



Horizons.

Our insights
on Today's Global
Dairy Business

April 2023

#04

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Market Direction

**Global
milk production
is just about
sufficient,
but only just.**

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Editorial Note.

Congratulations! Welcome to Q2 2023!

Join us in this issue as we move into the thick of the European Milk Flush and try to decipher the mysteries of Chinese Demand.

Guest contributor Eric Hoekstra from Dairy Ingredients – Haverro Hoogwegt – writes about the Ingredients market and his experience working at Hoogwegt.

We also recap our recent participation at the Food Ingredients China 2023, where Pacific Dairy Ingredients (PDI) and Meelunie set up booth and welcomed customers with warm embrace. This was our first exhibition in China since its reopening.

Our latest [Hoogwegt Dairy Spew Podcast](#) was also released recently. This time, our colleagues from Hoogwegt US discuss about the US Markets and explain a bit more about Mexican Demand.

We hope you enjoy this issue of Hoogwegt Horizons!

As always,

Hoogwegt Horizons Editorial Team

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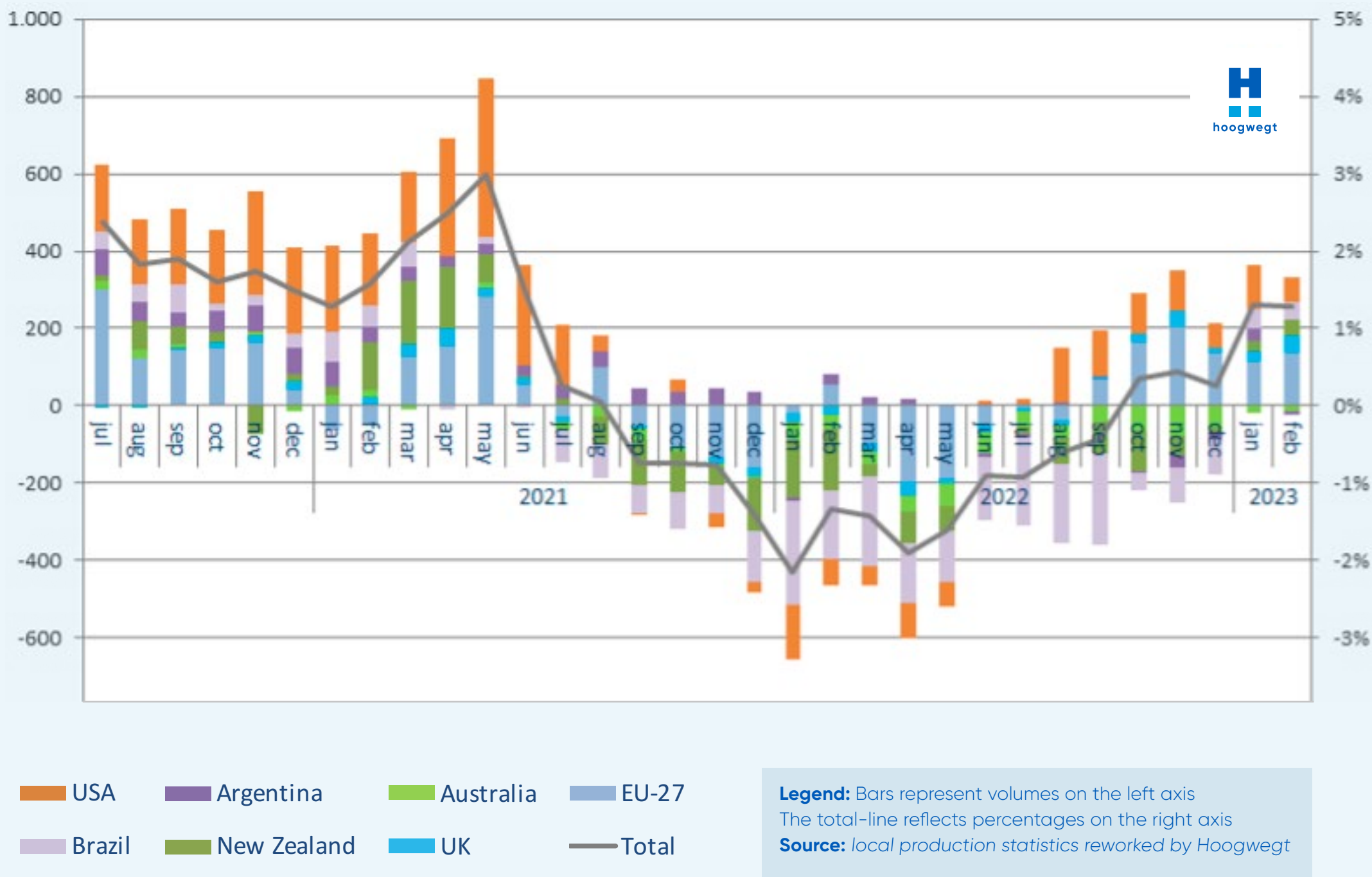
Market Direction

