



Horizons.

Our insights
on Today's Global
Dairy Business

March 2024

#03

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Don't Panic! But we are at the end of Q1 2024!

In a flurry of activities including New Year's, Spring Festival, Tet Holidays and soon, Ramadan, ladies and gentlemen, we have arrived at March. And just like that, we are almost 25% done with the calendar year 2024.

In this month's issue of Horizons, we do our usual rounds on the Global Milk Production in our 'Market Direction' section.

We also 'Deep Dive' into WMP and SMP, a great complementary piece to our Futures section (written by Bart Whiteley, Derivatives and Export Trader for HTM/APAC) which explores the same two products on the futures market.

Our Whey section will also touch on the high proteins (WPC-80) markets.

Charles Lesmana, Senior Export Manager DE APAC and Commercial Director PDI contributes to 'World Comment' this issue and shares his view on the Dairy Market.

A quick update on our Gulfoods 2024 Booth and more information on our upcoming FI China tradeshow (Hall 3 Booth 3G70/3H71) can be found in the 'Hoogwegt Happenings' section.

As always,

Hoogwegt Horizons Editorial Team

Market Direction

Milk Production: NZ joins the Negative Milk Production Club.

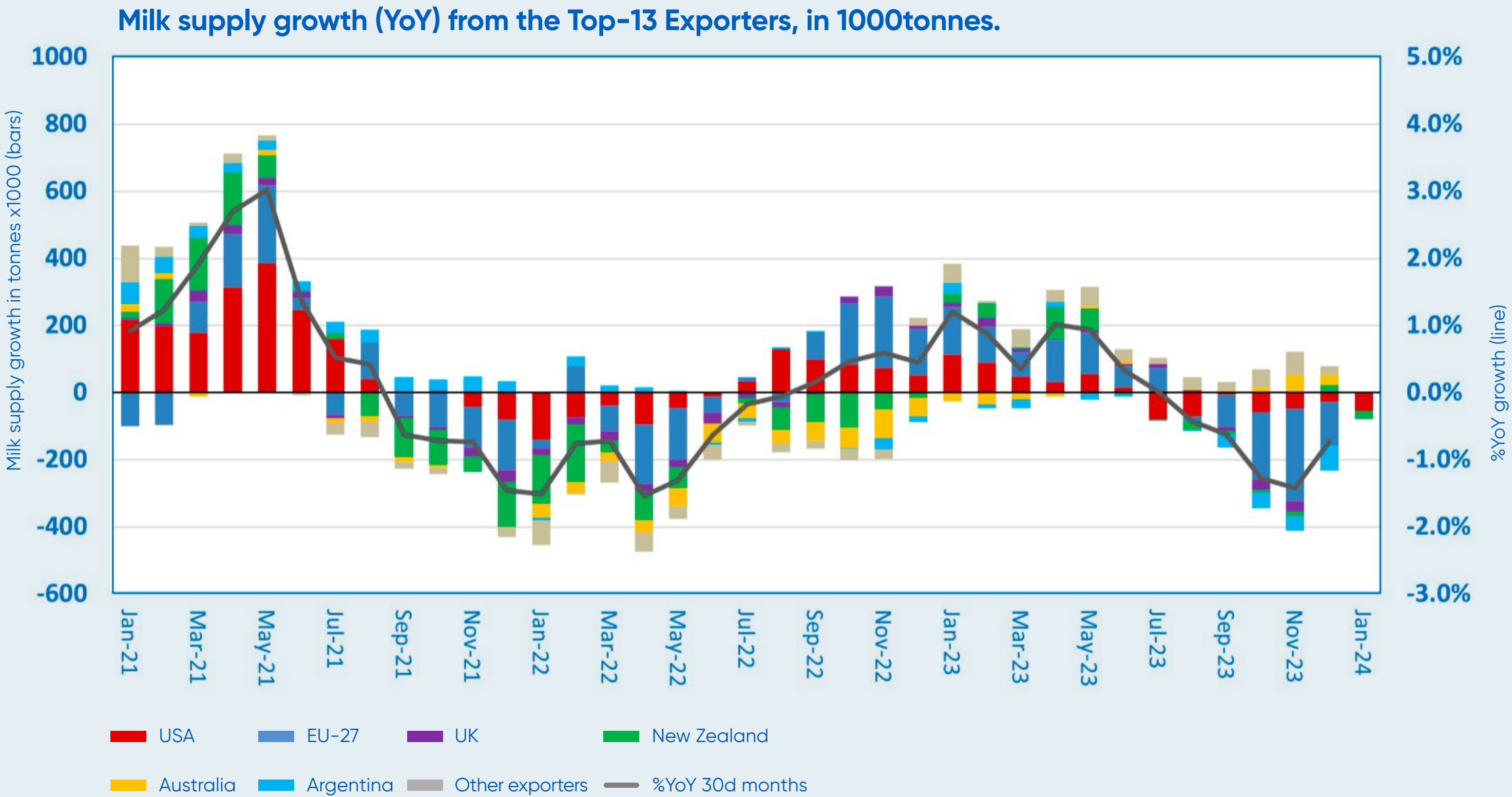
NZ joined the EU and US and saw their milk production turn weaker in January, compared with the year prior. NZ Milk production for January 2024 registered -1.2% YoY. Milk solids -0.6% YoY. Milk solids had been relatively stronger than production but now both turned negative.

January brought unpredictable weather to NZ, with weather systems that brought dry heat to the North Island but heavy rain to Westland and parts of the South Island. So in light of El Nino, the differing weather systems were actually good for pasture. However, the problem was that it was simply a bit too warm for the ladies of the fields.

- New Zealand milk production for January 2024 was down 1.2% (down 0.6% on a milksolids basis)
- New Zealand milk production season-to-date was down 0.5% (up 0.8% on a milksolids basis)
- New Zealand milk production for the 12-months through December was up 0.7% (up 1.8% on a milksolids basis)

Herd size: Slaughter saw a small (+3.3% YoY) uptick in December 2023, after several months of YoY lower numbers. The amount of slaughter should still be around +25K cows YTD (Jan-Dec), as December is a month where slaughter is low in an absolute sense, compared to 2022.

[more →](#)



Note: The chart above includes NZ and US data for January 2024, but the EU and other exporters have not published their January 2024 data yet.

