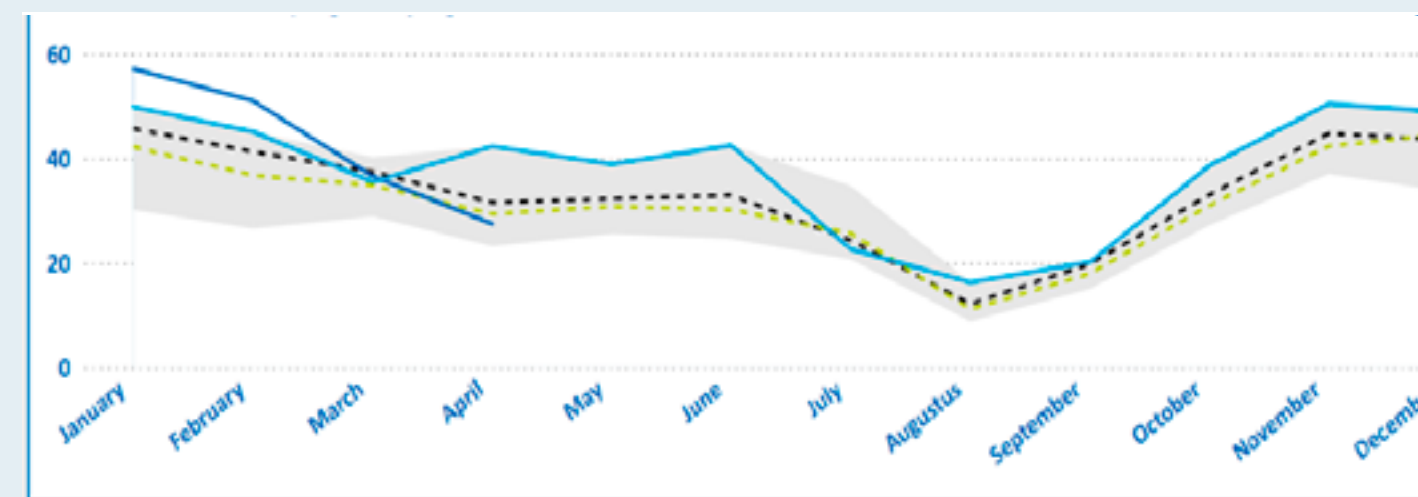
**NZ Exports:**

NZ Exports were strong and gained since their production and export availability increased. Their 2023 exports were almost 100Kt stronger than in 2022. Shipping over 450Kt/year compared to over 350Kt in 2022. The zero-tariff regime gave NZ an advantage over EU and US in China since January

