

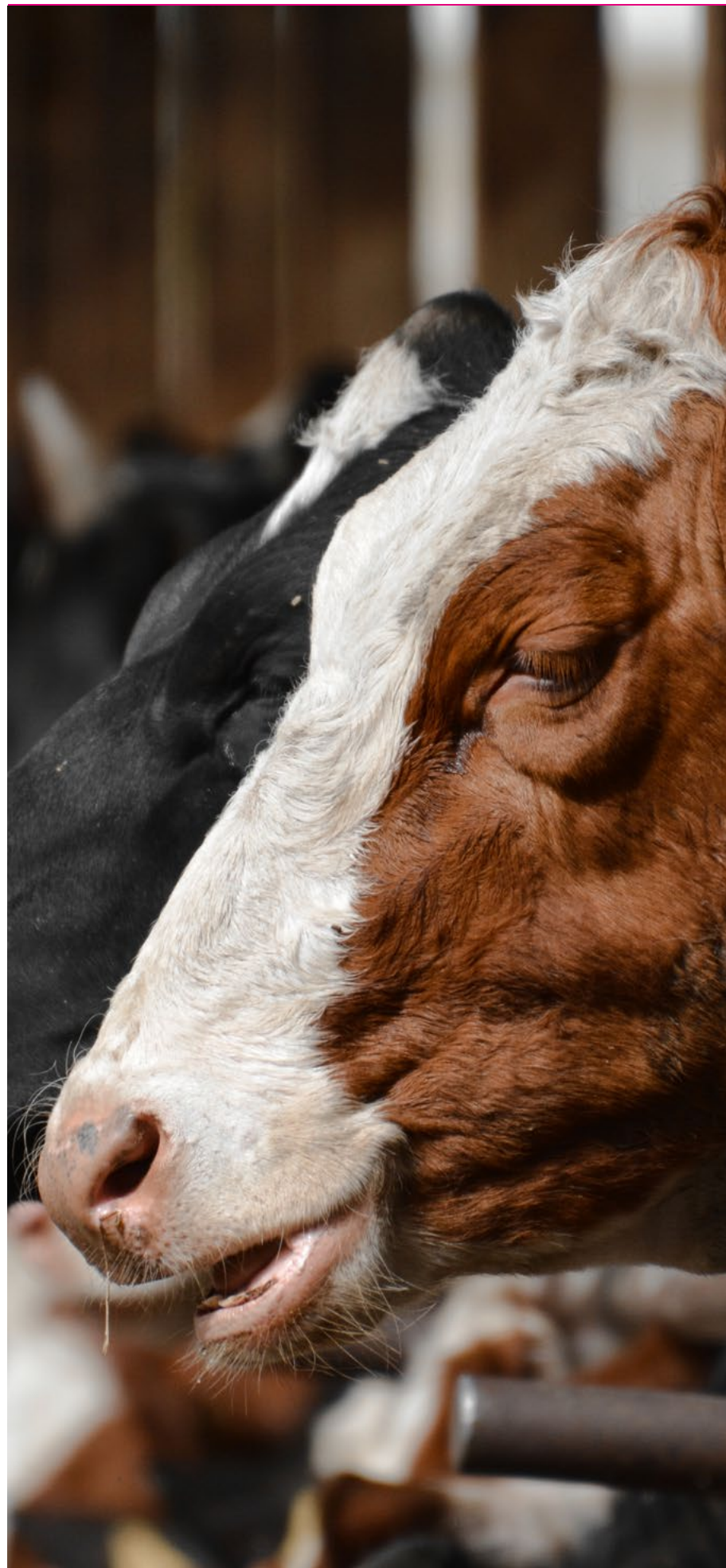


Horizons.

Our insights
on Today's Global
Dairy Business

April 2024

#04



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Milk Production: NZ Rebounds while Others Struggle.

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Editorial Note.

Hello Q2!

In this month's issue of Horizons, 'Market Direction' will take a look at the bridge between the New Zealand shoulder period to the upcoming European Flush. Does less milk translate to higher prices?

We also 'Deep Dive' into weaker WMP demand, which leads to even more SMP + Fats. What will this entail?

Our Whey section will look into the Feed Demand in Europe while Neil Hunt does a round-up on the CME Futures.

How does 22 years in Hoogwegt feel like? Our highly regarded Pieter Detmers chimes in as our Guest Writer for the 'World Comment' section. Finally, we end off the issue with a quick look at our successful FI China tradeshow!

Finally, we end off the issue with a quick summary of our successful FI China show!

As always,

Hoogwegt Horizons Editorial Team

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Market Direction

Milk Production: NZ Rebounds while Others Struggle.