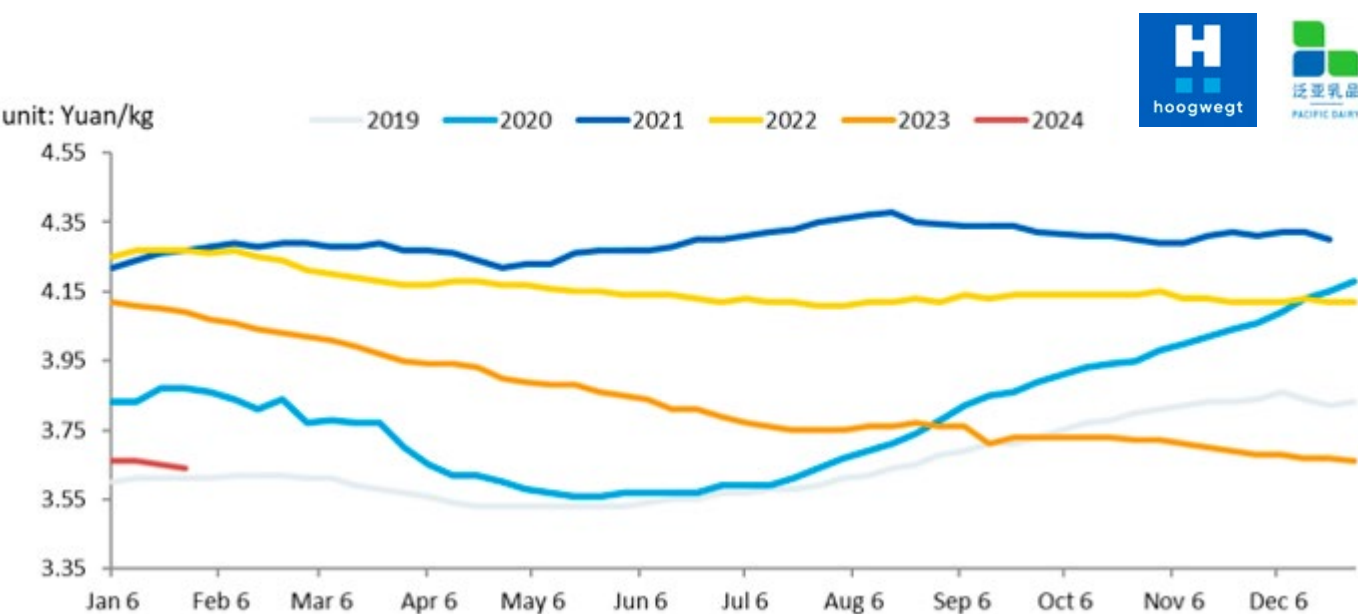
→ continuation

US published their January 2024 milk production report last week and milk production in the US is still behind last year, -1.1% YoY. That number is lower than most expected, with the yield per cow still behind last year and a smaller herd size, all while slaughter is still low. In general, farmer economics seem to be looking better than last summer, but worse than last year.

Europe's latest official report is currently based on December 2023, and it comes with a nuance. It's negative and in the best case -0.3% YoY, whether you consider EU-27+UK or without the UK.

The nuance lies in Italy, where some reports are posting a very strong positive (+3.7%) number, and some a negative (-0.7%). In the worst case scenario, Europe is expected to be behind 0.7%.

Our Internal European Milk Meeting is a monthly meeting in which esteemed traders share info on the countries they deal with and are knowledgeable on. We summarize and quantify our takes, just to have an idea on milk and solid production. Overall, our collective conclusion is that Europe will continue to write a negative number in Q1, but grow towards a break-even point around March, with mild positive numbers around flush (Q2).



*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

Germany is expected to grow compared to last year, from March onwards with stable protein levels and fat below last year. Germany's farmers do not see a huge margin, but aren't as restricted as compared to the Dutch and Irish farmers, though they are striking against their government because of diesel prices. Irish (and Dutch) farmers are restricted by nitrate derogations, forcing them to slaughter cows. The French farmers are striking as well, but for our Non-European colleagues, French farms are also smaller on average, and therefore a bit less efficient. The payout for them is looking better though, and the comparables are becoming easier to beat.

Poland sees growth, as always. Our Warsaw colleagues stated that milk should continue to grow around the +2%, this year. There are some struggles with the government due to the grain imports from Ukraine, affecting Polish farmers. Banning grain imports could lead to a potential ban of dairy imports from Poland to the Ukraine as a counter, so there is that risk factor.

Farmgate payout prices overall might see mild increases, because in recent weeks, butter and SMP saw firmer price levels, but we still do not expect a huge increase, so there should be a margin but it's still not as big as it was 12 months ago.

Outside the top-3 exporters, Australia continues to beat the year prior and registered a +4.9% YoY increase in January, pinpointing their season to date at +2.5% compared to 2022-23.

China's average raw milk price weakened in January to RMB 3.64 yuan/litre due to seasonally rising milk production. Local factories seem to have produced more WMP in Jan-Feb. Oversupply would add more pressure on milk prices in the upcoming period prior to peak season of milk production. China's Ministry of Agriculture (MOA) forecasts raw milk production to keep growing till 2025, but growth in 2024 could slow to 3-5%.

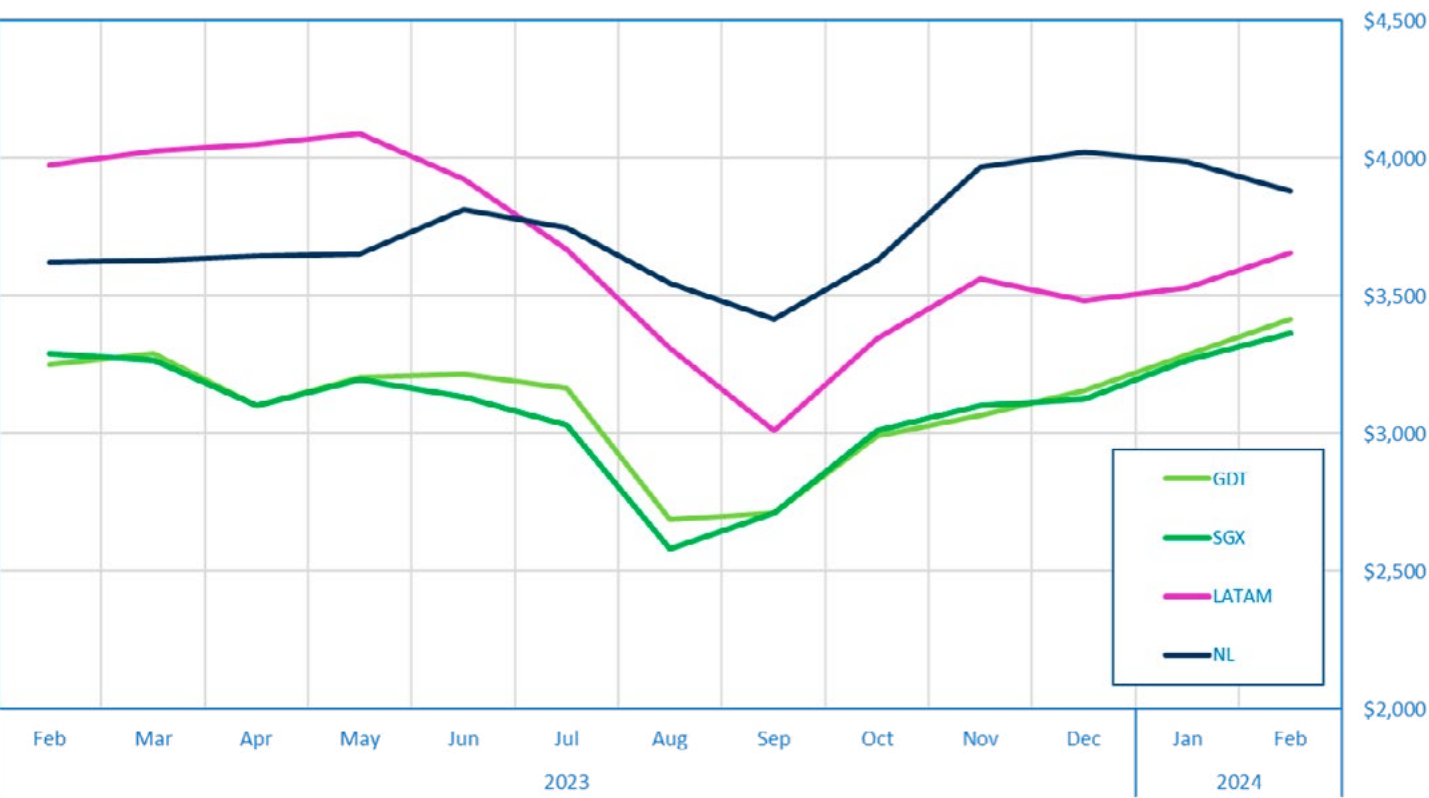
Dairy Deep Dive

Dairy Aisle: A Look into Whole and Skimmed Milk Powder.