Global milk production is just about sufficient, but only just

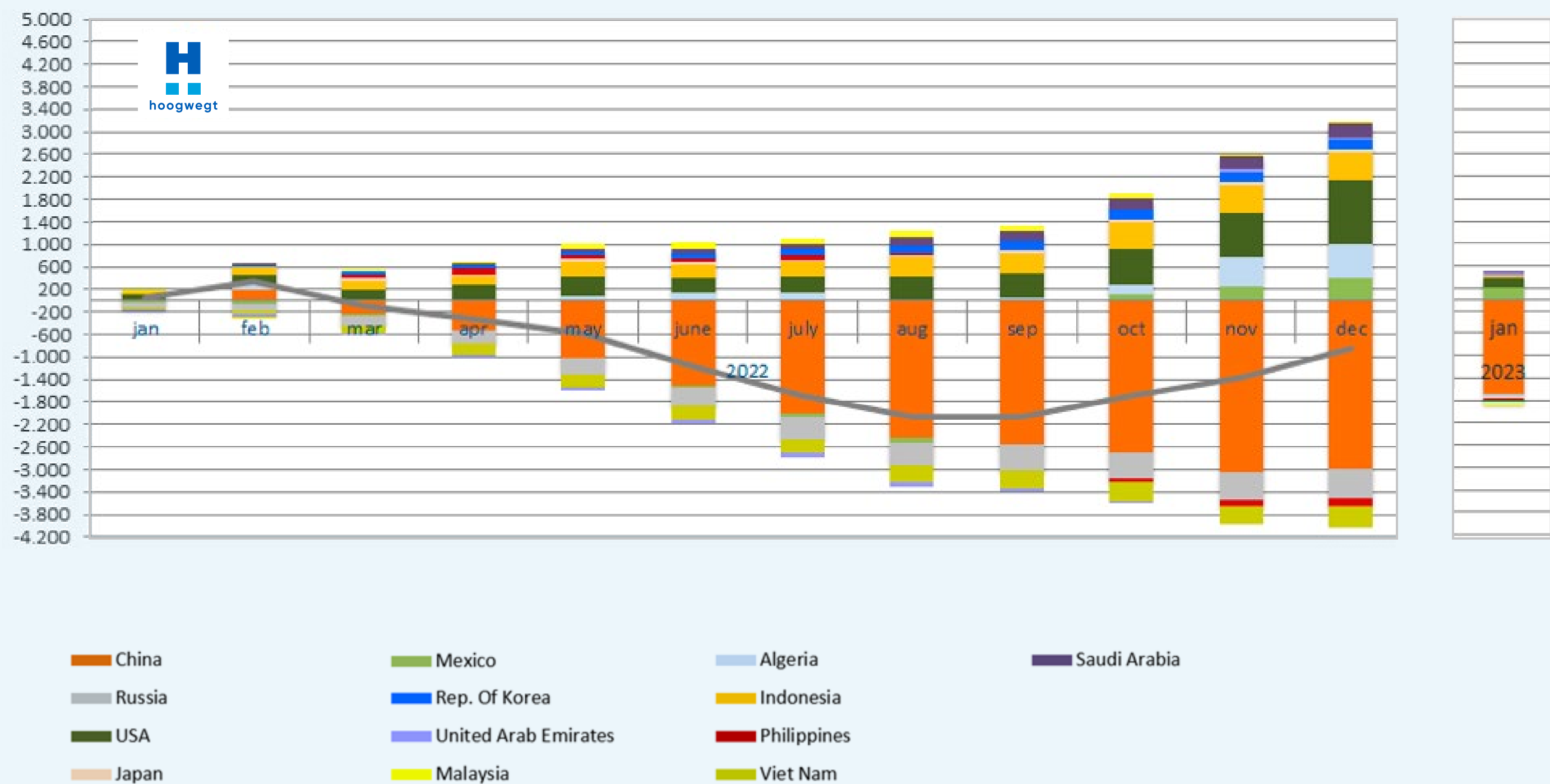
Global supply growth continues to hover just above 1% in February for the main exporting countries combined. This seems to be just enough to create some comfort for the buyers in the market, but milk production does not yet create a buffer to deal with weather disruptions, stronger Chinese imports or stronger demand in general. The growth rate of 1.2% puts milk production in the main exporting countries back at where they were at the start of 2021. US milk production seems to fall back to a growth rate just below 1% as culling rates are going up. The Southern hemisphere looks somewhat better since the start of the year but its relevance for the global market balance declines in months to come. This leaves the EU as the main driver of global supply growth in the upcoming second quarter of the year. Germany, the Netherlands and Ireland will likely be the main countries to fuel EU supply. All of them produce sound growth rates at the moment but milk prices are falling rapidly. Farmer's cash flows in these countries may quickly deteriorate.