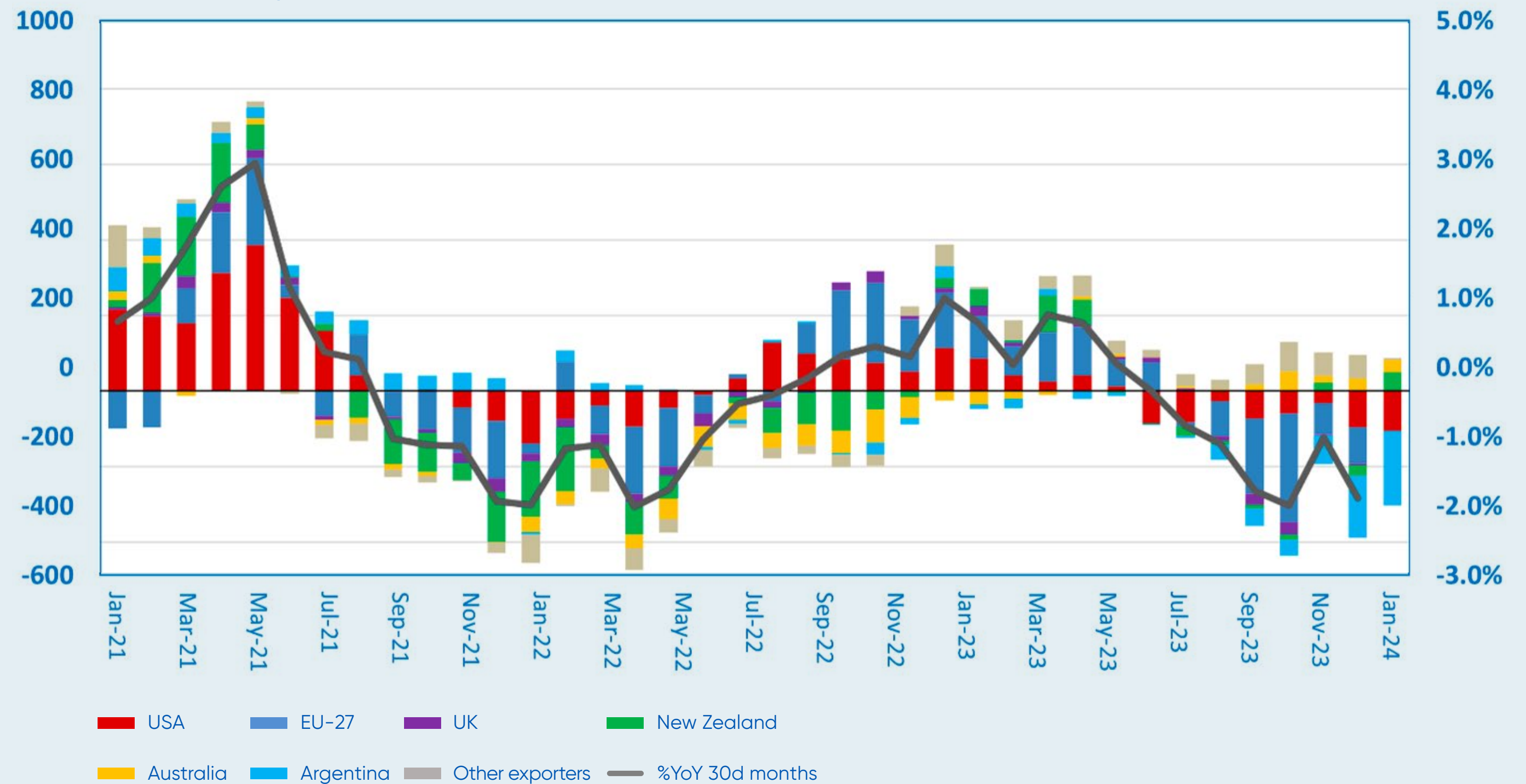
NZ: NZ Milk production latest Feb. '24: +6.2 YoY (+2.7% corrected for leap year). Milk solids latest official: +6.5% YoY (+2.9% corrected for leap year). Strong solids: in terms of solids, NZ produced 20.790 tonnes more milk solids season to date (Jul-Feb). Pasture, in particular in the Northern Island, looks strong. The Southern Island looks average. All in all, things might not be as strong as the excellent conditions last year but it's pretty close. Herd size: slaughter continued to ease. January 2024 saw 2,200 dairy cows slaughtered less than the year prior.

US: In February, US milk production experienced another decline, -1.4% year-over-year, with California down by -0.9% and Idaho by -2.7%. However, milk quality improved, with fat content increasing to 4.3% and protein content to 3.32%. Adjusted production showed a marginal increase of +0.1%. Farm margins based on milkprice and feed currently reside within the mid-zone but are forecasted to potentially reach the top 25th percentile after Q2, incentivizing herd strengthening. Note though that farmers are still struggling with labour costs and interest rates, not included in most income over feed ratio's. Slaughter rates have remained below last year since September, while herd size and yield per cow both decreased compared to the previous year.

In the EU27, January saw a decrease in milk production by -0.9%. Ireland experienced a notable production decrease of -27% in December and -22% in January '24. Weekly figures showed varied trends: Germany down by -0.2%, France up by +0.2%, and the UK up by +0.1%, so at least from these three major European producers March should be closer to neutral.

[more →](#)

Milk supply growth (YoY) from the Top-13 Exporters, in 1000 tonnes.



Note: The chart above includes NZ and US for February, but the EU and other origins have not published Feb '24 yet.

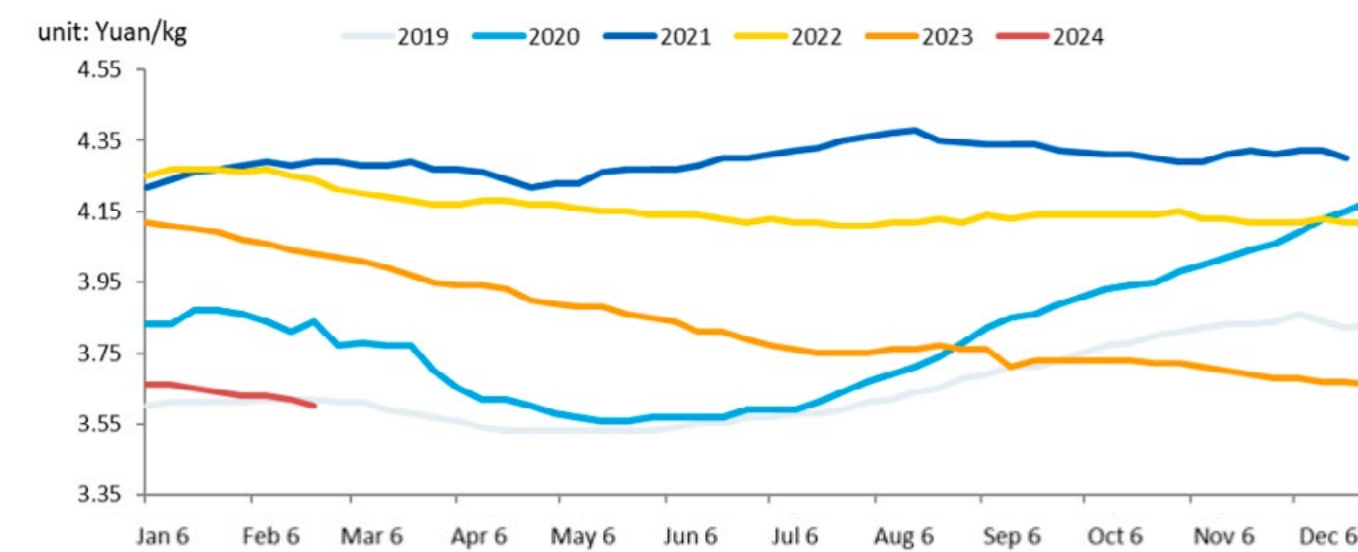
→ continuation

Farm margins, though negative compared to last year, are showing improvement since last summer. Farm gate prices in the EU slightly increased in January '24, but were down by -16.2% compared to the previous year, with an estimated decrease for February. Feed and energy costs have decreased, while the European herd size experienced its strongest reduction since 2018. Increased slaughter rates were observed in Belgium and Ireland. Weather conditions have been generally favorable for milk production, with warmer temperatures and adequate rainfall in most regions. Some lands might be a bit too wet for the cows to enter their fields early.