SMP (Food) (HS:040210) exports  
US, 2024



SMP (Food) (HS:040210) exports  
New Zealand, 2024

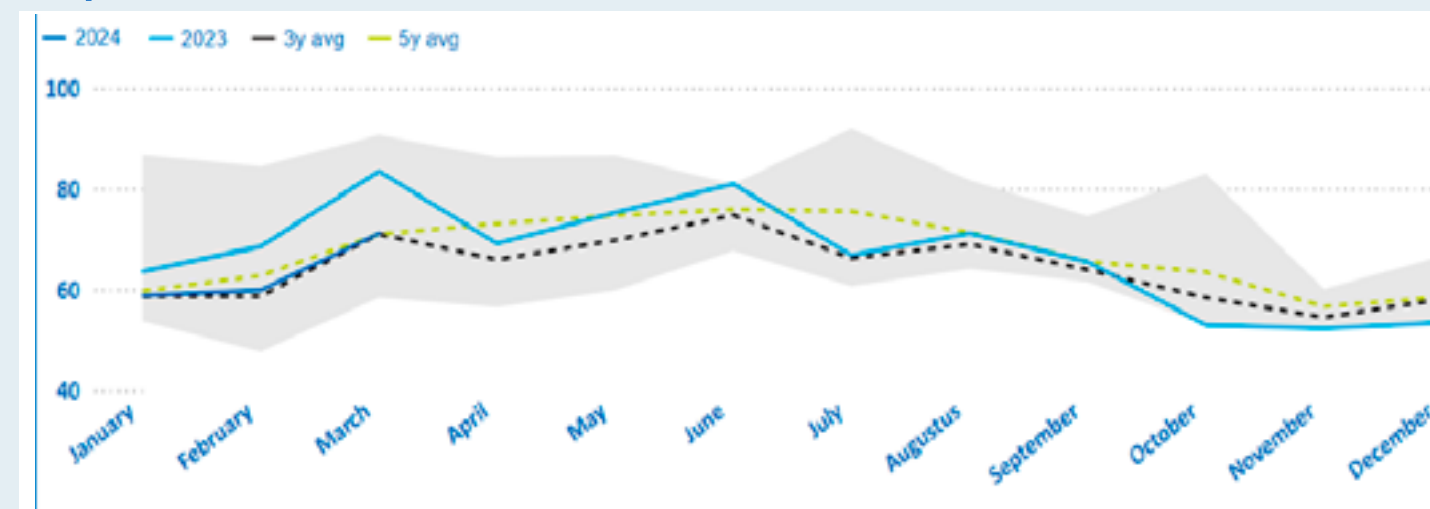


**SMP Exports:**

**EU27+UK SMP exports were announced at 71.1Kt.** down 12.3Kt from last year, or -14.8% YoY in March. The double digit percentual decline indicates that exports were weak, and of course it is weaker than last year, but do note that we're comparing this against the strongest month in several years: March 2023.

**North-Africa** registered strong demand for EU SMP. N-Africa imported a whopping 37Kt (+3Kt) by export data, 86% of which from Europe. N Africa has been a strong buyer, writing YoY increases since December, and let's not forget their H1 2023 was very strong, so beating those figures indicates the strong demand.

SMP (Food) (HS:040210) exports  
US, 2024



**Middle-East:** Shipping from Europe to the Middle-East saw a very mild decrease (-0.3Kt). The import demand for the Middle-East was flat, but Europe had a small drop in market share.

**China:** Very weak import demand as expected, and limited shipping from Europe to China, 1.3Kt, which is very low compared to the 12.5Kt last year. The European market share dropped from 33% last year, to 7%.

**SE Asia:** 14Kt from EU27+UK, which is a loss of close to 2.5Kt. Total SE Asian import demand is 3Kt better than last year at 69Kt, but Europe had a smaller market share, it dropped from 26% last year to 20% this year.



# Bulls vs Bears...

## On the bullish side:

- US Milk production continues to struggle. The EU is doing a bit better in terms of YoY Production but isn't great either as they're facing structural problems in ageing farmers and environmental restrictions, and recent April weekly figures have been struggling..
- SMP (and NFDN) production and stocks in the US and EU are still low, and NFDN/SMP is a little undervalued from their stocks/use perspective.
- NZ is closing in on the end of their season, so their availability is expected to be lower in June-Aug before picking up again.
- WMP production in NZ should be lower than two seasons ago, which counters the struggling Chinese import demand to a certain extent.
- Expected global Import demand turned lower for Q2, and to YoY-neutral in H2.

## On the bearish side:

- In general, NZ still sees a relative strong production in SMP, leading to paradigm shift as they increased their market share, undercutting US and EU prices here and there. They're in their winter now, so production and market share should be low in an absolute sense, but they'll be back in a few weeks.
- The Northern Hemisphere is in their flush. And the weather has been quite favorable for the growth of grass. If you would be grass, you'll like the 20 degrees and the rain. Domestic consumption is expected to be neutral at best in the EU and the US. But note the cacao industry could take a lower volume due to high cacao prices. Global import demand feels weaker in H1, compared to last year.
- Assuming returning milk production leads to an increase of milk, compared to last year's H2.

