



Horizons.

Our insights
on Today's Global
Dairy Business

August 2022

#03



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**Global milk
production is on
the brink of a
return to growth.**

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Editorial Note.

Hoi!

Welcome to our August 2022 edition of Hoogwegt Horizons!

This month, we delve into milk production numbers and observe that we might just finally see some positive growth rates since the last 12 months.

However, it is noteworthy to point out that we are still seeing structural problems like West-European farmers exiting the industry due to environmental restrictions.

We also zoom into several dairy products – SMP / WMP / Butter / Cheese.

So we urge you to take a read, let us know your comments and let's draw some conclusions on the ever-changing (but always exciting) Dairy Market.

We also have guest contributor Rogier Lankamp, Managing Director of Dairy Essentials Middle East & Africa, share his insights and sagely wisdom on what it is to be Team Hoogwegt.

On Hoogwegt Happenings, our Dairy Essentials APAC team welcomes our new colleagues and celebrates our successful IFS Audit.

You can also find a summary (and web link) of our latest Hoogwegt Dairy Spew Podcast – “The Amateur Debate Fight Club”, where we debate on the price correction which we are currently experiencing.

We hope you enjoy this edition of the Hoogwegt Horizons!

Sincerely,

Hoogwegt Horizons Editorial Team

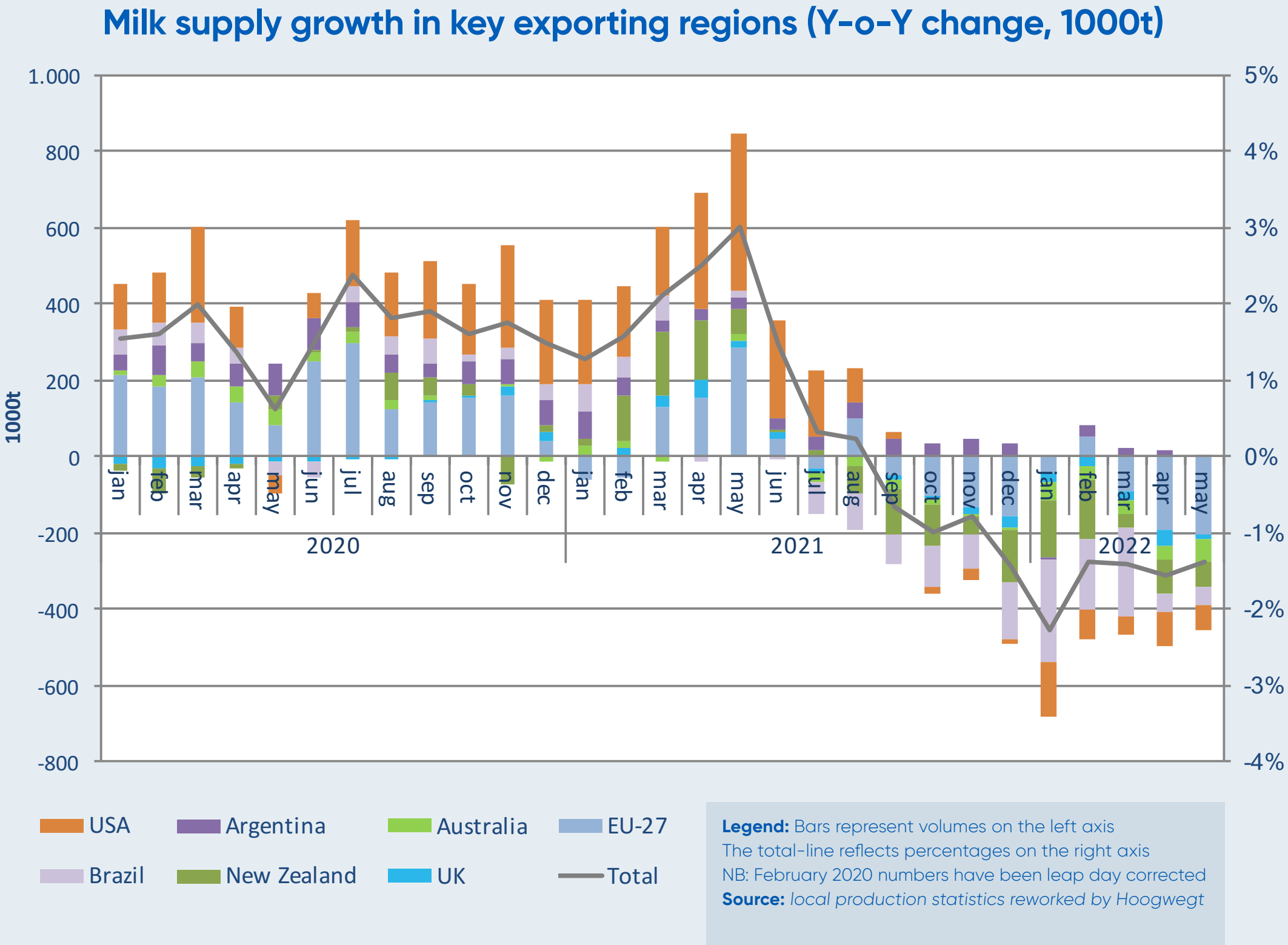
Market Direction

Global milk production is on the brink of a return to growth.