Outside the top-3 Argentina stands out with strong struggles in their milk production, registering several months of double digit YoY declines, while on a positive note, Australia keeps writing stronger YoY numbers.

China: Average raw milk price weakened in Feb to RMB 3.60 yuan/L, hitting lowest in recent 5 years, due to seasonally rising milk production.

China's Average Farmgate Milk Prices



*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

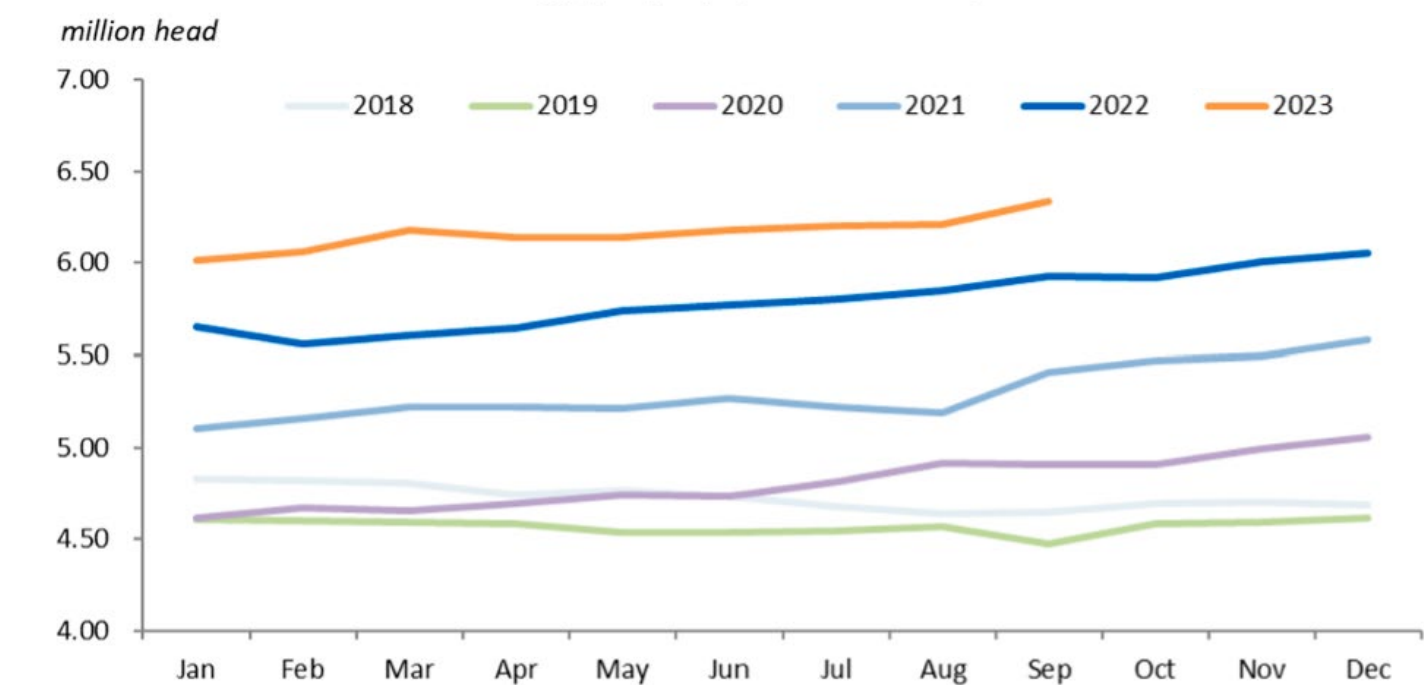
Local factories are said to have produced more WMP in Jan-Mar, but total production YTD was still less than last year. Oversupply would add more pressure on milk price in coming period approaching peak season of milk production. China MOA forecasts raw milk production to keep growing till 2025. Growth in 2024 could slow to 3-5%.

By the end of 2023 Q3, China dairy cow number totaled 6.3 million heads, +6.8% YOY.

The growth slowed from +8.4% in the whole year 2022, +10.4% in 2021 and +9.7% in 2020.

China dairy cow number is forecast to keep increasing in 2024 with slowing growth rate due to low milk prices lead a large number of farms to lose money amid continuous oversupply situation.