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Milk supply growth in key exporting regions (Y-o-Y change, 1000t)



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 countries combined
Source: Dairyntel trade data, reworked by Hoogwegt

→ continuation

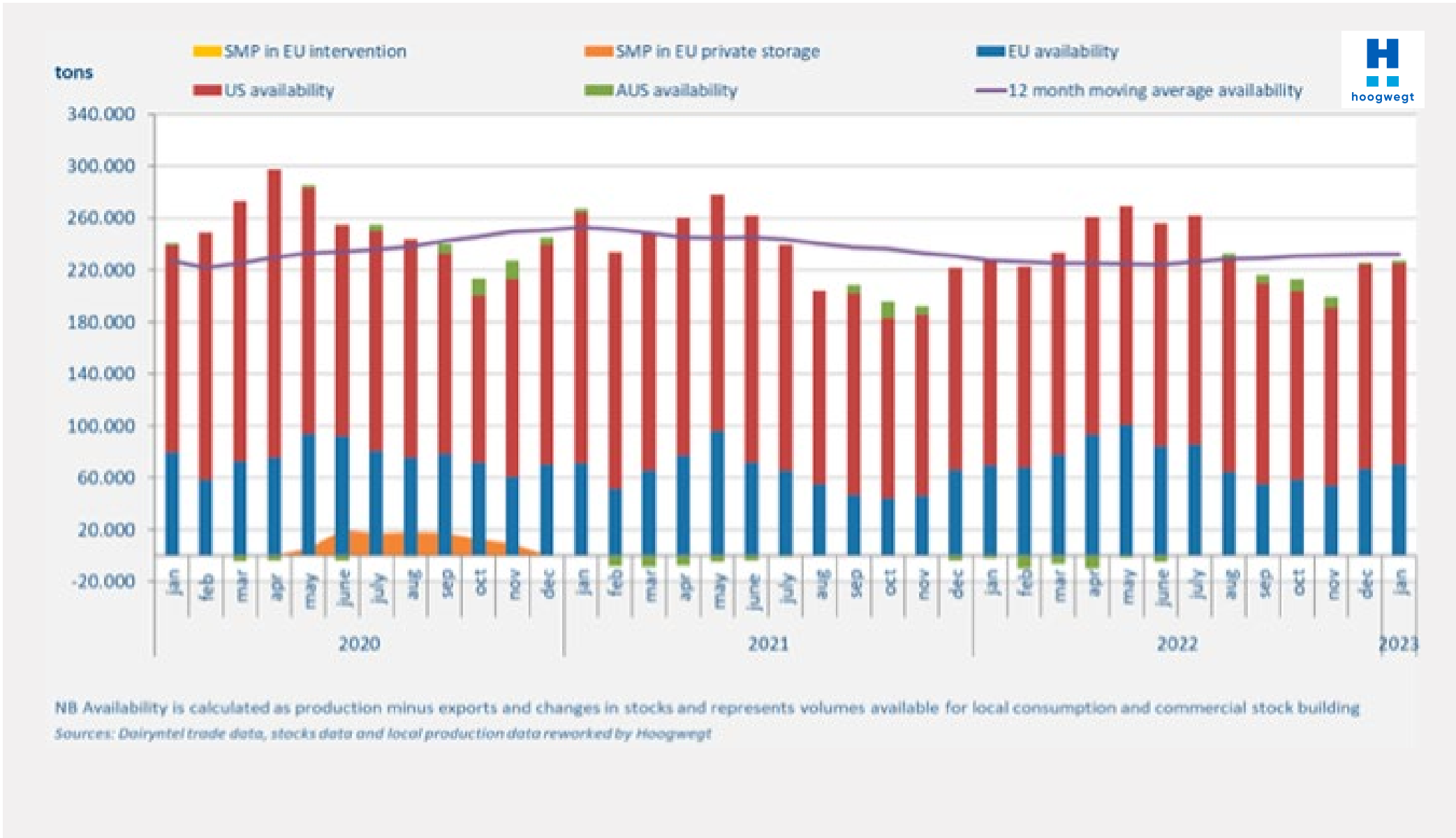
The main focus of import graph below is China. One month of imports does not give too much information on what to expect from the import markets combined in 2023, but all eyes are on China. The graph seems to indicate that China started the year very weak, but this year is of course different from previous years. The reduced tariff quota system has been abandoned as of this year, so the incentive to time exports as much as possible in the first week(s) of January is no longer there. This implies that the more than 50% decline in aggregated import volume in January is in line with expectations. China's February imports turned out more or less in line with February 2022 so if the remainder of H1 continues at the same or slightly higher, Chinese import volumes are as expected. In the second half of the year China's self-sufficiency ambition and its impact on the global trade balance will reveal its true colors. With respect to imports in the other countries we can for now conclude that both Mexico and the US started the year dynamic.