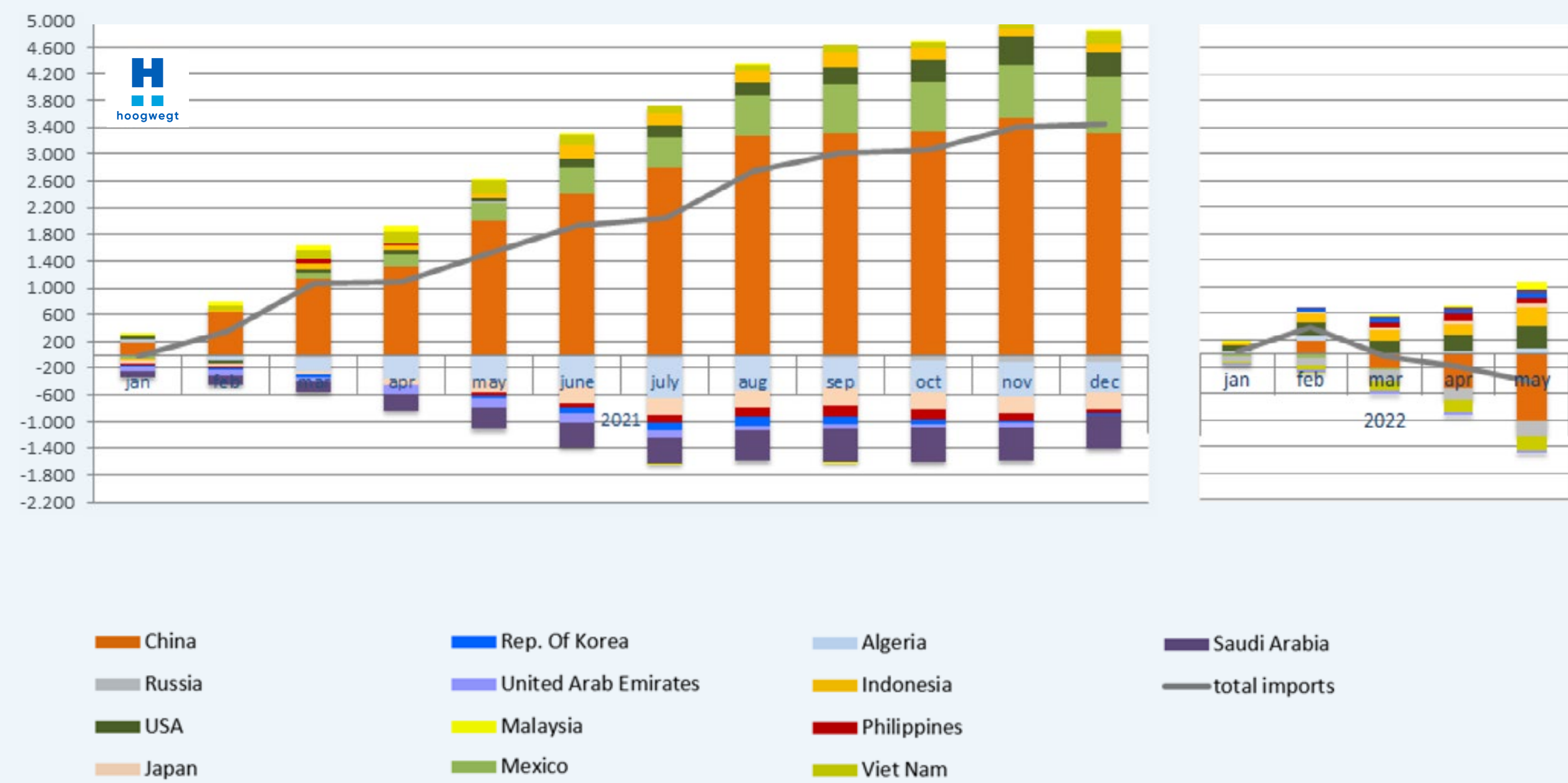
EU milk production is starting to show signs of recovery. At a milk price level that approaches €0.60 farmers that grow their own silage and are therefore less reliant on expensive inputs are in a good position to push for more output.

At the moment Europe is quite hot and dry but grass quality and yield has reportedly been good for most of the Northern hemisphere spring. Farmers are hesitant to engage in high risk investments and expansion but within the limits of their current farm set up and feed contracts, production will be maximized. June will probably still result in a minus for both the EU and the world's main production regions combined, but in July we may see the first positive growth rates since 12 months. There is still a certain degree of uncertainty though as July and August tend to be quite sensitive to Northern hemisphere summer weather.

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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: Dairyntel trade data, reworked by Hoogwegt

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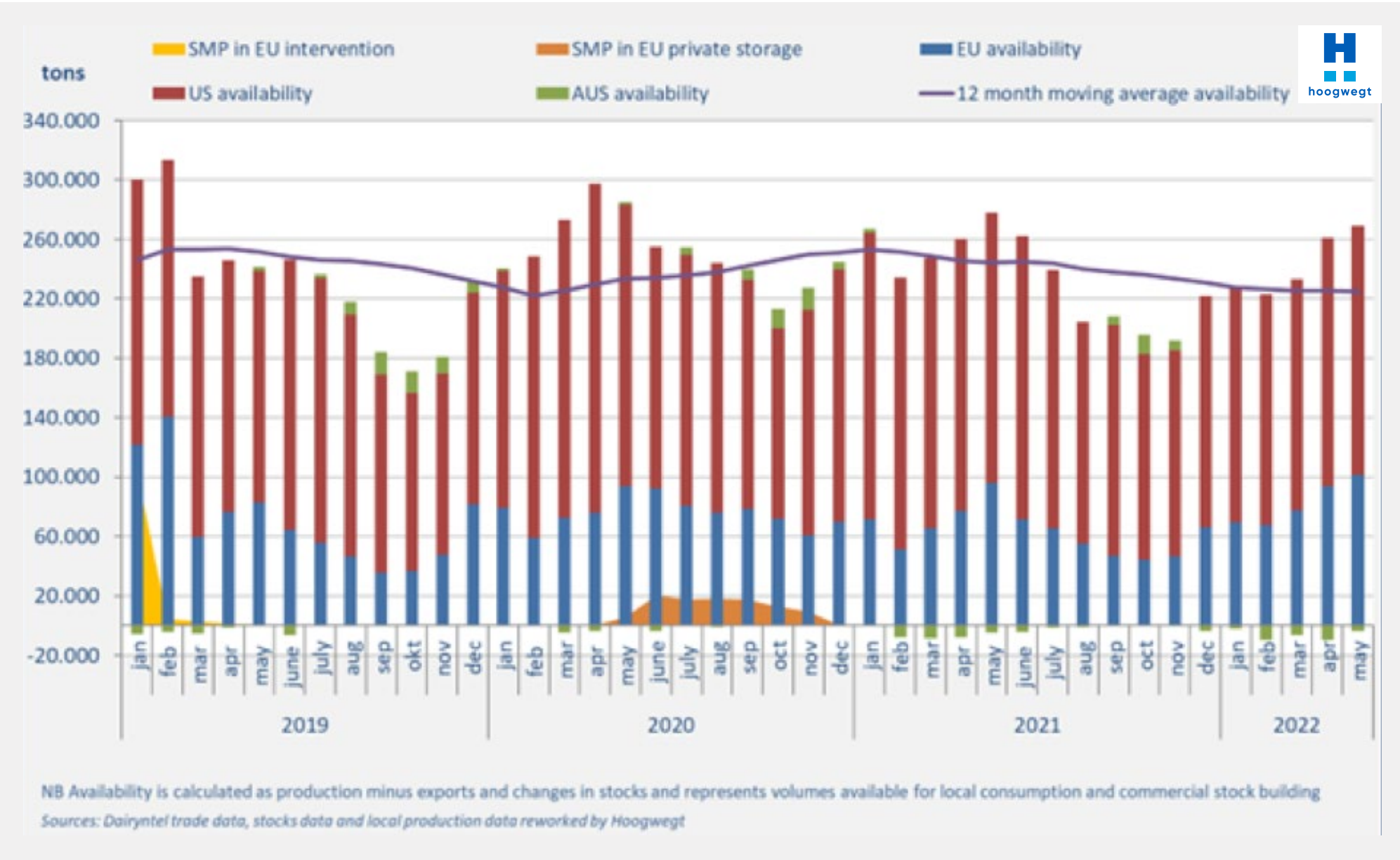
The dairy imports by the top-13 importers continued to fall further behind on imports in 2021. Most importers are actually performing OK – despite the high purchase prices – but the combined negative weight of China, Russia and Vietnam pulls the total imports in the January – May period some 400 mln kgs of MEQ below last year’s total. China’s weak import buying in Q2 is obviously the main contributor to the fall of dairy prices in the Asia-Pacific region last weeks. China’s May imports of milk powders were especially weak, which is causing some concern at the start of the new Oceania season. Consequently, China’s import performance in H2 will be essential for the direction of prices until the end of 2022.