China's dairy cow number



data source: China Dairy Association

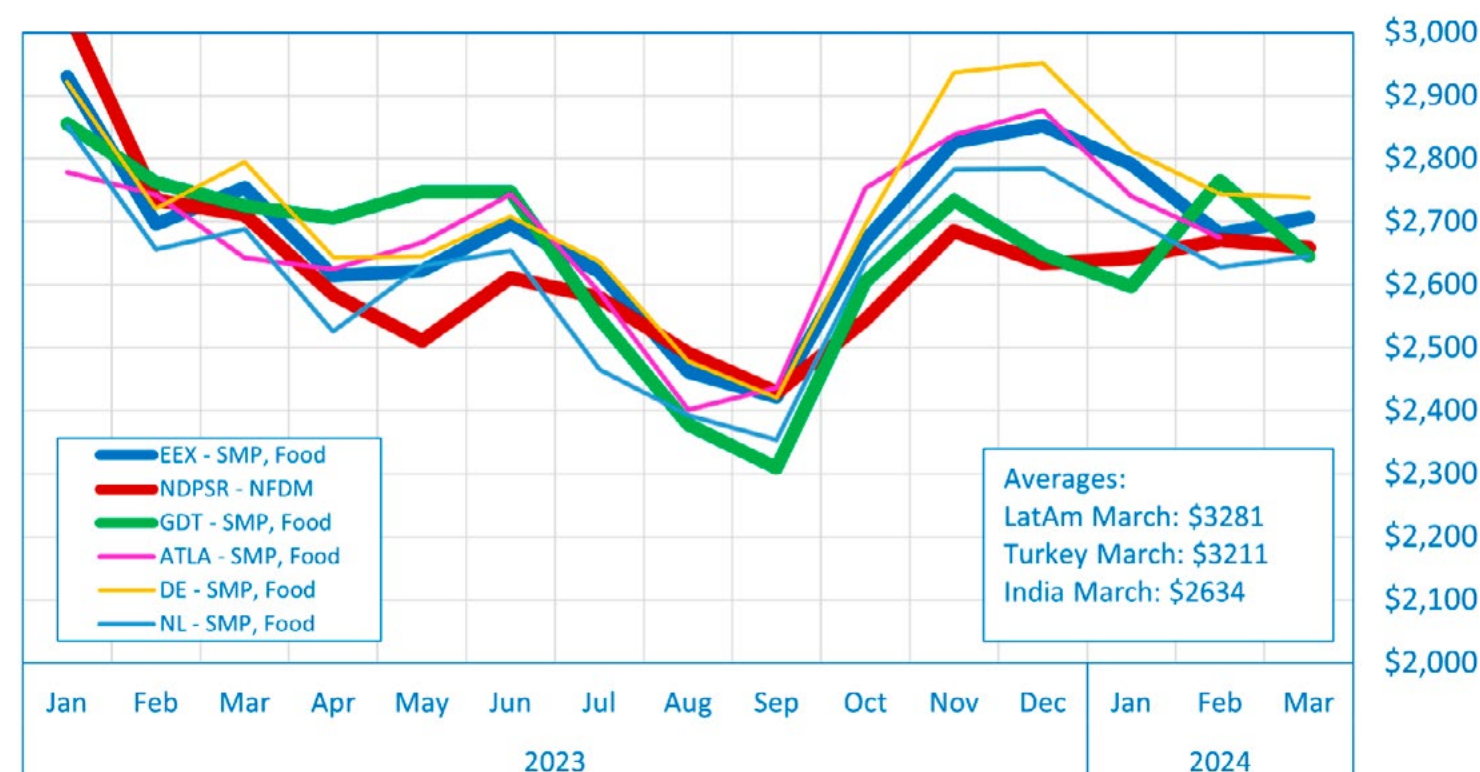
Dairy Deep Dive

A look into the Skimmed, the Whole and the Fat.

SMP/NFDM

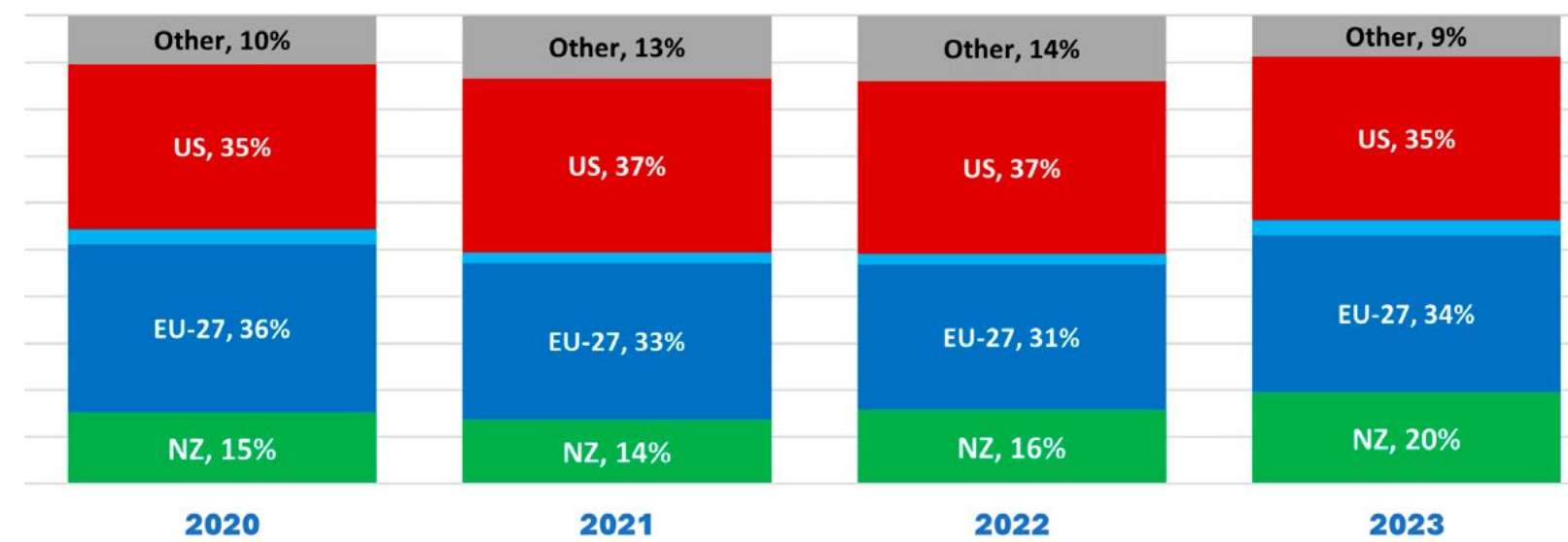
- **Supply:** Both in the Europe and in the US SMP (and NFDM) production was very low, with stock levels as low as the record low figures we saw at the end of 2021. NZ on the other hand increased its SMP production significantly.
- **Demand:** Domestic consumption in Europe and the US struggled, but we expect to be close to neutral for 2024 going forward. Mexican import demand is expected to be fair but lower than last year. SE Asia import demand is expected to be continuously weak but stronger than last year. Chinese import demand is expected to be weaker than last year. Middle East and N African demand is fair but also a bit weaker than last year.

Price comparison SMP/NFDM in US\$/t, monthly average per half March



While EU and US production and stocks were very low, and prices should be higher than what their Stocks/Use ratio's imply. NZ's increased production of SMP led to an increase of NZ's Market share in the global SMP trade:

SMP Exporters: annual trade shares in %

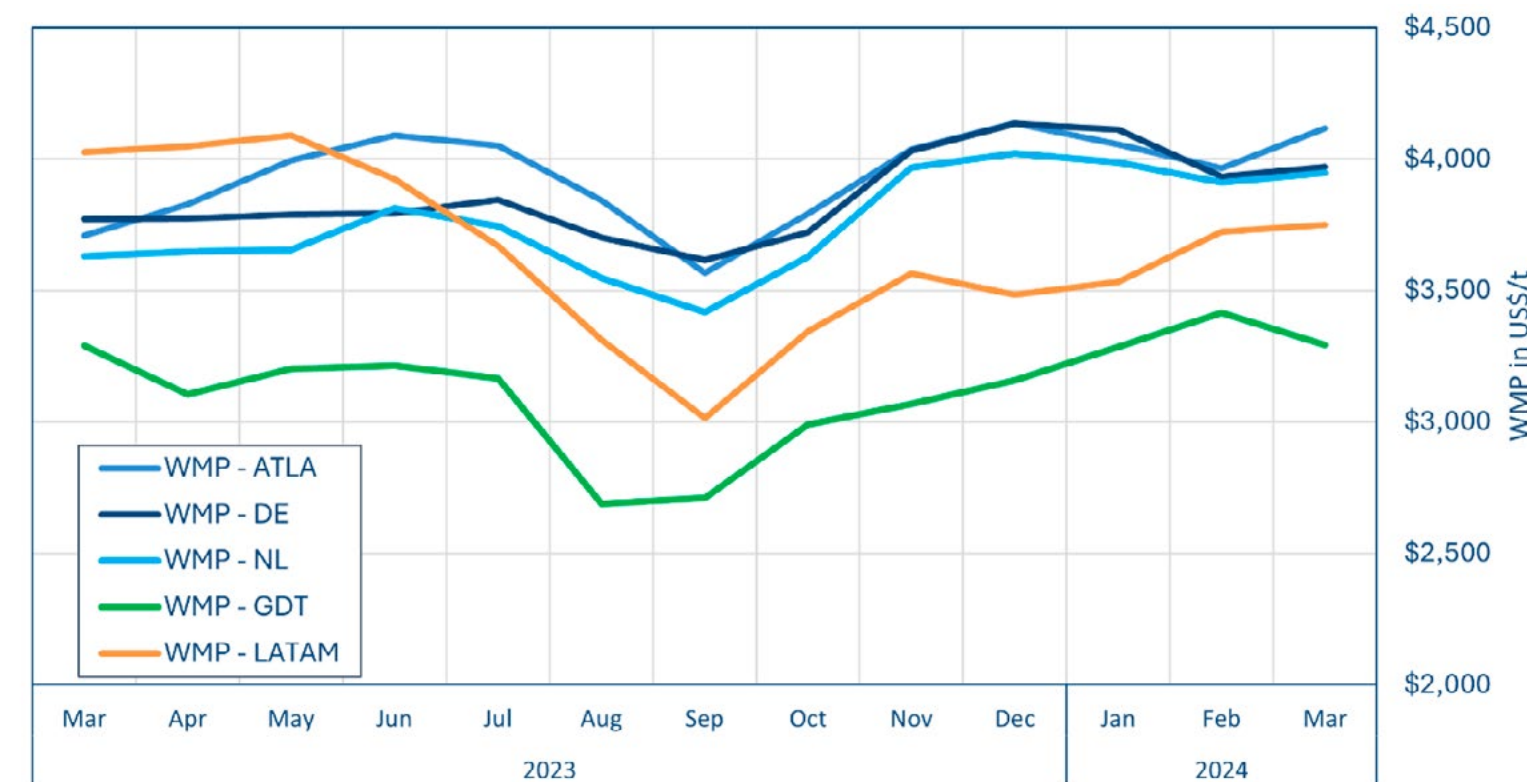


WMP

Supply: While NZ's changed product mix continues to be somewhat of a bearish argument for SMP/NFDM, it also means that WMP Production is relatively limited. NZ February milk production was strong, and although Q2 2023 milk production remains very hard to beat due to excellent conditions, current pasture growth looks good. Argentina struggles with their production and since there is a lot of intra-Latam trade going on, they should have their outlet nearby.

Demand: Chinese import demand is considered to be weak due to positive local milk production, local WMP production and their seasonal peak. SE Asian import demand for WMP is assumed to be slightly stronger than last year, except for November 23' during which we saw a strong peak. Import demand in N Africa and the Middle East are assumed to be fair, perhaps neutral or slightly better than the already fair demand last year. Intra-LatAm trade has been very strong, and we expect the strong demand to continue, although it can be relatively weaker than the very strong numbers last year.

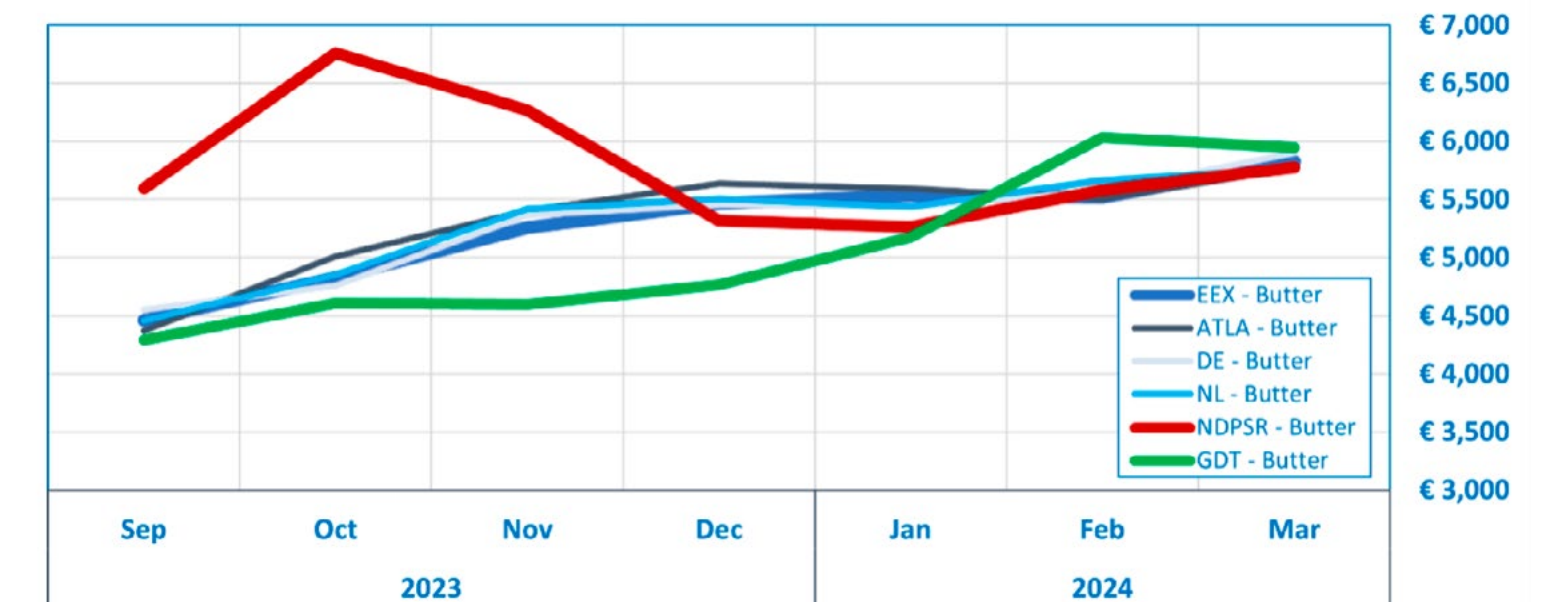
Price comparison WMP, in US\$/t, monthly averages, per 3rd week of March