SMP: Prices of SMP/NFDM continue to slip gradually

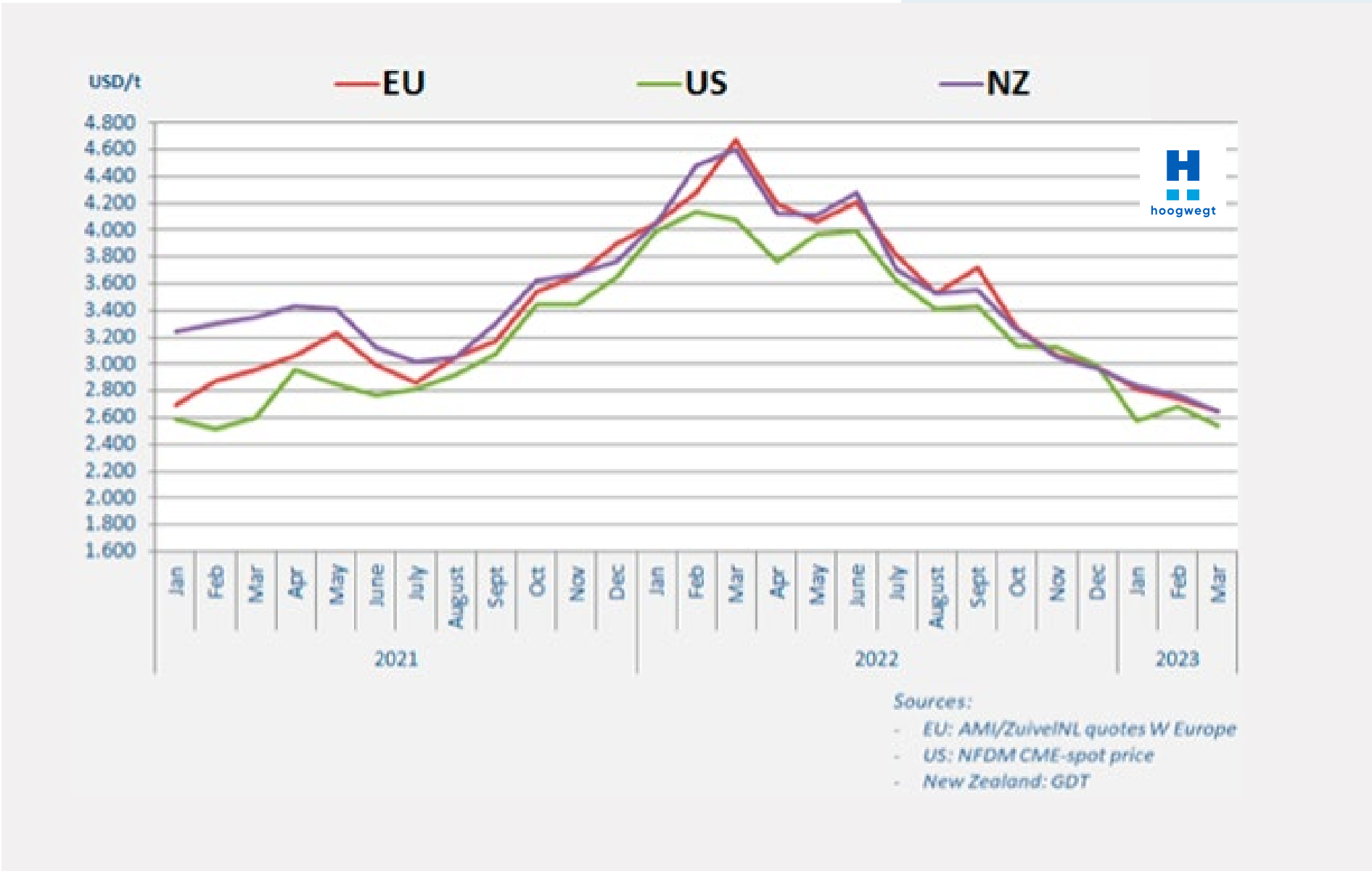
Prices of SMP and NFDM remain closely aligned as the three origin regions all have their reasons to remain competitive. In the EU, availability is expected to improve during the peak months of milk production and processors are eager to keep the key markets of commodity cheeses free of stocks by staying competitive in SMP and to a lesser extent in butter. In order to prevent stock build up during the shoulder of the Oceania season, New Zealand is still eager to find alternative