## Things we watch:

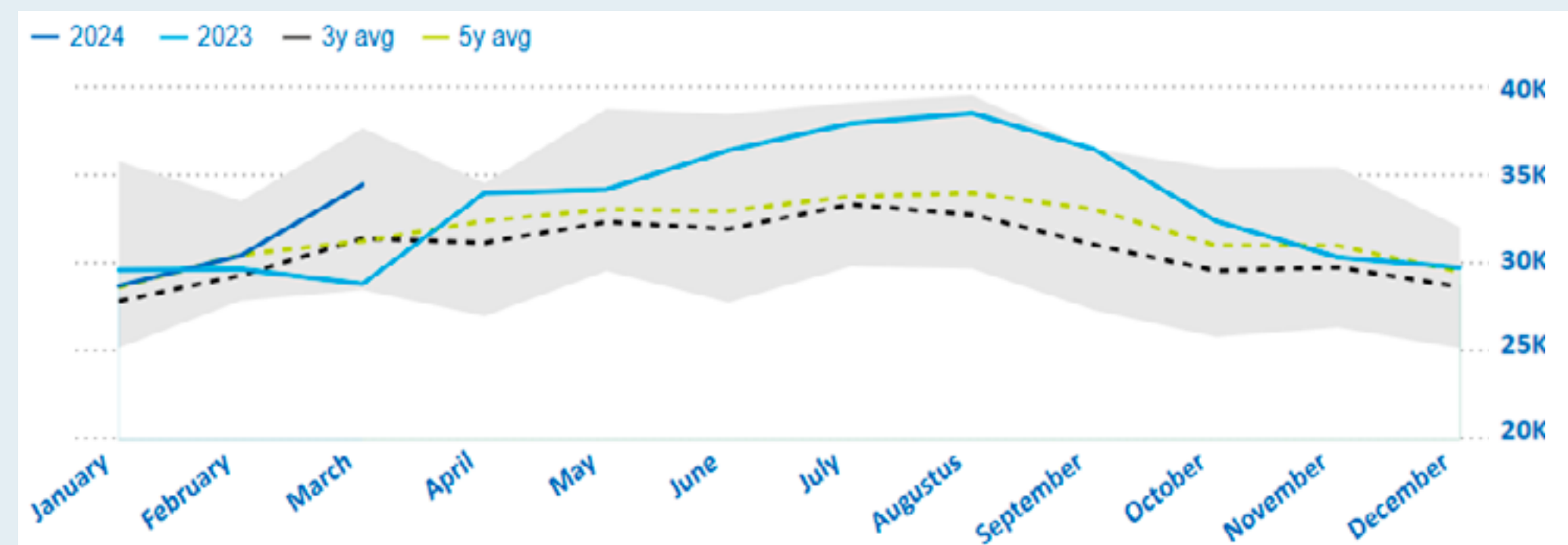
- Geopolitical turmoil and governmental policies, affecting trade and logistics.
- Cocoa prices came down but are still very high making it difficult for multinationals to sell big volumes. This is limiting their need for milk powders, towards H2.
- Inflation, volatile currency rates.



# A Quick Note on Whey

- **EU-27 Milk production** registered a +0.7% increase compared to the same month last year. Ireland and the Netherlands wrote negative growth figures. France, Germany, Poland were positive. Though, in their more recent weekly reports on April milk production France and Germany (and the UK) wrote weaker figures. Also note that the fat percentage in March was on average weaker than a year ago (4.14% vs 4.19% in 2023). Protein levels were weaker as well, 3.42% vs 3.44% in 2023). Cow slaughter is stronger than it has been in the past years.
- **EU-27 Cheese production** saw strong numbers in January and February, so year-to-date production was up. March was closer to neutral, at around 838Kt. In terms of European valorization Gouda and Mozzarella should still be the better valorizing option compared to SMP+Butter and WMP. Cheddar is the exception. With butter prices firming the gap between SMP+Butter and Gouda is getting tighter.
- **US Dry Whey production (for humans)** in the US was 2.4% stronger than last year. WPC (for humans) +1.6% YoY in March, WPI production was soaring at 7.6Kt (or 16.9 mln lbs) +73.1% compared to March last year, with a YTD at a whopping 60.4%. Dry whey stocks are still higher
- **US Milk production** registered another loss; -0.4% in April, compared to April 2023. Neutral compared to April 2022. The US seems to be crawling closer to neutral. Fat and protein content in American milk is on average stronger than last year, compensating the loss in production. Production per cow is stronger +0.43% YoY, but the herd size is still lower -0.79% YoY. Same regional story, Midwest keeps outperforming higher, Western stats are stagnant, and Southwest milk producers are struggling mightily. Cow slaughter is still weak.
- **US Cheese production** is slightly better than last year, +0.1% YoY in March, but weaker than March 2022. YTD is on a 1% loss, Parmesan, Cheddar and Natural American production was lower, while Gouda (the best cheese in the world) and Mozzarella were stronger. US Dry whey production (for humans) in the US was 2.4% stronger than last year. WPC (for humans) +1.6% YoY in March, WPI production was soaring at 7.6Kt (or 16.9 mln lbs) +73.1% compared to March last year, with a YTD at a whopping 60.4%. Dry whey stocks are still higher than last year.
- **NZ Milk production** was still -4% YoY in April but the stronger content in the milk compensates a bit: -2.6% Yoy on a milk solids basis.