SMP: Prices are converging at lower levels

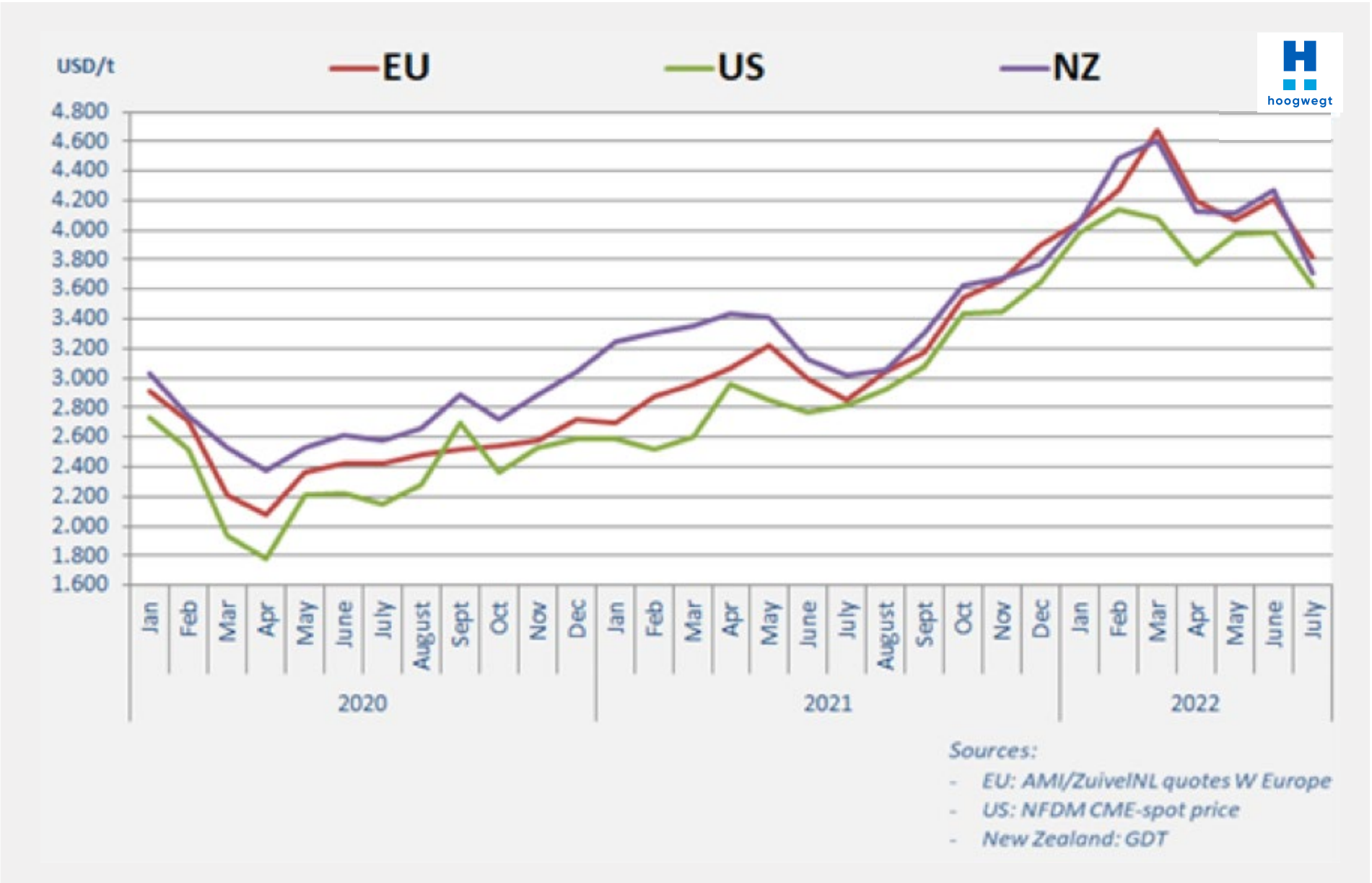
SMP/NFDM availability continued to improve during the Northern hemisphere peak months of April and May. Prices of the big commodity cheeses started to come down in June and multiproduct processors may allocate more seasonal milk towards SMP/NFDM and butter in order to prevent surpluses in their essential cheese categories. Comments by local distributors and multinationals suggesting that end consumption is forecasted to be much lower in the remainder of the

year are fueling the downward price momentum. The difficulty however is that because of the Corona affected demand levels in the past two years, the market seems to be lacking a neutral benchmark for demand. Depending on the customer category – retail, foodservice or food processing – the market may be underperforming or overperforming compared to 2021.