outlets for volumes previously destined for China. Last month's participation by New Zealand in the ONIL and Soummam tenders provided ample evidence. US exports are mainly focused on its nearby markets in Central America but US milk production still seems just strong enough to necessitate a competitive export position in other markets as well. As a result, prices out of all origin regions are falling below early 2021 levels at the moment and buyers are in a comfortable position.

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



Monthly SMP prices in the main export markets

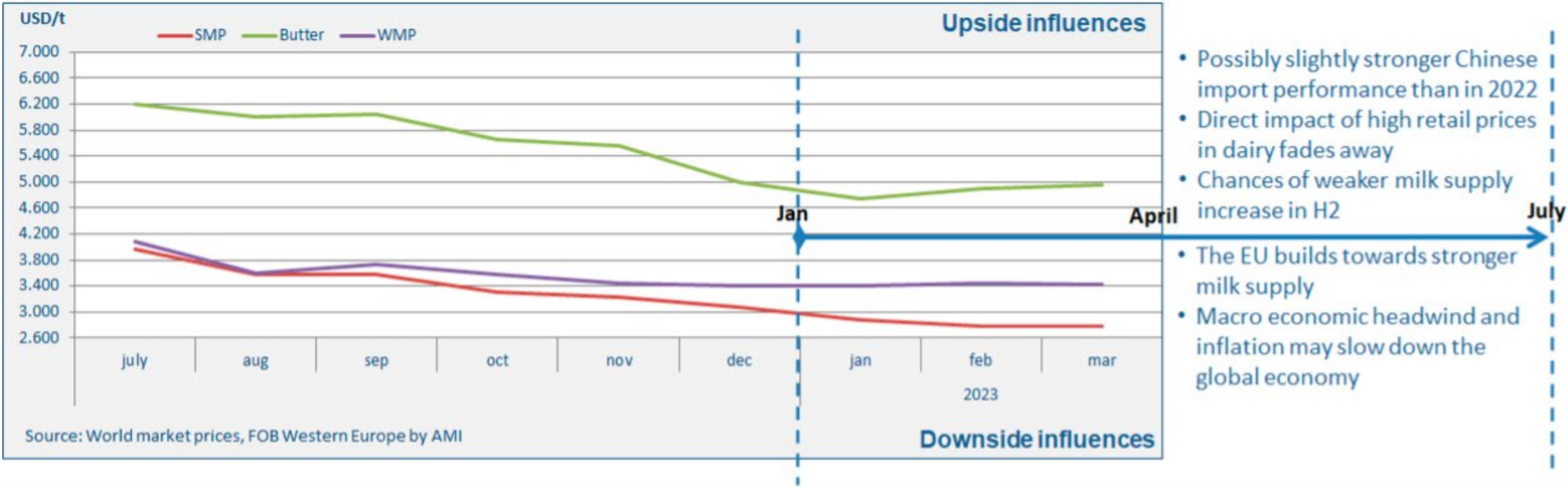


Looking forward

Dairy commodity prices continue to push milk prices for farmers to lower levels in all of the export regions. As we are bound to get closer to breakeven levels for farmers in months to come, it seems unrealistic to assume too much additional downward potential for commodity prices. Of course, milk production is expected to be at least sufficient during the peak season of the Northern hemisphere but how much longer will milk production continue to