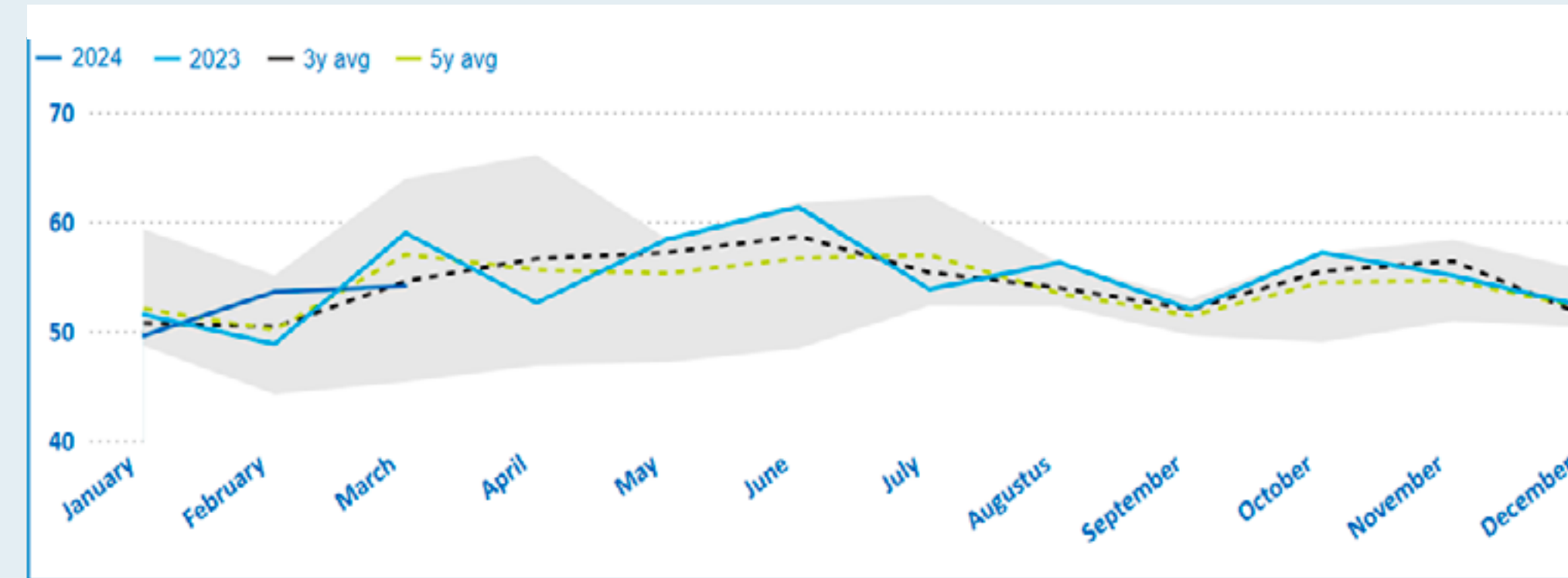
**Dry Whey Stocks (MT)**



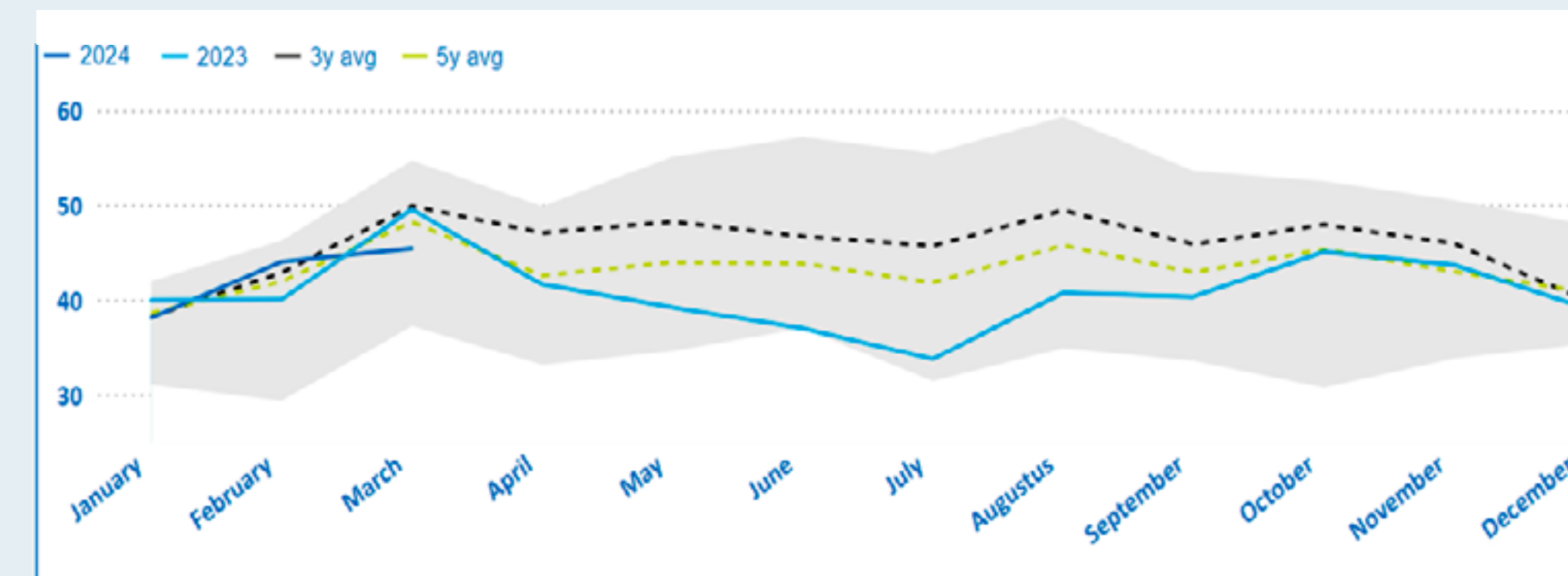


Exports of Dry Whey products (HS040410) was a bit weaker, with weaker US and European exports. WPC-80 (HS350220) demand from the US was stronger, registering a 31.65% YoY or +2.2Kt figure. EU exports for WPC-80 was a bit weaker compared to last year in March, losing almost 1.4Kt

### Dry Whey (HS:040410) exports, European Union (28 Countries) 2024



### Dry Whey (HS:040410) exports, US, 2024



## Futures

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

May was a massive month of activity on SGX, with over 77,000 lots of futures trading, in addition to 10,000 lots of options. This will be one of, if not the biggest months of trading on SGX. A number of factors have contributed to the uptick in activity, but the main two reasons point to: (1) the price spread between EEX and SGX (SMP); and (2) the current discount for Q3 WMP from both spot and Q4/Q1 price levels.