WMP

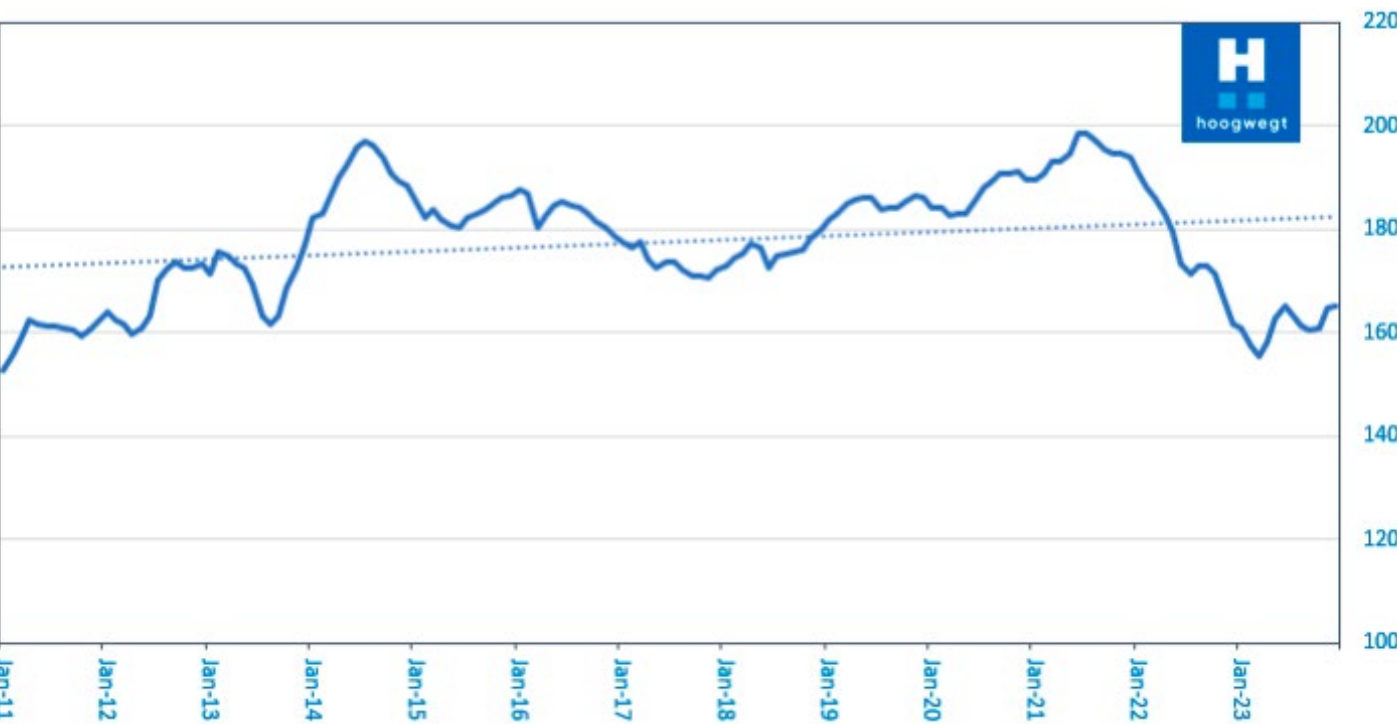
Based on GDT 350, stream return estimates, Butter/AMF/SMP combination is still in general the most favorable in terms of valorization, WMP second and then there is Cheese. Milk value going into cheese decreased substantially and is currently the least favorable. Milk going into WMP decreased as well this event due to the decline in WMP. SMP/Butter/AMF saw an increase in value. This makes it rational to optimize the SMP and Butter production, meaning less WMP compared to seasons prior to last, when WMP was the default.

WMP, in US\$/t, monthly averages



Last season continues to provide the insight that it could lead to a ballpark 150Kt less of WMP Production and more SMP/Butter. It looks like global WMP demand is past the bottom which we saw around Q1 2023, as shown in the global demand 12m Rolling Average (RA).

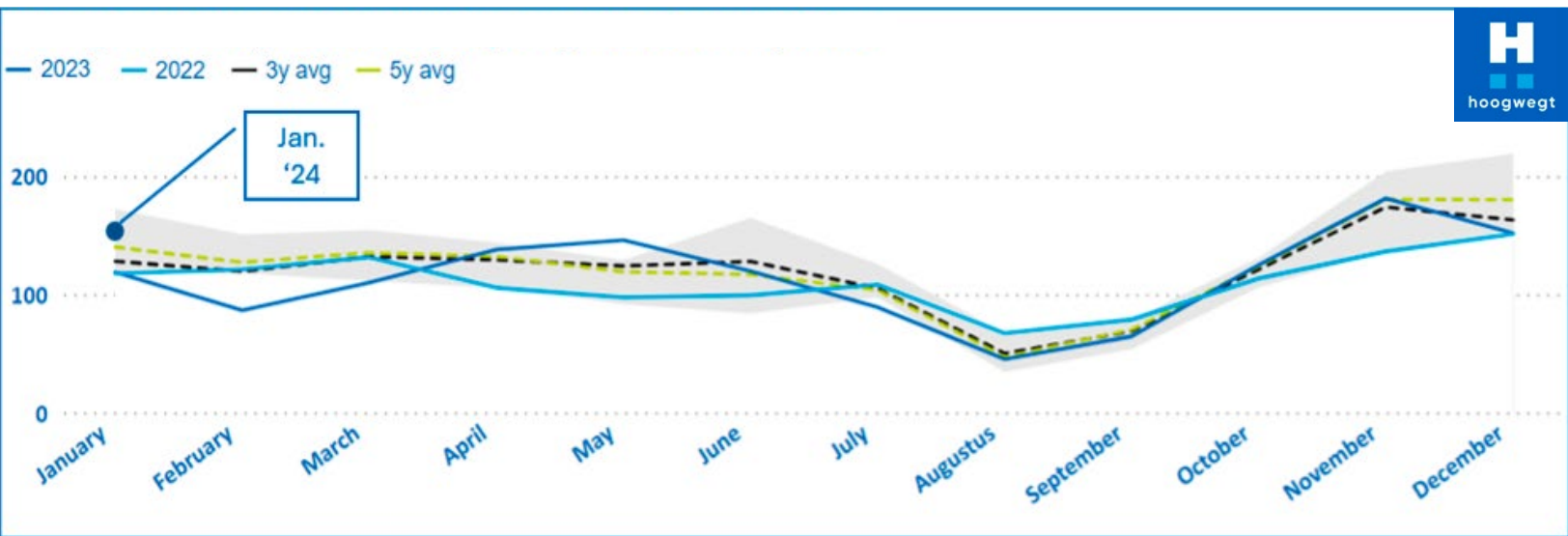
Global WMP Import demand 12m RA



NZ WMP Exports:

- Q3 2023 Exports out of New Zealand were weak, but stronger in Q4 and January continued the strength with sailings adding to almost 150Kt of WMP.
- Export stats for January show WMP exports down 2.9% compared to December 2023 but up 17.0% as compared to January 2023.
- NZ origin currently is still the cheapest, a ballpark \$500/t gap with Europe, and a \$250/t gap between LatAm, based on the spot monthly averages.