be propelled by positive cash flows in the export regions? The other source of uncertainty will be China’s level of imports to balance the local market once local stocks have been cleared. So although the near term does not seem to create too many challenges for the buy-side, things may get more dynamic once we get to the back end of H1. ■

Market Outlook for March - May 2023



Dairy Deep Dive

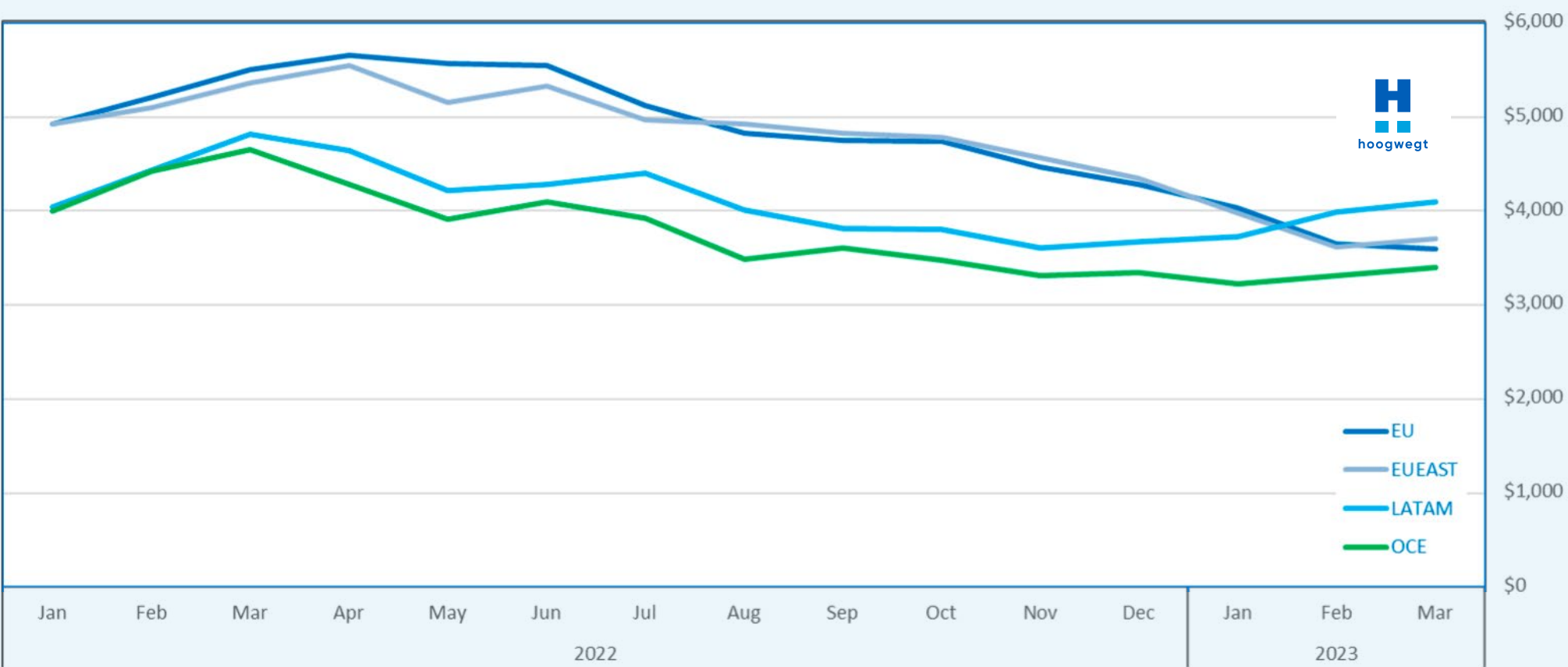
Going Back to Basics – Whole Milk Powder

Looking at prices, it stands out that product from Latin-America tends to be the most expensive, while Oceanian WMP still is relatively cheap. But the gap between NZ and EU WMP is crawling closer. Of course Latin-America (LatAm) struggles with its milk production and although some LatAm countries registered a small surplus for January, the expectation is that this is only a temporarily plus. LatAm’s main game is still expected to be the Intra-LatAm trade.