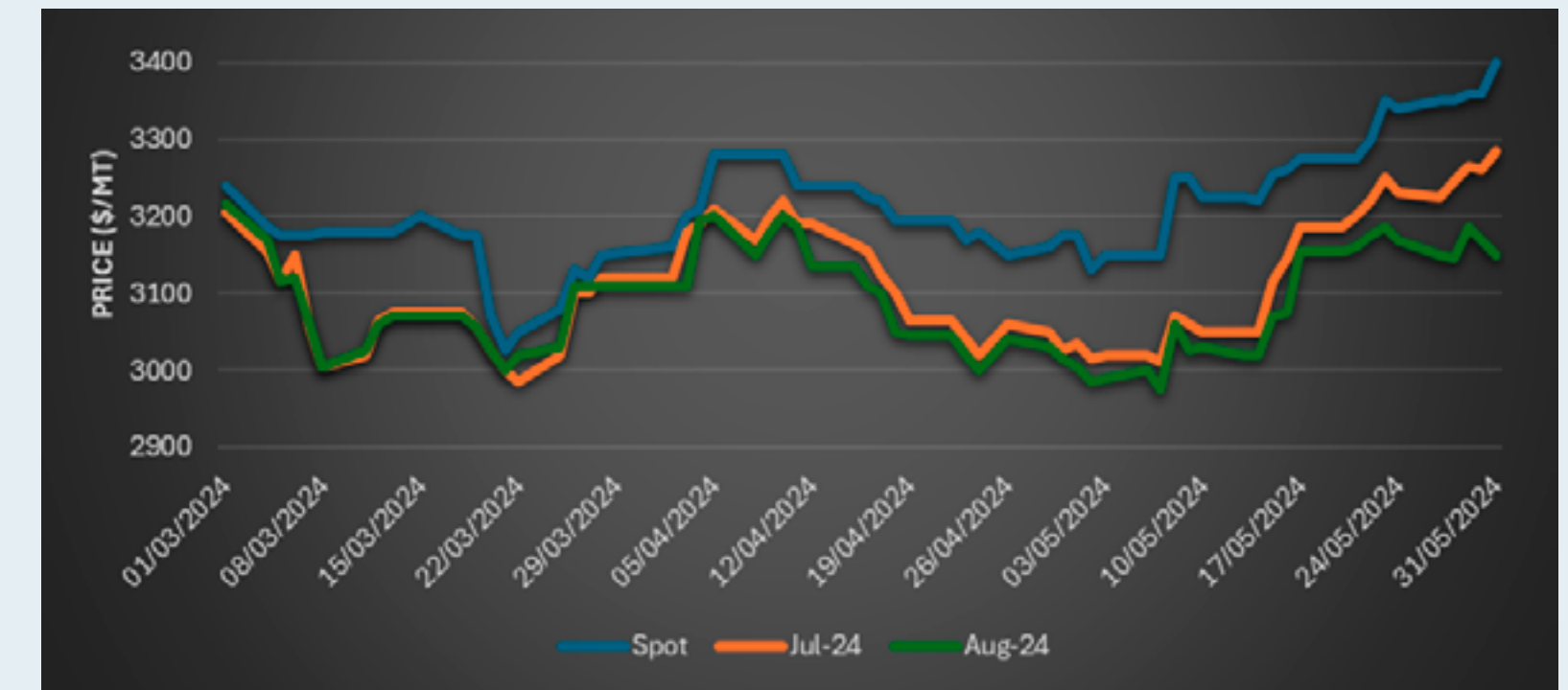
### WMP

The WMP market has been anticipating a drop in pricing over the peak (Q3 2024) since February, and a rising spot market has definitely tested this theory and resulted in an increase in activity. The August WMP contract is hitting resistance at \$3170-\$3200 levels which is \$200 below spot levels. With June GDT volumes still low, and China WMP stock levels tight for prompt, we could see the August contract converge closer to spot levels, just as the July contract has done in the last 2 weeks.