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



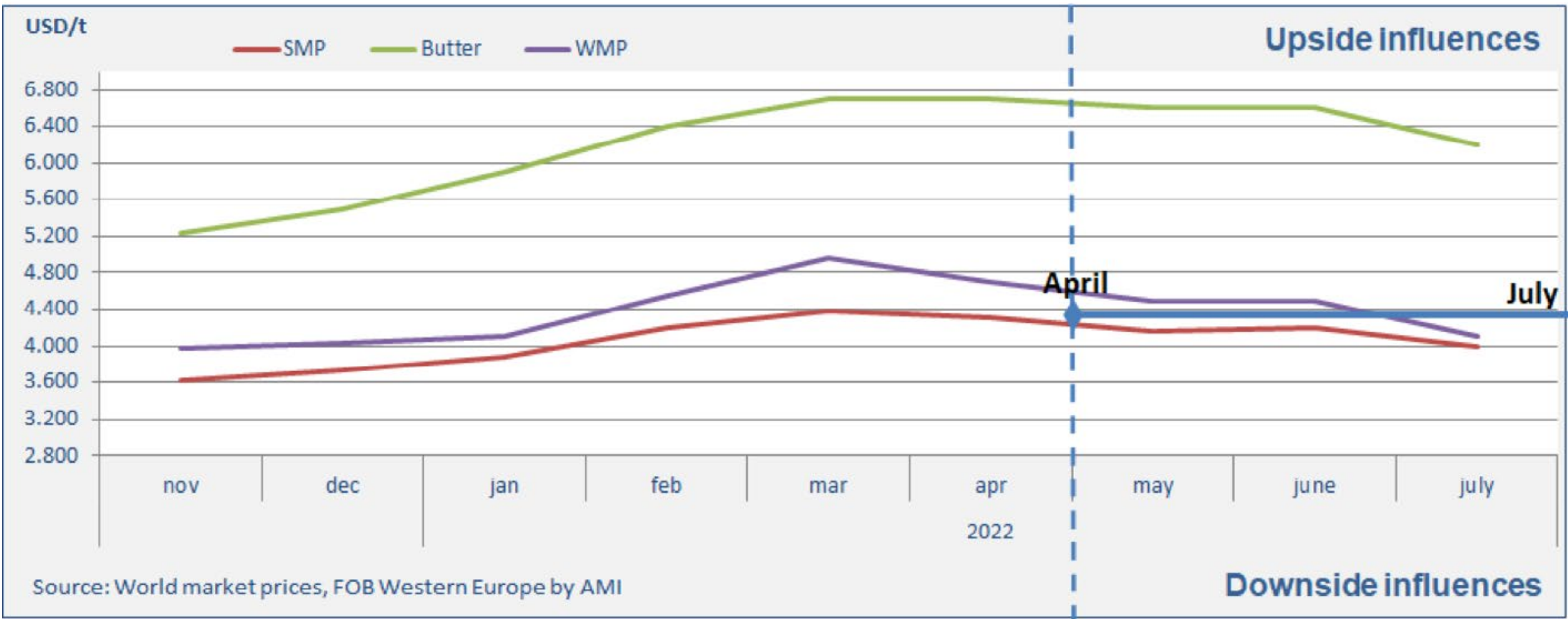
Monthly SMP prices in the main export markets



Looking forward

The fundamentals on both side of the market balance have not really changed too much, but lackluster buy-side activity because of the holidays in combination with the sheer height that dairy commodity prices had reached by mid-June is causing prices to move lower currently. Expectations for milk production at the start of the Oceania season are not particularly high but if China's buying remains as slow as it has been recently, then significant volumes of Oceania's export surplus will have to find alternative markets. The recent fall in prices in the Asia-Pacific market may attract sufficient buy-side interest to prevent a further fall in the near term. Things get interesting by the end of August and early September when buyers return from holidays. The chances of renewed upward momentum are probably just as high as a continuation of the current downward momentum, depending on the speed of recovery of Northern hemisphere milk production during the upcoming summer weeks. ■

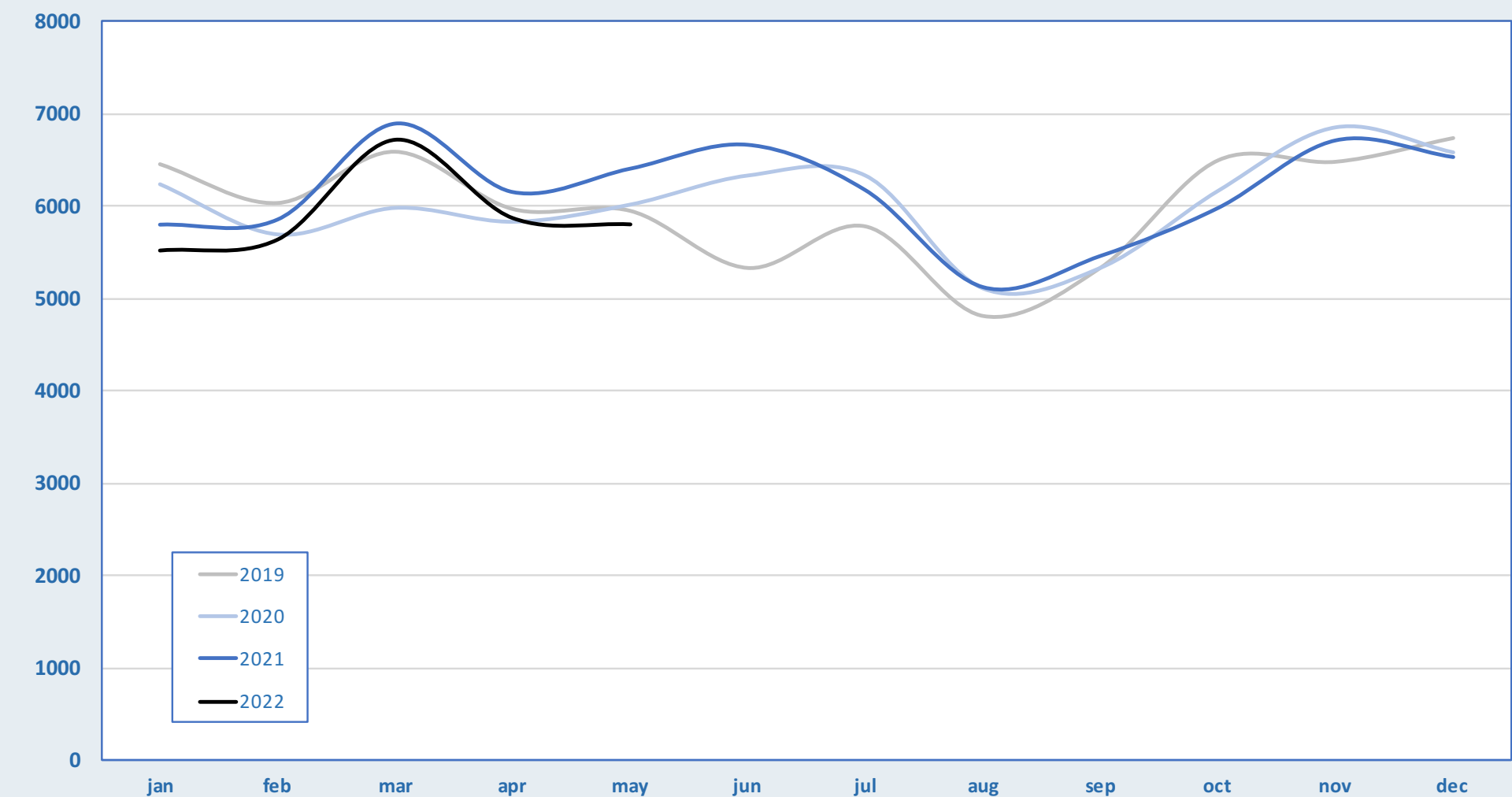
Market Outlook for August – October 2022