WMP (HS:040221, HS:040229) exports, New Zealand, 2023

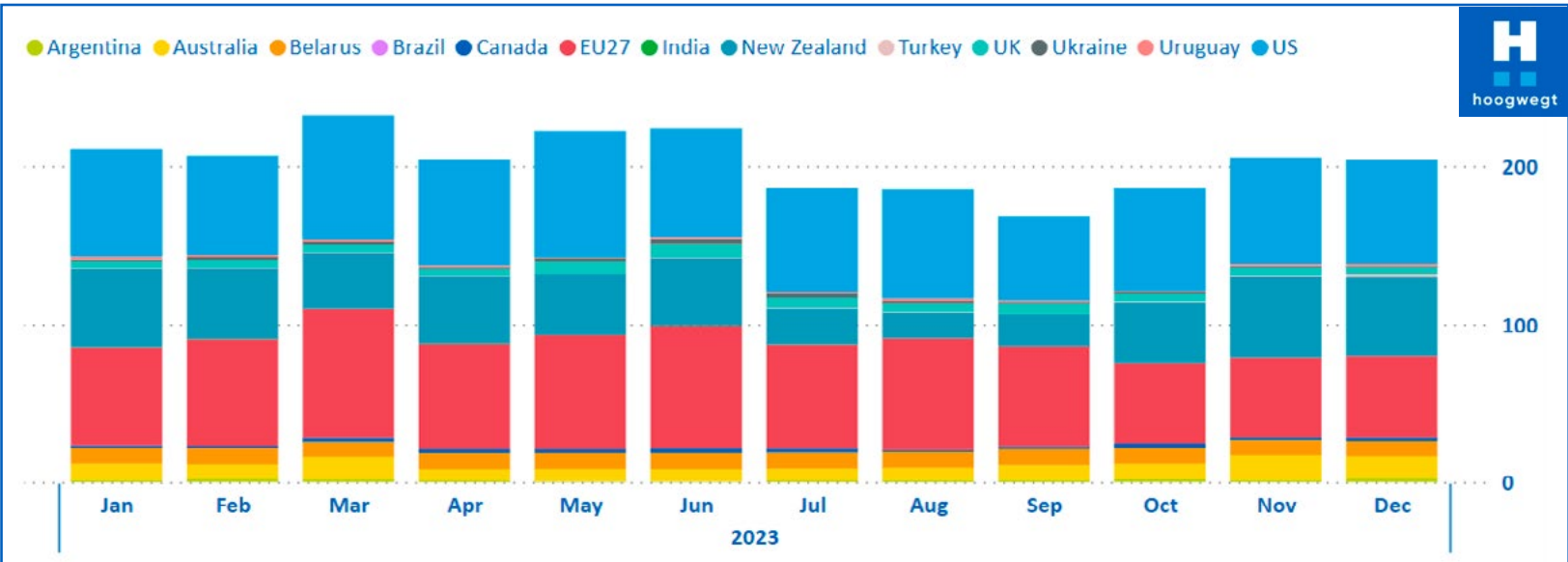


SMP

While European (SMP) and US Production (NFD) continued to be as low as their stock levels, exports in particular out of Europe struggled in the report that covers December data. New Zealand saw another increase in their market share, and the US finally saw an uptick in exports. The US saw a mild decrease in exports to Mexico, but an increase towards SE Asia. Exports out of NZ continued the strong streak, up 20.7% YoY, driven by increases to China and Asia in general for January. The latter being an indication that the three dog fight over the SMP market share just continues into 2024.

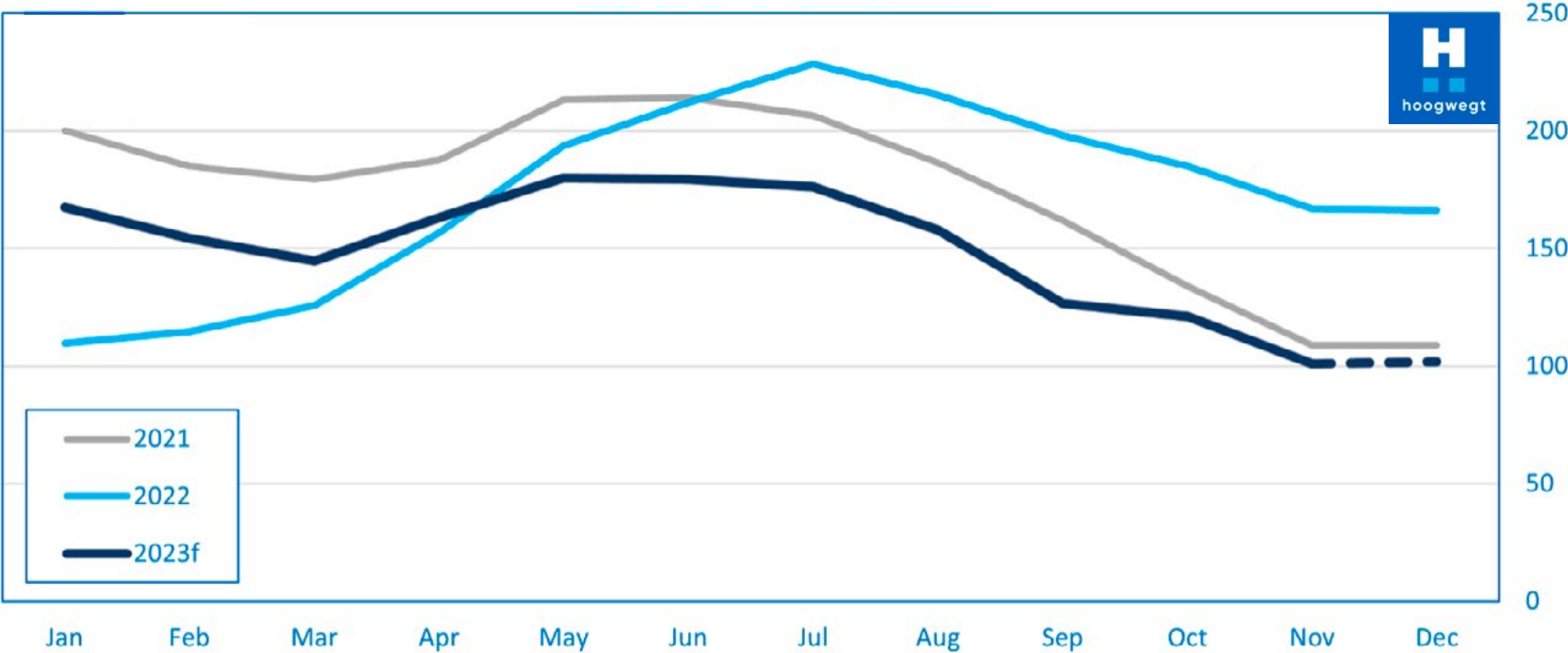
- On the supply side Production in Europe has been low:
- With now only December 2023 left to be estimated, Europe (EU27+UK) reduced SMP production close to 85kt, as compared to 2022.
 - The estimated annual production is around 1515Kt, the lowest since 2014.
 - Milk production has been on a year over year decrease and cheese was valorising better, both usually leading to less SMP production.