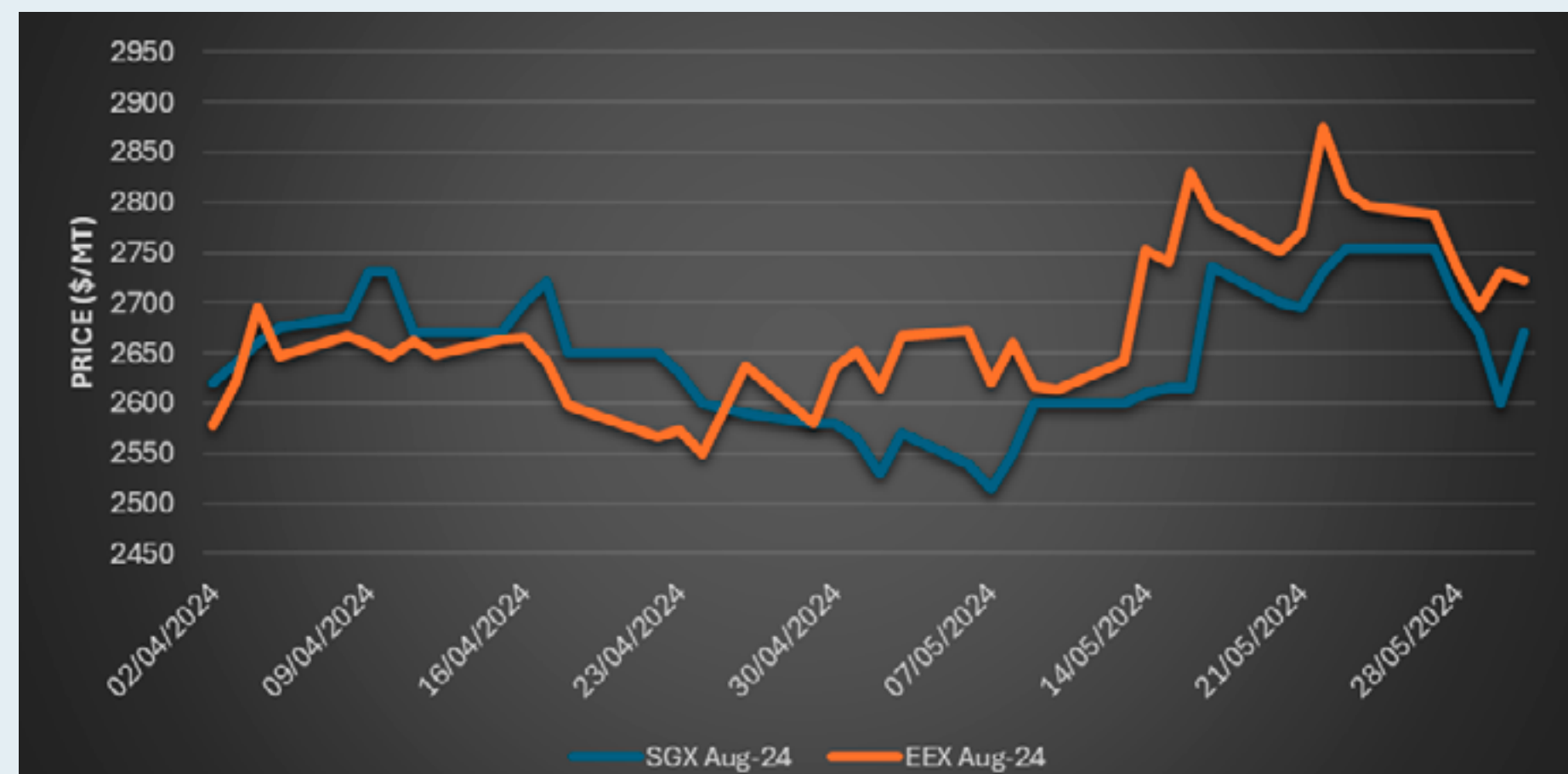
### SMP

The SGX SMP market has mainly been a follower of the EEX SMP market, and the high volumes traded (+30,000 lots in May) was the result of market participants taking advantage of the stronger EEX pricing this month versus SGX. The contango on SGX SMP has flattened during the last week of May, with June to October spread sitting at +\$50 (it was +\$150 mid May). Fundamentally, Oceania SMP is still being offered into SEA < \$2600 FAS and supply from Oceania will increase in the coming months. Sso barring any supply shocks from the EU or US, it will be difficult for this market to break on the upside.

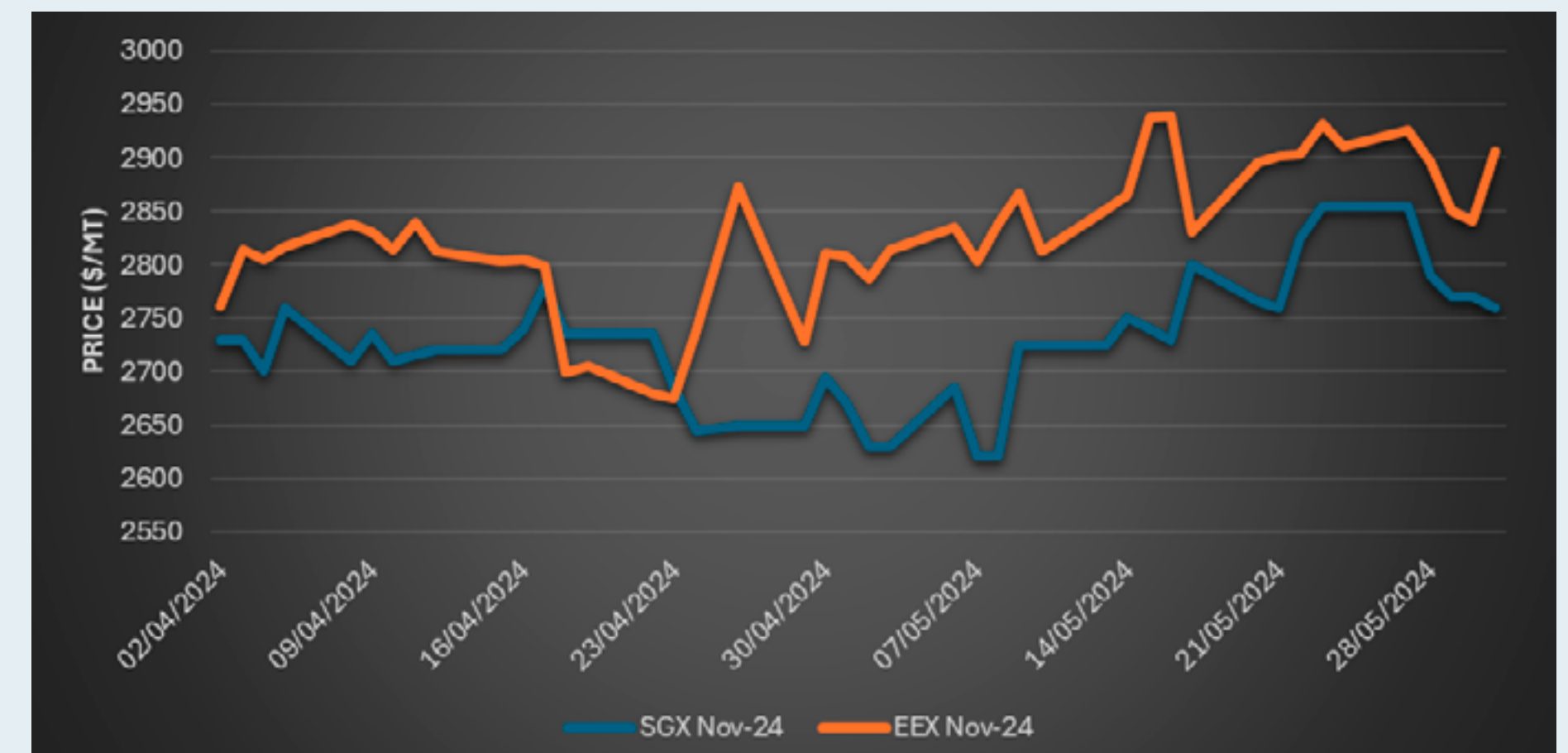
## SGX WMP Spot Prices Compared to Jul-24 & Aug-24 Contracts