- Milk supply still weak in most export regions
- Northern hemisphere summer months are always an upside risk
- Possibly a stronger Chinese import performance in H2 2022
- Many buyers are still behind on their normal volumes
- High milk prices boost milk output in importing countries
- Negative impact of food price inflation on end-consumption still to come
- Milk prices have reached levels that erase the negative impact of high input prices



Global Import demand (WMP+SMP+Cheese)
in Milk Equivalent (mn litres)



Dairy Deep Dive China... NZ... Natural Gas!

On the last edition of the Dairy Deep Dive in Horizons (Jul22 Issue), we wrote that coming summer months could show some weakness but China and NZ were the real question marks further out. Latest GDT was an example of those moderate weakness with a 5% price drop in #312.

The other elephant we wrote about is still in the room. Shortages of natural gas in dairy powerhouse Europe, limiting everything that needs heat, like drying milk, and could lead to either a low or very low EU milk powder production. Especially if we see a cold winter in Europe (or Asia). Even though that is a bullish argument on European powder, it also pushes Germany (and therefore the EU) into a recession sooner rather than later. Gas, China and NZ are still perhaps our biggest question marks, but in the meantime, some new data has come in, giving us a better perspective on what happened in recent months:

Feed has become a bit cheaper and milk prices have gone up. As mentioned in the previous section, the incentive for farmers to produce more milk is looking a bit better. Historically, it meant more milk, but do note that it may be limited by structural problems like exiting West-European farmers and environmental restrictions in countries like the Netherlands (and on the other side of the planet NZ too).

Fertilizer prices seem to have eased a bit from its March peak but it's still very expensive as its correlation with the gas price is strong. Unless the weather stays sub-optimal, a very small increase of milk production in EU and US is still possible, but it should be close to H2 2021 at best and **it isn't enough to throw 12 months of pretty much global decreases in milk production off the table.**

And then there is recession looming, following the inflation. The three previous recessions in the past decades taught us that commodity prices don't always drop right away. Of course most people are rightfully expecting demand easing here and there, but the previous recessions started with increasing milk production and that currently makes a difference, as no one expects milk production to grow big time in the top exporting regions anywhere on the radar soon.

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→ continuation

Taking a Look at Stocks

What’s more? New data on stocks. It’s usually the missing piece of the S&D puzzle as production and trade are more or less known (although with a delay of around 3 months), ideally, you need the stock levels to calculate demand but they don’t throw them out every month.

The quarterly update corrected the EU-27 SMP stock level upwards and added around 20Kt. It downgraded the consumption (which we initially estimated to be stronger) to being 1.5% less as compared to Q1 2021 at around 62Kt/m of SMP consumption.

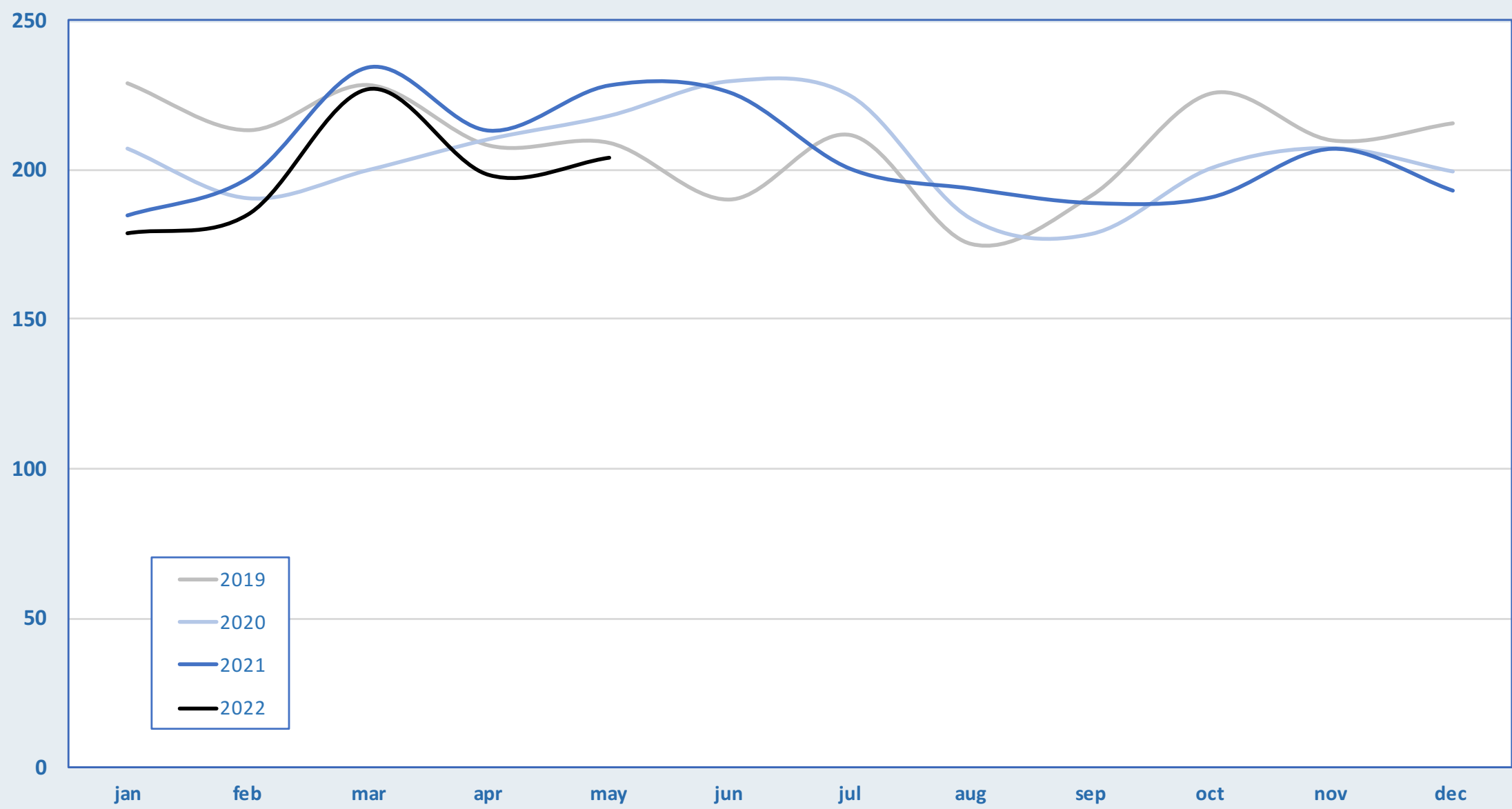
Europe’s SMP production saw a second uptick (to neutral YoY for April), and that was on our watchlist in our previous edition. US NFDM+SMP production is still down. That’s mostly due to SMP as NFDM even saw a small YoY-plus in April.