Monthly global SMP (HS040210) trade by sourcing region, in Kt/m.



- SMP production was relatively strong in Q1 2023.
- ZMB reports a weak SMP Production for Germany, all weeks (4) are reported to be down by close to -30% on average.

EU SMP Stocks in Kt



Bulls vs Bears...

On the bullish side:

- Milk production struggles across the Top-3 exporters, although NZ finally wrote a positive volume number for December, and pasture currently looks ok, January turned negative, and they should have a difficult time writing a YoY positive Q2.
- Farm gate pay out prices aren't expected to see very strong increases and with Europe continuing to face structural issues in milk production huge increases in milk production are not on the radar yet.
- NZ's current product mix continues to limit WMP production and favour SMP/Butter/AMF.
- January Exports out of New Zealand were quite firm at 147.5Kt and stronger than January last year.
- SE Asian demand looks slightly improved compared to the weak figures they wrote a year ago.
- European butter is passing seasonal uptick, and getting into flush, but SMP in both the US and Europe continues to see low production.

On the bearish side:

- Domestic consumption is still struggling (EU+US) for some products like SMP/NFDM.
- Recessions, inflation, leading to drops in demand.
- Chinese demand for powder still doesn't feel very strong.
- China raw milk price weakened and are low. China is getting into season.
- NZ Pasture Growth Index has improved, indicating decent milk in the short term.
- Milk solids, the useful components in milk, are stronger than the actual milk production.

Things we watch:

- Geopolitical turmoil and governmental policies. Red Sea issues are affecting trade flows.
- High cocoa and sugar prices giving issues for multinationals to sell volume, that affects their need for SMP.

A Quick Note on...

Whey Market Wire

Global supply

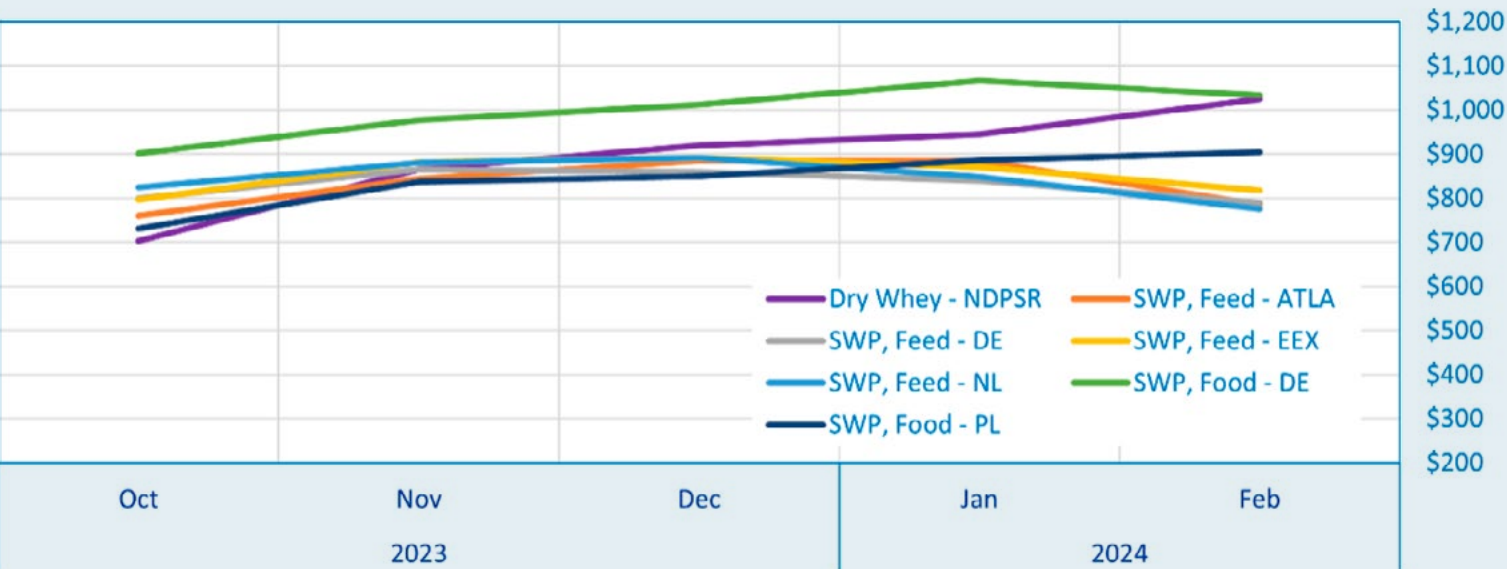
- EU27+UK Milk production latest official data; December: -0.7%*, milk solids -1.1% YoY
 - Ireland stands out with a significant decrease in production compared to last year (-27%; Dec).
 - Spain saw a mild increase in their production for December (+0.4%) Poland and Belgium were positive, most others saw a decrease.
 - *Italy sees different reports in a bandwidth of a very positive +3% to a negative -0.8%. This could change the EU-27 number by 0.3%.
- Weekly figures: Germany +0.5% YoY (week ending 11th of Feb), France +0.5% YoY (week ending 11th of Feb), UK -1.2% YoY (week ending 17th of Feb). Germany and France saw a positive week, after a few weeks where milk production was slightly below last year, UK struggled.
- Cheese production in Europe is still fair, as it's also the most favourable major dairy product in terms of valorization. Most of the countries have published their December cheese production. Although on less milk (Europe wrote a negative Q4 in terms of milk production), cheese production was close to neutral in December: around 770Kt for the EU-27, around 40Kt for the UK. GE +3.6%, FR -5%, PL +4%, NL +0.5%, IT -1.1%, DEN +0.7%.
- US Milk production saw another negative number for its milk production in January (-1.1% YoY). Yield per cow turned negative compared to January 2023 (-0.32% YoY) and the herd remains smaller (-0.81%), while slaughter continued

- to stay in the low numbers, the herd still hasn't recovered the losses that were registered across the summer as heifer numbers still seem to be low. Farmers margins in general weren't strong enough to replenish as strong as last year. Note that Production in the MidWest Cheese states are still positive with Wisconsin being +0.93%.
- NZ Milk production ended their positive milk solid streak in January, both milk production and milk solids were negative compared to Jan 2023: Milk production -1.2% YoY. Milk solids; The hot and wet weather was good for pasture but the ladies in the field found it too hot.
 - US Dry whey report for January is still pending. December dry whey production was weak (-9.2% YoY and around 30Kt. But stronger WPI (+14.9% YoY) and WPC Human (+1.5% YoY) production. December indeed was a bit better than November but according to expectations, still weaker than the year prior.