Butter

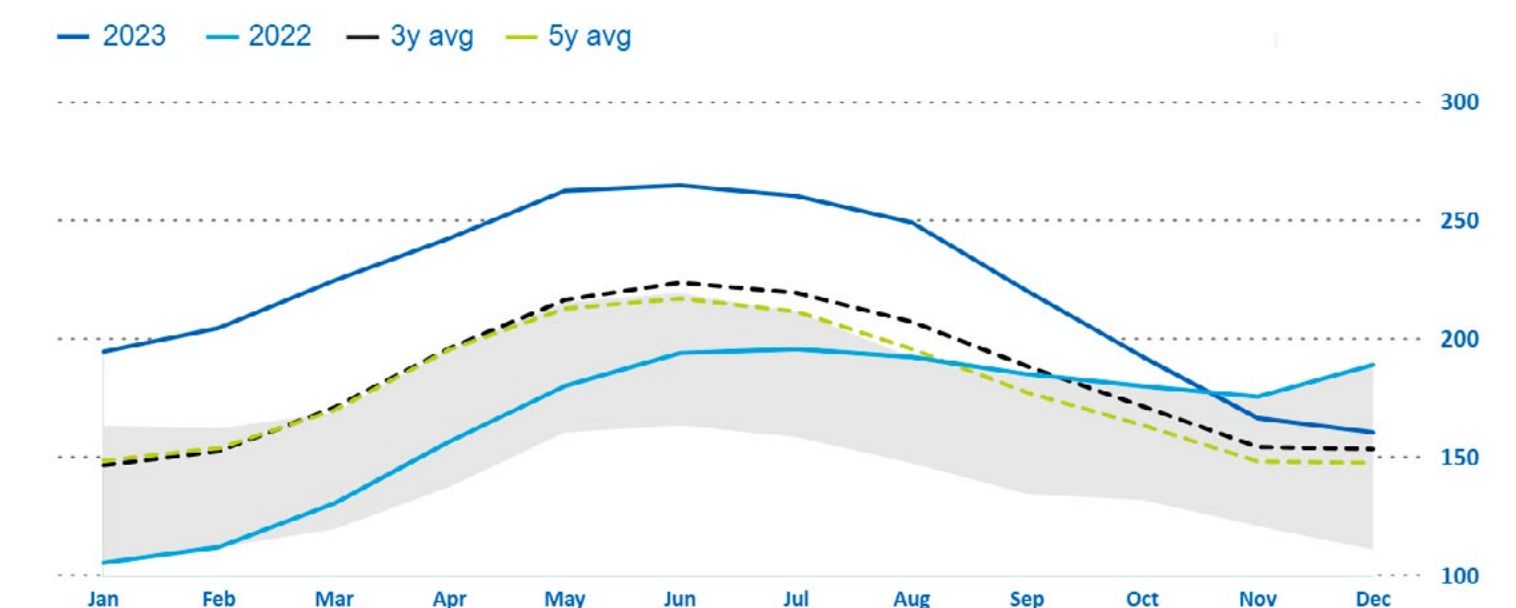
Supply: Strong cream production shortened the butter supplies in Europe. Do note that butter(-fat) is more seasonal than other dairy products. Over the full 2023 cream saw an increase of 78Kt production. In particular the second half saw an increase compared to H2 2022.

International price comparison Butter (in Eur/t) per end of March



Demand: grew and has been quite strong, both domestically and in terms of global import demand. Europe's quarterly stock report indicated that the butter stocks dropped below last year's levels due to very strong domestic demand on ok-ish production. Reported in kilotonnes, Source is European Commission.

Butter ending stocks in 2023



Bulls vs Bears...

On the bullish side:

- Milk production struggles in the US and other exporters, although NZ finally wrote a positive volume number for February. Irish milk production struggles a lot as a big butter producer. Argentinian milk production stands out as well, in a negative way.
- Butter and SMP production in Europe is reported to be low, US SMP/NFDM production and stock levels are low too.
- Domestic butter consumption bounced back after losses in consumption during the price spikes 2 years ago. Butter exports have been fair. And the same could be said for Cheese. Consumption is fair, and exports are relatively good, especially compared to powders.
- 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. Farmers are overall struggling with interest rates and labor issues.
- European butter stocks dropped due to strong domestic demand and are now below last year's level.
- Although powders demand has been weak, but some people should be on short supplies and are perhaps waiting on the right moment to step in.

On the bearish side:

- Milk solids are overall strong.
- NZ's current product mix continues to be a bearish argument for SMP and to some extent for Butter/AMF.
- Seasonality in butter, depending on where we are in relation to butter or cream loving festivities.
- SMP domestic consumption is struggling, as are EU Exports. US NFDM/SMP use isn't great either, but reported exports are relatively not as bad as in Europe.
- It has been on the watchlist in the horizons for a while but the continuously soaring cacao prices should lead to less chocolate production, and a smaller need for dairy products used as ingredients in that sector.
- Import demand for milk powders doesn't feel like it's going to beat last years strong first half.
- European weeklies are closing in on neutral YoY production.

Things we watch:

- Texas Bird-flu.
- Geopolitical turmoil and governmental policies.
- NZ milk production, product mixes.
- Still high soaring cocoa prices giving issues for multinationals to sell volume, that affects their need for SMP.



A Quick Note on...