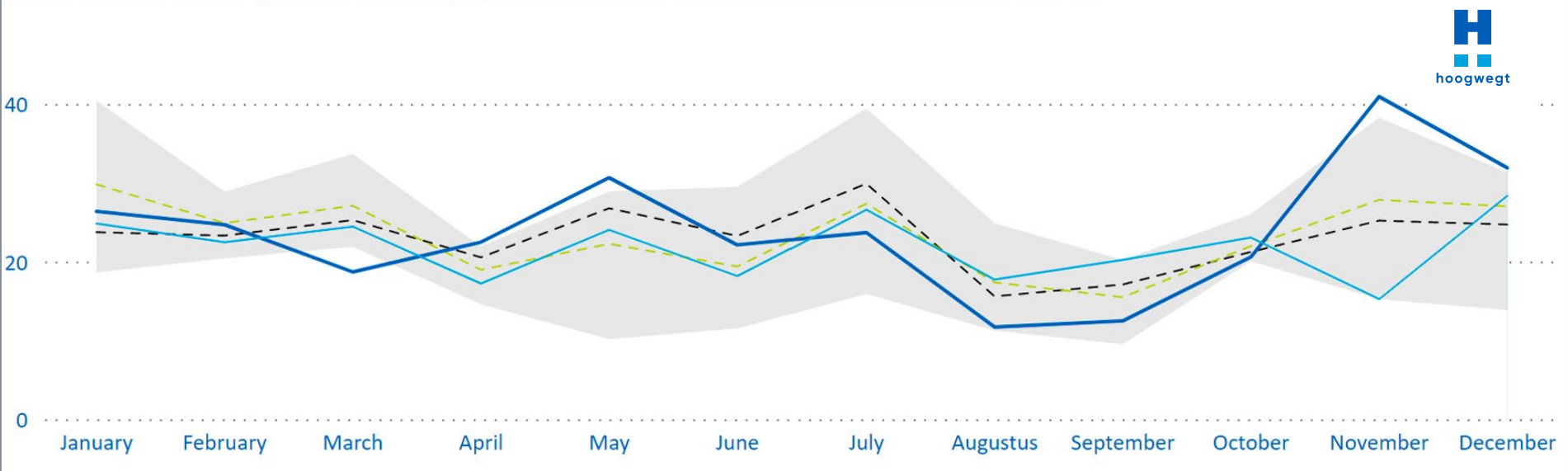
Even though import demand for North-Africa has been quite good (and rather outstanding), it cannot compensate for the losses from the lack of demand from China. We are currently in Ramadan, so things are quiet now. But the demand has been fair, with an increased NZ market share, and a struggling Argentinian piece of that pie.

[more →](#)