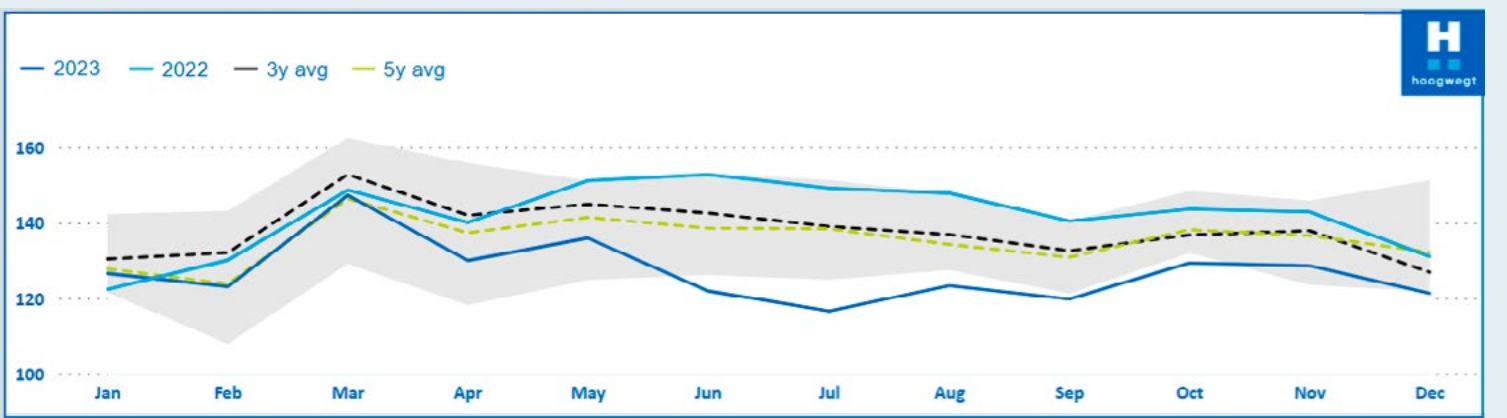
Global trade

- December EU-27 Exports of whey products (HS040410) out of Europe came out a bit stronger compared to Dec. 2022, calculating 52.7Kt or +2.3Kt YoY.
- US Exports: In December, sales of dry whey (040410) registered another negative month compared to last year. The US shipped 39.1Kt, compared to a little over 45.5kt last year, US domestic use has been very strong for months now, so the total commercial disappearance (trade+domestic use) has been strong. Note that WPC-80 Exports continued to excel.

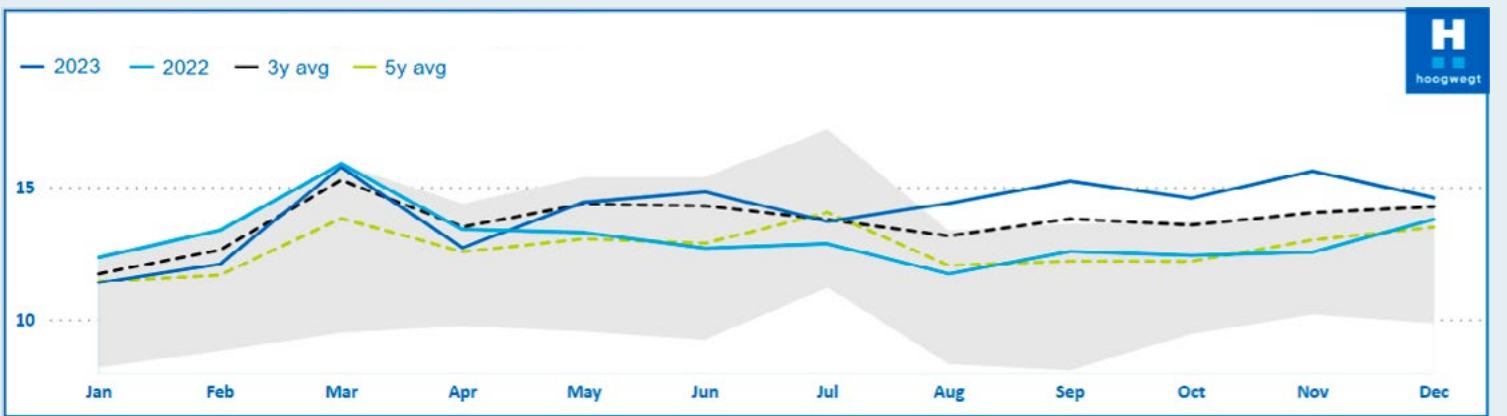
International price comparison in US\$/t (monthly average)



World imports, Dry Whey (HS:040410), 2023



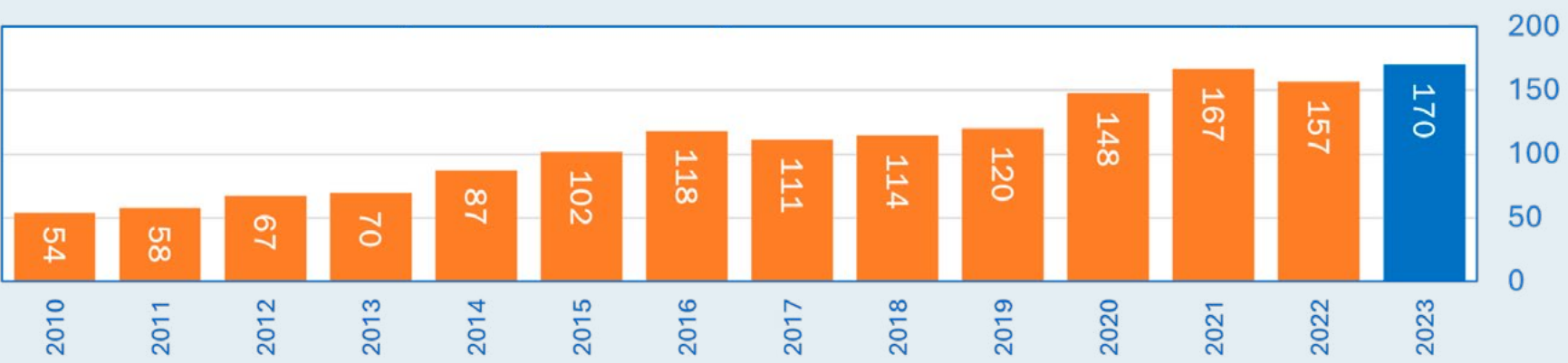
World imports, WPC80 (HS:350220), 2023



WPC-80+ import demand doubled in the past 10 years.