Whey

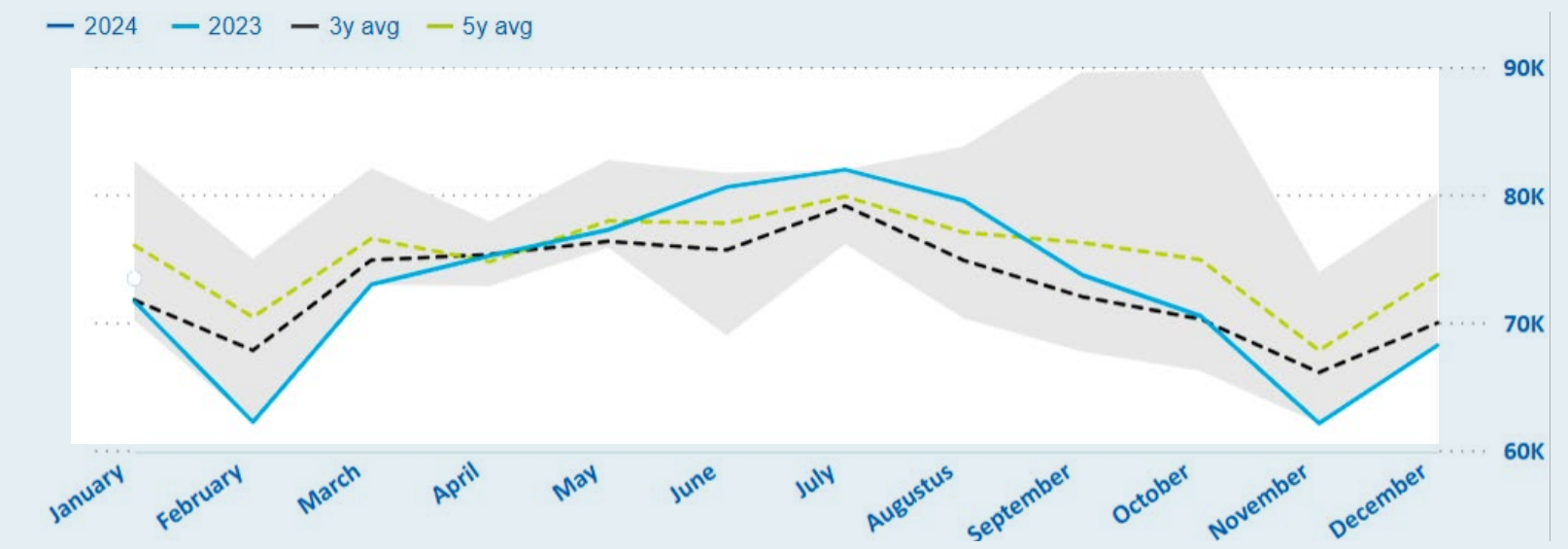
US Sweet dry whey production finally saw an increase in January and rose by 2.5% (+1.74 million pounds) compared to the previous year, surpassing January 2022 volumes as well. Production had been decreasing as focus shifted towards high-protein products, but manufacturers reserved some supply for sweet dry whey this month. Throughput surged by 7.7% (+5.3 million pounds) from December, surpassing the five-year average of +4%, and marking a significant increase from Q4 2023, which had been below that mark. Despite the increase in production, stocks decreased (-3.5% MoM, -3% YoY), reaching their lowest total since February 2022 at 63.140 million pounds. Inventory levels remained below 30 days (26.6 days) for the second consecutive month.

Demand side: In January 2024, there was a slight increase in the consumption of dry whey compared to January 2023, and notably higher than December 2023, with a rise of 5.3 million pounds. Exports showed growth (+2.8% year-over-year) compared to January 2023, amounting to 28.8 million pounds.

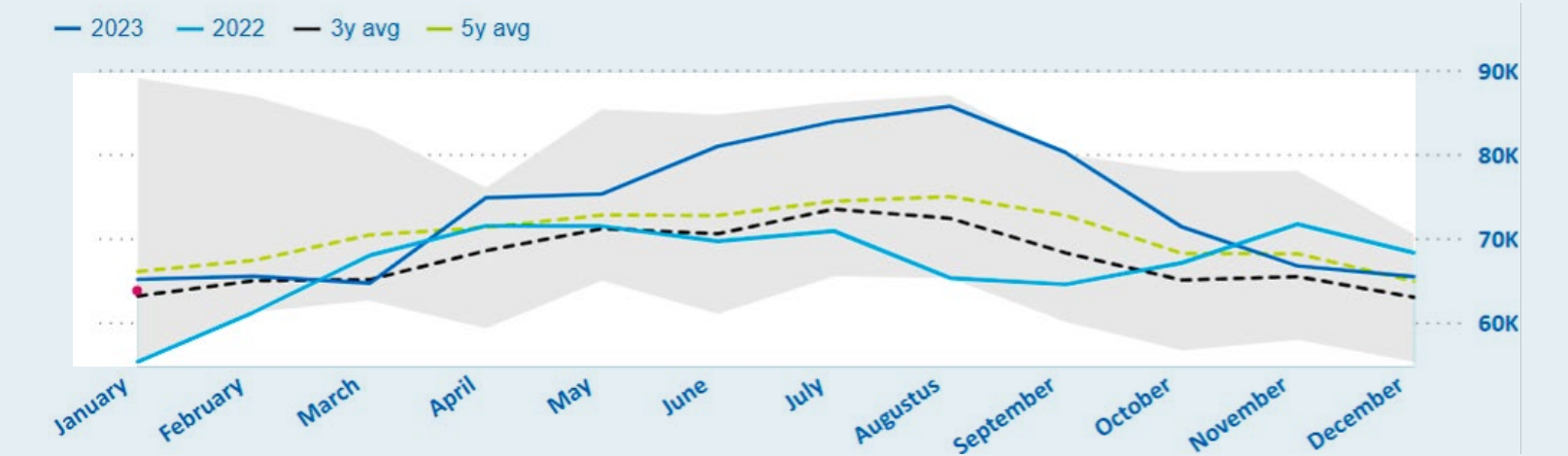
January 2022, 2023, and 2024 witnessed some of the lowest export volumes since 2020. On the domestic front, the category also experienced growth compared to January 2023 (+2.5% year-over-year).

WPC: The utilization of whey protein concentrate (WPC) soared in January, driven by increasing demand both domestically and in exports. While the category does not distinguish between high- and low-protein products, indications suggest that WPC 80 (high-protein) is primarily driving this growth. Commercial exports reached nearly 25 million pounds, marking the highest January total since 2018 and surpassing the previous January by one million pounds. Domestic consumption surged by an impressive 29% (+5.2 million pounds), marking the 12th consecutive month of year-on-year growth. However, while the increase was remarkable, it was the smallest among the twelve months, and there was an 800,000-pound decline from December to January (-3.2% month-on-month), contrasting with the five-year average increase.

Dry Whey production (1,000 lbs)



Dry Whey stocks (1,000 lbs)



January 2024 US Dairy Product Supply and Use

Product	Total					Domestic					Export			YTD vs. 2023
	Million Pounds	Metric Tons	YoY	MoM	YTD vs. 2023	Million Pounds	Metric Tons	YoY	MoM	YTD vs. 2023	Million Pounds	Metric Tons	YoY	
Dry Whey	79.8	36,197	+2.6%	+7.4%	+2.6%	50.0	22,680	+2.5%	+24.1%	+2.5%	29.8	13,517	+2.8%	-12.4%
WPC	49.6	22,498	+14.8%	-3.1%	+14.8%	24.0	10,886	+29.0%	-3.2%	+29.0%	25.6	11,612	+4.1%	-3.0%

(all percentages adjusted to 30-day months)

Sweet Whey Powder (DMN, in US\$/lbs, monthly averages)



Futures

By: Neil Hunt, Derivative Trader, HTM/AM

CME Butter

The below chart shows CME Spot Butter with weekly bars spanning the past 3 years. Since December, Spot Butter has rallied past resistance to \$2.84 per lb. after a 2 month period consolidating from \$2.50-\$2.70 per lb. Although weekly ranges have been relatively small and realized volatility fairly low, new year-to-date highs in Butter this early in the year show a very supportive market in an otherwise seasonally slow period with Butter being churned and stocks building.