Stronger rumors on coming increase of NZ SMP production at the cost of their lower valued WMP in the NZ season shoulder months. Historically they weren’t able to do that in a big way. The last time they had the incentive was 5 – 6 years ago and the rumors are still on the table. Keep an eye on that as it’s a bearish argument for the EU SMP further out, as opposed to the bullish argument of the gas shortages.

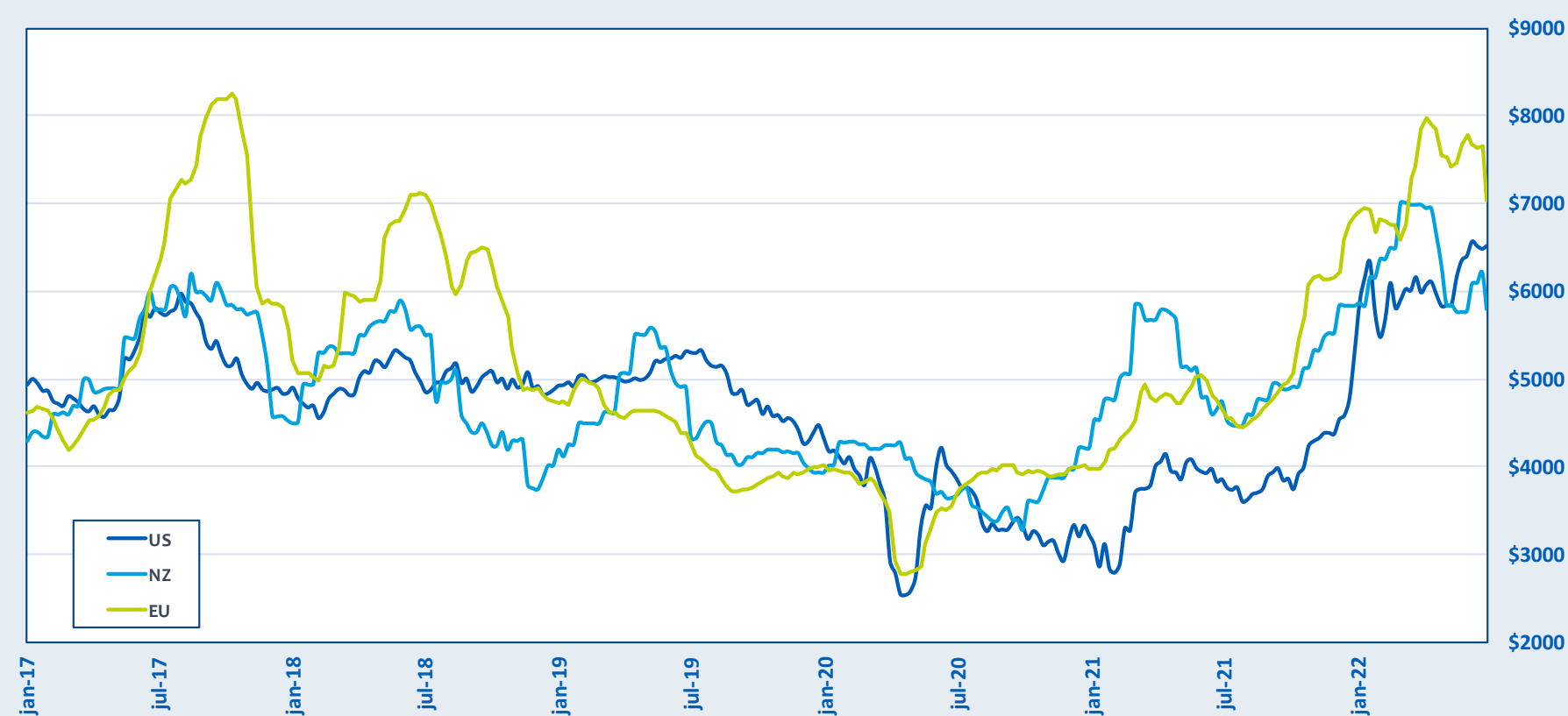
On the demand side we saw US Exports being ok, in contrast, EU-27 Exports were low. NZ was better than April 2021 but that was a very bad month for NZ trade. Globally April saw close to 200Kt of SMP exports, May should too, and it’s less than the same months last year, when China was building their stocks.