## SGX SMP & EEX SMP - August (DC) Contract



## SGX SMP & EEX SMP - November (DC) Contract





# World Comment.



**Pieter Kok**  
**Senior Account Manager**  
**Hoogwegt Dairy Essentials Europe**

Having worked for Hoogwegt for over 30 years means I've experienced many changes in markets, in Hoogwegt and in the world in general. Things have become faster, more transparent and our suppliers and clients have become smarter. Still, we manage to play a major role in Global dairy commodity trading, thanks to our good and experienced finance, logistics and commercial teams. We try to keep up our good name in the market by adapting to changes where needed and keep on investing in our global network of suppliers and customers. Myself, I moved from a logistic role back in the '90s to a commercial role. My main selling market back in the early 2000s was the whole CIS region with Russia as my biggest market. Those days, it was a fascinating region to visit, build relations and do business in. We all know how things have changed over there. These days, my trading role is more within the European market both on the buying and selling side. Still, I am active with the day to day dairy business which I like and which invigorates me, especially with the network I have been building over the many years and I try to keep relations personal and good. I believe this is the best basis for doing good business!

**How important are clients and suppliers relations and how do you handle them?**

I am very old school in this respect. Meeting my clients and suppliers in person is key for me to build, extend relations and solve issues if they arise. The better personal connection you have with your counterpart, the better your chances for good and regular business. Plus, the beauty of meeting people in person is the travelling you do: see different countries, see different cities and meet with a lot of interesting people from different cultural backgrounds. Even at times when certain business lines don't work, I try to keep good contact with suppliers and clients involved. Times will change and before you know it, you will reconnect again to make certain business work

**Will that remain as important as they are now going forward?**

No doubt! With the scale of our business, the international character of it and also the risk profile, business relations will remain extremely important to keep going strong as an international trading company.

**How did business change over the last 30 years?**

Where to start? Especially the speed of the business changed a lot. Back in the '90s we concluded business via Telex and a negotiation process could take 1-2 months. Today, we work a lot via online e-tenders which can last an hour only and you sell the same 1000 mt of product. Also, the EU and international markets got a lot more vertically integrated which is a challenge for traders to keep their existing market share. The futures markets play an increasing role in international dairy business both as a hedging tool as well as a speculative tool.

**What is our view on Eastern European business in the foreseeable future?**

If we stay close and keep a pulse in Eastern Europe, we will see Poland and the Baltics with good potential to still increase in milk production. They are less affected by environmental measures than Western EU countries, plus their costs to produce milk are among the lowest in Europe while the yield per cow still has good growth potential. If we go more East, with the war going on in Ukraine, the dynamics between big dairy producing countries such as Russia, Belarus and Ukraine is unclear. The Russian Federation will keep on working to be more self-sufficient and the first signs of Russia being a net exporter of dairy proteins is there. Belarus will see their exports to Russia decreasing for that reason and will have to look for alternative outlets.

**Ambitions going forward?**

Keep on having fun, work hard individually and as a team in order to achieve our future goals at Hoogwegt in the always changing dairy environment!





# Hoogwegt Happenings.

At Hoogwegt, we are always keen to support a good cause.

Leonie Lucas, Financial Controller from Hoogwegt Australia participated in the Life Line Corporate Dash which raises money and awareness in support of Mental Health and Suicide Prevention in Geelong Australia, where our Hoogwegt Australia is located.

The Life Line Dash is a 135 meter race of business leaders and Leonie represented Hoogwegt dressed as a cow in recognition of the Dairy Industry.

Also, Leonie exceeded her donation campaign goal.

Great work Leonie!