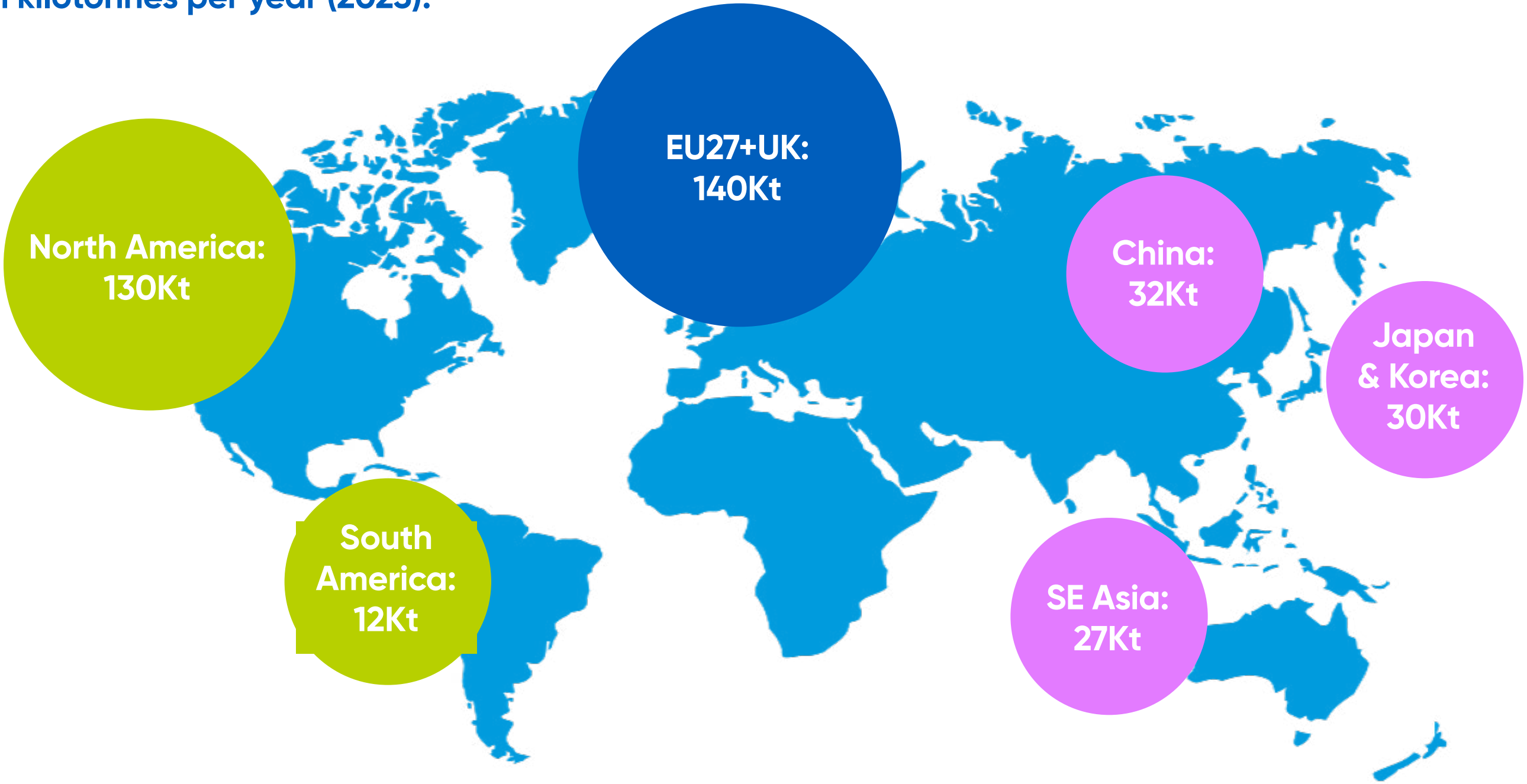
WPC-80 stands for Whey Protein Concentrate 80%. It is a type of whey protein supplement derived from milk during the cheese-making process. Whey protein concentrate is one of the three main types of whey protein, alongside whey protein isolate (WPI) and whey protein hydrolysate (WPH). WPC-80 is for example used in sports nutrition and health. In WPC-80, the "80%" refers to the protein content by weight. This means that WPC-80 is composed of approximately 80% protein, with the remaining 20% consisting of fats, carbohydrates, and other components. Between 2014 and 2023 WPC-80 global import demand doubled, from 87Kt of trade in 2014 to around 170Kt in 2023.

WPC-80 (350220) Global import demand 2010-2023 in Kt/y



While the EU and US are main producers of WPC-80, they're also major users. Domestically, the EU should use around 140Kt, and the US 130Kt/year. China, Japan, Korea and S/SE Asia are following with around 30Kt each.

Main users in kilotonnes per year (2023):



Futures

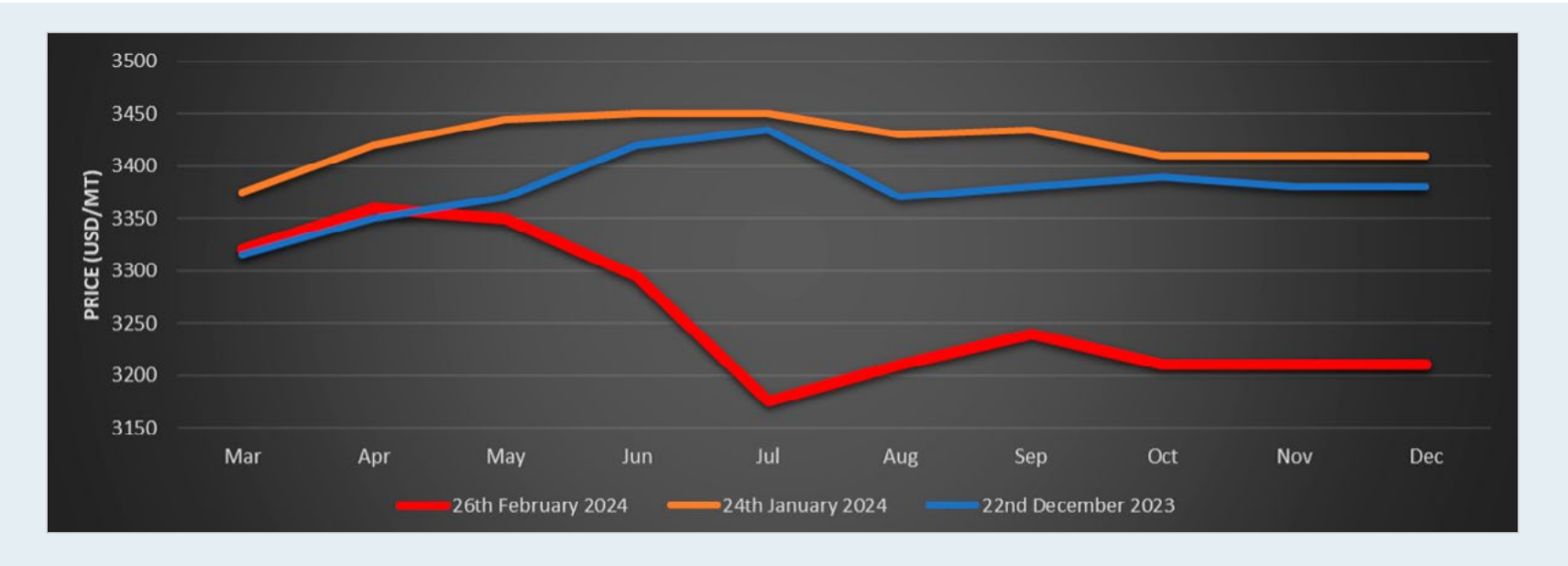
By: Bart Whiteley, Derivatives and Export Trader, HTM/APAC

As we move towards the end of the 2023/2024 season in Oceania, we allow 1 eye to focus on the new season to determine market direction. A quick look at the SGX forward curve, we have a clear diversion of the 2 main products on offer – Whole Milk Powder (WMP) and Skim Milk Powder (SMP).