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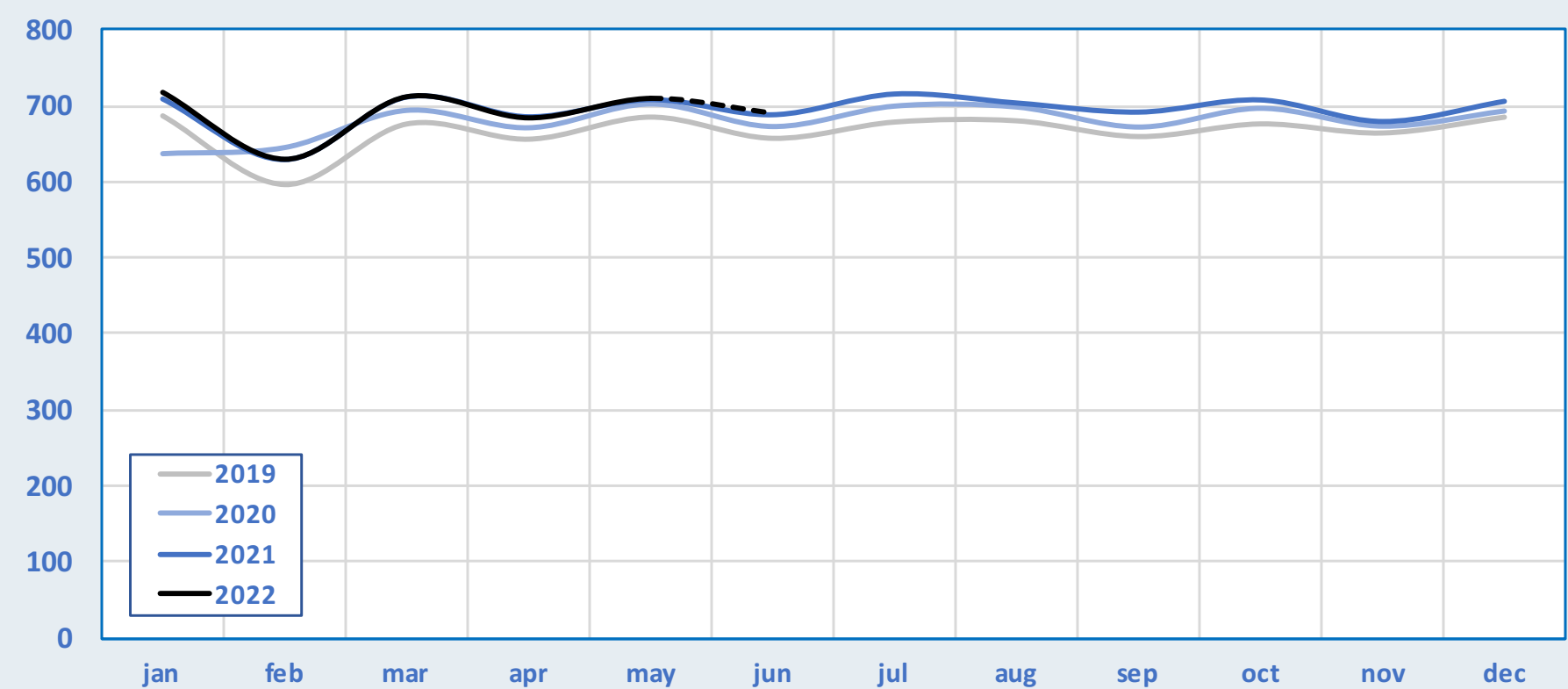
SMP/NFDM Global Exports in Kt/month



Butter price comparison (US\$/t)



European (EU-27) Domestic Cheese consumption in Kt/m



→ continuation

EU-27 WMP Production is in decline since August 2021 and has continued into this year. Comparing Jan-Apr/May of 2022 with the same period last year, you see a drop in production of around 18%. Like SMP, the cost to produce WMP were high, but WMP didn't have the valorization advantage of SMP. They're crawling closer though. NZ WMP Stock level still is above last years level, as Asian demand for WMP slowed. No big stock building policies yet and China still fighting Covid in a dynamic zero-covid ring. Keeping the demand side uncertain. The expectation is that dynamic zero-Covid policy remains until at least the November congress.

Butter: Both the EU and the US Butter stocks levels are lower than last year, the expectation is that this will remain the case through Q1. Which is a bullish argument. Note though that the Oceanian butter is currently the cheapest so it could take away some of the EU/US exports.

Even though the supply side remains tight (with the exception of perhaps some NZ Products due to lackluster demand from Asia) the demand side in Dairy is lower than past year. The demand side currently is still bearish. Asian demand both in China as in most SE Asian countries has eased, even when the latter mostly bought hand to mouth. MENA demand is pretty ok, they too bought hand to mouth and their economies are profiting from elevated energy costs.

Cheese: Cheese production, relative to last years, has eased a bit after months of steady production in both the US and EU. US Stocks are close to last year's level, in Europe the stock levels are way lower YoY. On the demand-side US domestic demand for cheese is falling from the food service frenzy after reopening the US. European domestic consumption of cheese is steady. It's perhaps the most boring chart in dairy. Proverbial, it's hard for a dutchman to ditch their slice of cheese from their sandwich. Don't forget that gas shortages in Europe can make drying milk expensive and it can increase the milk flow towards EU Cheese. But, as we saw last year when the same happened, the SMP+Butter valorization was a good indicator for the price of cheese.

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Bulls vs Bears... and Grey Swans...

On the Bearish Side:

- We've already seen big double digit drops in demand and more are to be expected from China. With spill-overs to SE Asia while other regions might still buy hand to mouth but won't build huge stocks at current prices. Summer months usually are easier in terms of demand.
- Some regions where dairy is luxurious and optional will face drops in demand, retail producers are expecting drops in domestic consumption. On top of that there is a risk of recession.
- Exports from Others and NZ are competitive and something to watch, as they could compete with EU and US trade shares more than usual.
- No quatum (China) will spread the usual H2 peak into Q1.
- Cash-flow and liquidity issues.