The forward futures curve has appreciated and developed a carry trading above spot prices, with May futures trading 2.87 per lb. and Q3 2024 prices now 2.94 per lb., a \$.30 per lb. rally since our last update on the CME in the Jan24 Issue of Horizons.



Overall, prices are expected to remain supported throughout the year as Cream tightens and more milk continues to be pulled to Class III Cheese facilities as opposed to Class IV Butter facilities with increasing Cheese production capacity coming online.

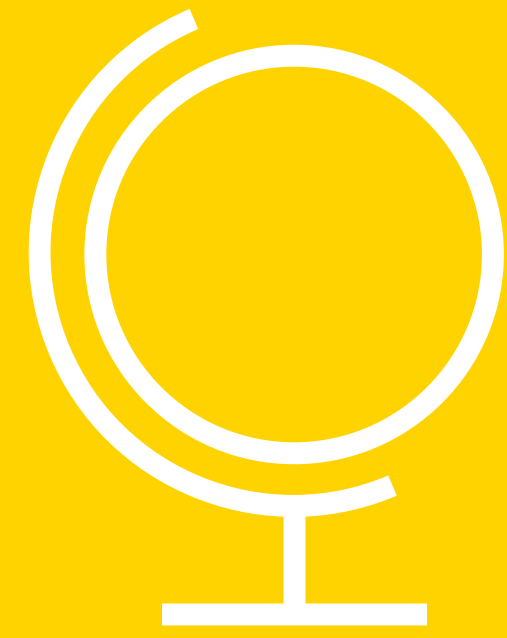
CME Non-Fat Dried Milk

The chart shows CME Spot Non-fat Dried Milk with weekly bars spanning the past 3 years. The Non-Fat market has continued to consolidate in the \$1.10-1.20 per lb. range the past few months with low volatility and very limited activity overall. Despite lower overall Non-Fat supply in the US and lower inventories being maintained by both manufacturers and suppliers, demand overall and particularly export demand has remained extremely weak. A sustained push above \$1.20 per lb. would signal an end to this now yearlong consolidation. The forward curve is currently predicting average prices of \$1.20 per lb. in Q3 2024, down \$.12 since our last CME update in the Jan24 Horizons issue.

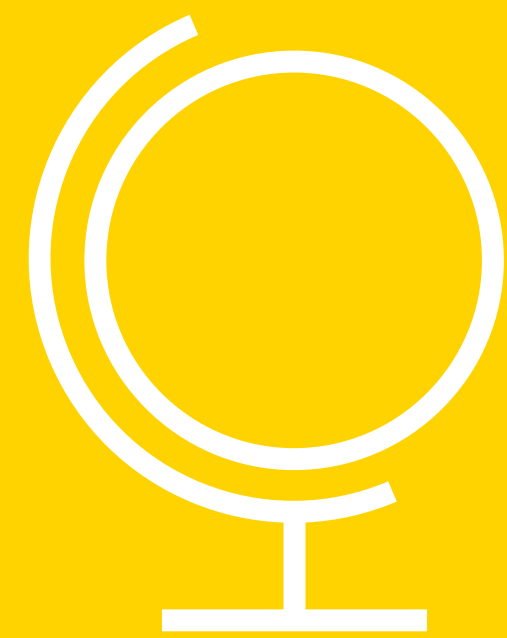
Class III Milk

The chart shows CME Class III Milk Futures on the 3rd continuation contract in weekly bars spanning the past 3 years. In the past few months, spot prices have made a lower high around \$18.00 per cwt. and are now again testing 3 year lows approaching \$15.00 per cwt. Fundamentals in the Class III complex remain bearish with ample supply and end users reporting weaker demand heading into Easter. Cheese prices remain competitive globally and we have seen spike in exports the past quarter, while Dried Whey fundamentals have remained somewhat balanced. These factors have contributed to maintaining a fairly stable price floor around \$15.00-16.00 per cwt. If this level is broken, it would signal a resumption of the downtrend, with prices not seen since the 2020 COVID pandemic. Forward prices still predict a rebound, with Q3 2024 currently predicting average prices of \$18.00 per cwt., down \$.50 since our last update in the Jan24 Horizons issue.





Pieter Detmers
Senior Account Manager
Dairy Essentials Europe



When I received the invite to guest write this 'World Comment' section for Horizons, I realized that I have been working for Hoogwegt for over 18 years and if you include my days at Apollo, even over 22 years! Time really flies...



Working for Apollo in Kleve Germany, the largest liquid trading company within the EU, I had my "own company" as I was the only one non-liquids trader. Because of the extensive liquid network Apollo has, a lot of extra business opportunities arose for milk powders, butter and cheese.

In 2006, I took the step to join Hoogwegt International in Arnhem, the well-known global dairy trading company. I started in the feed industry and was also partly trading liquids for Hoogwegt Milk.

I have been able to develop myself further to my current position working for Hoogwegt Dairy Essentials EU, trading butter and milk powders in the food industry and leading the Global Butter Milk Powder team.

In Arnhem, we have one trading floor housing four companies with over forty traders. As such, there is always something going on. More cohesion between the opco's in different countries

World Comment.

and continents contributes to our business positively. For example, Hoogwegt Milk is able to offer (sustainable) raw materials which enables us to toll process and to offer products year round to the chocolate and bakery industries.

The energy between people with various backgrounds, though with all the same spirit, going for the best results in the most creative ways, keeps me very motivated. I am proud to be a part of this Team.

During the last years, the Hoogwegt organization has transformed further to adapt to the always changing market circumstances. This process is actually ongoing as globalization and environmental constrains influence our daily way of working.

Looking at today's market and the expectations for the coming period: New Zealand is at the shoulder of their season, in Europe, the flush is starting, followed by the US. On the supply side, we experience a scattered Milk Production all over, however, it is not increasing substantially. This does not automatically mean that prices will increase. Macro-economic circumstances are challenging and have led to lower global consumption in places like South East Asia and China.

For a trading company, a volatile market is the ingredient to get the best opportunities. It is now up to all of us to anticipate and to perform accordingly.

Hoogwegt Happenings.

Hoogwegt participated in the recent FI China 2024 in Shanghai. It was a wonderful and fruitful tradeshow, discussing market sentiments and opportunities with customers and partners from all over the world. We are looking forward to seeing you again at our next tradeshow! 谢谢!