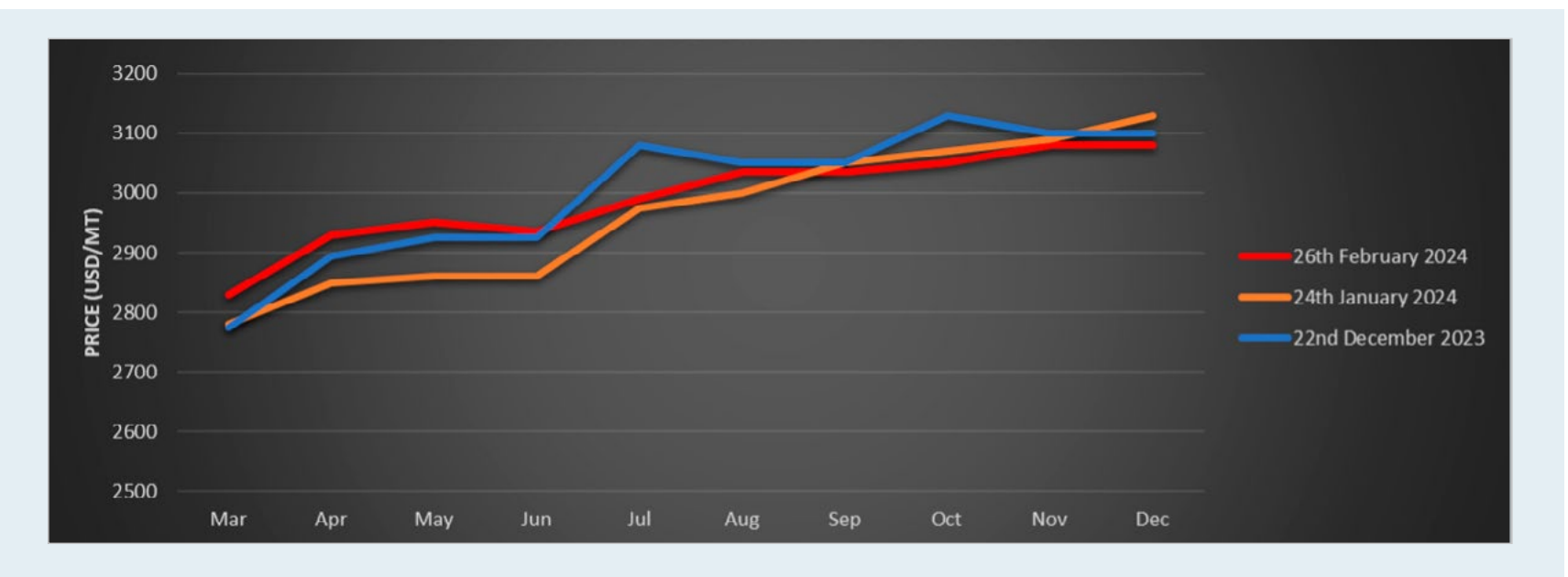
WMP: The WMP forward curve has taken a beating in the last 3-4 weeks, with the back end of the curve (new season 2024/2025 months) being sold off heavily. The graph shows the dramatic drop in new season pricing this month compared to this time in January and December. Current season pricing has stayed supported (Q2 2024) with the market determining that the supply/ demand situation is balanced as we head into the end of the season (and in turn lower WMP volumes available). The new season situation is vastly different, with a rapid increase in WMP production (which follows the milk production curve in New Zealand) expected to weigh on the market. Normally, our major buyer of NZ WMP (China) would step in to soak up this extra product, however with the change in their buying pattern, the market does not expect them to be able to keep the S/D balanced, therefore pressure on pricing.

SMP: Quite a different story on SMP, as the “global” product, the SGX SMP prices are being pulled along by EU and US prices as well. The graph shows that the strong contango has been persistent over the last 3 months, and interestingly, prices have remained pretty similar. In contrast to WMP, the new season SMP product that will become available in September onwards does not seem to be a concern for the global S/D balance, with tightness expected even over the EU and US peak periods.

SGX WMP Price Curve – Last 3 Months



SGX SMP Price Curve – Last 3 Months



Overall, 2 very different market dynamics at play with WMP and SMP, and if we see the pricing curves come to fruition, we can continue to see more SMP and less WMP from Oceania.

Charles Lesmana Senior Export Manager DE APAC Commercial Director PDI



Throughout my 9-year career in Hoogwegt, I have always been based in the Singapore office. Fortunately, that doesn't mean the scope of work have to stay the same; around one and a half year ago, I was given the exciting opportunity to join our Chinese office, Pacific Dairy Ingredients (PDI), as Commercial Director while working remotely in Singapore.

The mandate was to align PDI better as part of our global integration strategy, Team Hoogwegt. I split my time 50-50 between executing that mandate and handling a reduced Dairy Essentials APAC portfolio, which comprise of Indonesia as my main market (naturally, as I am Indonesian!) and overseeing the regional SMP book. It has been an interesting year to say the least!

PDI has a slightly different business model from the rest of the Hoogwegt set-up. As a local distributor, PDI is equipped with infrastructure to do full-scale logistics and distribution, right down to pallet-sized sales.

This way-of-working brings about interesting dynamic opportunities but also challenges – fortunately most of which we are able to negate or even navigate around.

The most interesting opportunities naturally come from finding arbitrage opportunities between the various factors that influence the Chinese market vis-à-vis the global market. There are various ways to try to arbitrage contrasting sentiments and deviations, while only laying in a manageable and measurable amount risk into the portfolio.

World Comment.

On the flip-side, there are also challenging elements that we have to manage in order to protect our business. Managing price risk of inventory is an example of the risks inherent to our model. Another one is with regards to protecting supply relationships, where we act more as brand ambassadors for our partners than as pure traders who looking for the best price; sometimes we just have to buy product even when we don't like the timing.

In both grasping opportunities and managing risks, we utilise tools such as derivatives in order to match our risk with our conviction levels and appetite. Our in-depth understanding of those tools combined with our detailed market analysis allow us to craft strategies that can withstand short-term market shocks, while allowing us to capture longer-term trends.

That said, it's not all perfect and rosy. Some product groups suffer from simply not having a market or from lack of liquidity. In order to deal with some of these risks better, we also spend many efforts on building better information and risk infrastructure, and adapt the way we structure the deals. We make sure that we stay nimble and adaptable in areas where the risks are more dynamic than others.

Of course, all the progress we've made so far is only possible with the support and hard work of my PDI colleagues who work tirelessly to serve our customers every day. Without understanding what our customers really want, and finding the value proposition to match what they need, it would be simply be impossible to be a distributor, especially with the volumes that we are doing today and aspire to do in the future. We are ambitious, and we like it 😊

Hoogwegt Happenings.

And it's a wrap for Gulfood 2024! Team Hoogwegt participated in the tradeshow in February at the Dubai World Trade Centre. We were happy to meet up with our business partners from all over the region.

Next up, Food Ingredients China (FIC) 2024, happening from March 20th to 24th in Shanghai! See you at Hall 3 Booth 3G70/3H71.

Hope to see you there!