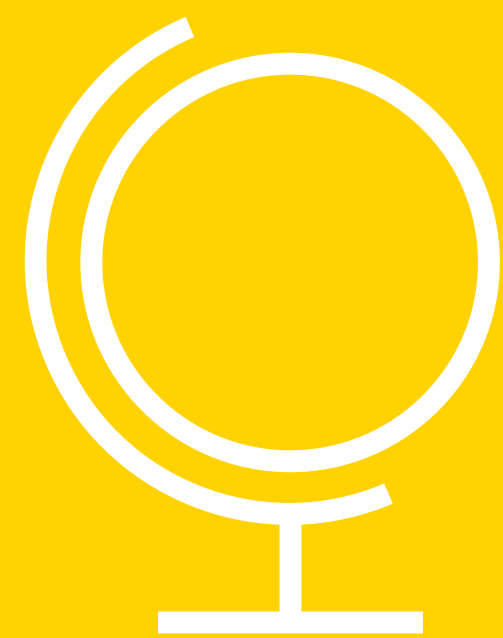
On the Bullish Side:

- A global decrease in milk production, that started around last year's summer. Although herd rebuilding seems to have eased a bit in the states, H2 2022 shows a slight increase in milk in the US and Europe should be close to neutral/small increase.
- Producers are struggling with gas, and this will be an issue in the winter months, especially in cold winters. Therefore, Q3 and Q4 will see shortages of SMP if things go forward like they are now, even with drops in demand.

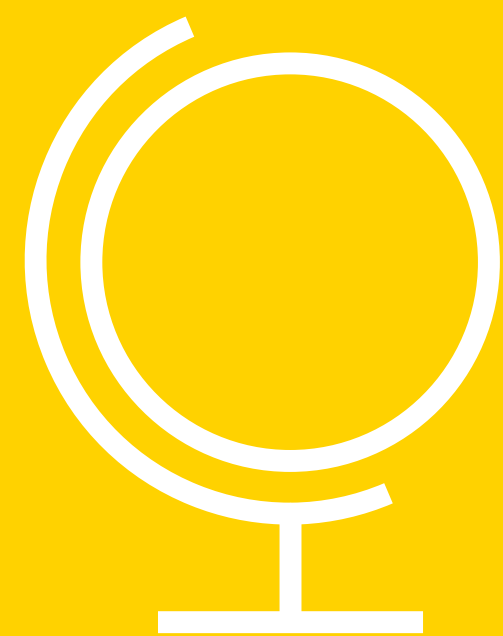
Notable Question Marks:

- Natural gas costs and shortages limit the EU SMP Production and Q4 has a big gas shortage elephant in the room, especially when winters in either Asia or Europe are cold.
- Oceanian flush and production of WMP and SMP.
- China might step back in the market, or not. Again, with spillover effects for SE Asia.

World comment.



**Rogier Lankamp,
Managing Director
Dairy Essentials
Middle East & Africa**



In Ootmarsum, located in the east of The Netherlands, where I was born and raised, it was appreciated to not stand out too much. "Just act normal, that's crazy enough". I didn't like that and decided to live my life differently: to stand out! I moved to Utrecht for my studies, met a whole bunch of fantastic, positive and talented friends who taught me that I, just like everyone, could reach everything. That inspired me a lot. We are responsible for our own lives, decisions, state of mind and even our own happiness. It's not our background that sets our future, it's our decisions and actions. Set a goal for yourself and do everything what's needed to get there.



My mother told me that it was very important to surround myself with people that make me happy and cheerful, people who want the very best for me. She said: "Rogier, you are good, exactly the way you are. But you have to use your talents and make the best out of your life. Show the world who you are. Go, try, make mistakes and learn. Grow. Achieve things. When you achieve things, you will feel fulfilled. And don't forget to celebrate your successes with the ones you love and like."

So, when the chance came to work for Hoogwegt 21 years ago, I decided to take it. It felt good, right from the start. Hoogwegt is a fantastic company to work for! I find myself surrounded by nice, highly qualified and warm people, from whom I can learn a lot. I feel appreciated for who I am. As a Manager at Hoogwegt, I find it important to give our people freedom, responsibility, autonomy and trust. To create a safe environment where people can make a difference. One of the goals in my life was to live abroad for a few years. Hoogwegt offered me the opportunity to move to Singapore with my wife and two sons and build an office from scratch. I took the chance, and I am very proud of the excellent team in Singapore and everything we've built together.

At this moment, within Dairy Essentials, I lead the team Middle East & Africa. A team with highly skilled and very ambitious people who work in a growing and challenging environment. My drive is to make this the most successful team within Hoogwegt, a team people love working for. I want my people to be able to learn, grow, excel and to follow their gut to achieve their and our goals.

Finally, I like to share some advice that also brought me where I am today:

- 1) Be willing to learn and take advice from others. Put your ego aside more often (still difficult for me sometimes 😊)
- 2) Be willing to work really hard
- 3) Be positive
- 4) Have fun and enjoy the ride!

Hoogwegt Happenings.

All Abroad! Bon Voyage!

The fine people of Dairy Essentials APAC (Singapore Office) had a boating trip earlier in July.

A long overdue Team Bonding Trip (no thanks to COVID), we celebrated our recent successful IFS audit and new colleagues – Zi Ling (Technical Specialist) and Qinyan (Accounts).

Against the beautiful cityscape of Singapore, it was a nice reminder that our successes are always sweeter when enjoyed together.



Hoogwegt Dairy Spew Episode 11

The Amateur Debate Fight Club.

Looks like it's not just the weather in Europe that is too darn hot!
We had a sizzling battle of wits amongst the team in a good ol' Debate -
with the motion:

**"The Dairy Market is going through a Price Correction -
This is Temporary"**

Sitting on the Affirmative Team (Bulls):
Charles Lesmana, Charles Tey, Alvin Chua
On the Opposing Team (Bears): Tom Stevens, Boh Xuan Jie

So STOP! DROP! And listen in to the latest Episode 11 of The Hoogwegt Dairy Spew!

Are you Team Bulls or Team Bears?
Listen in and let us know your vote by clicking on [this link](#)

Comments / suggestions / collaborations are welcome! Do let us know
if you would like to be a guest speaker on our upcoming Episodes!

Note: Podcast was recorded on 5/July/2022

→ You can listen to us via our [Podcast Website](#), [Spotify](#) or [Apple Podcasts](#).



Episode Guide:

- 0:22** Introduction
- 2:25** Disclaimer & Debate Rules
- 3:45** Affirmative (Bullish) Speaker 1
- 6:20** Opposing (Bearish) Speaker 1
- 10:19** Affirmative (Bullish) Speaker 2
- 13:05** Opposing (Bearish) Speaker 2
- 15:41** Intermission & Announcements!
- 17:12** Affirmative (Bullish) Speaker 3 -
Rebuttals & Closing
- 21:16** Opposing (Bearish) Speaker 3 -
Rebuttals & Closing
- 24:50** Debate Round Up
- 27:22** Summary & Closing