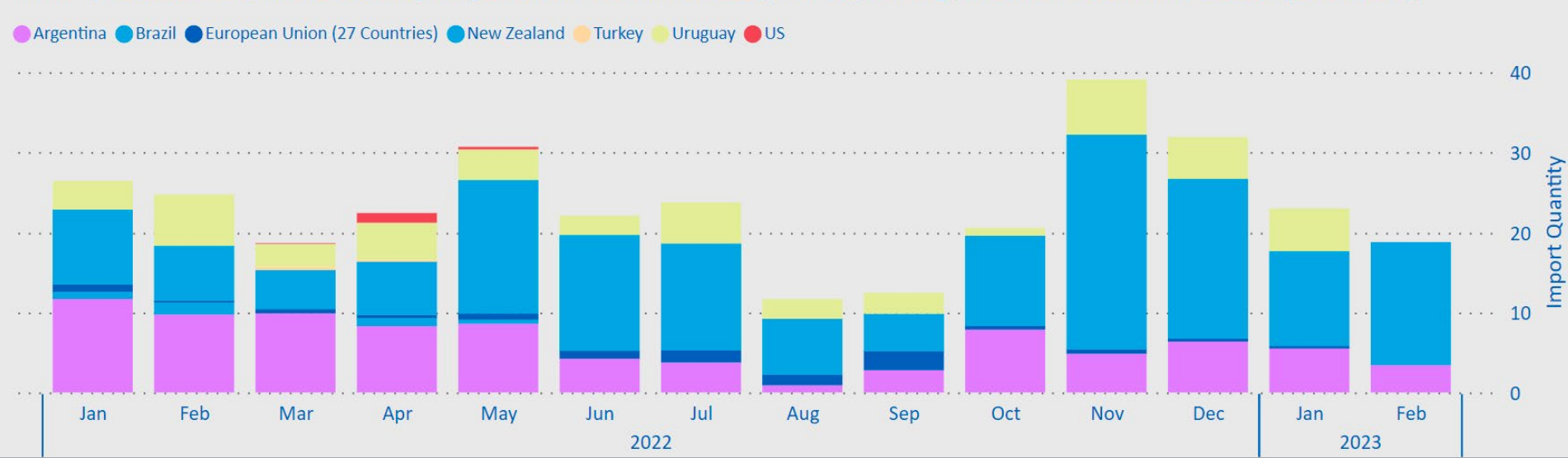
Price comparison; LATAM, OCE, EU, EAST-EU (Monthly averages in US\$/t)



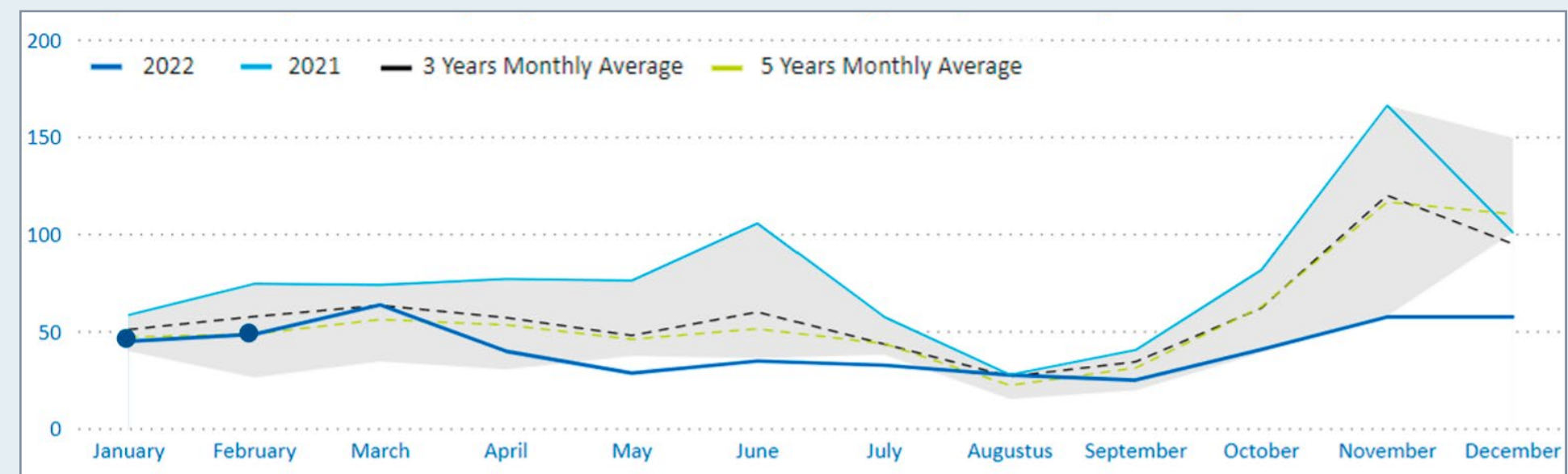
WMP (HS:040221, HS:040229) Imports in North Africa in 2022 (Ktonnes)



WMP (HS:040221, HS:040229) Imports in North Africa per exporting area in 2022 and 2023 (Ktonnes)



WMP (HS:040221, HS:040229) Imports in China and Hong Kong in 2022 (Ktonnes)



WMP (HS:040221, HS:040229) Imports in China and Hong Kong per exporting area in 2022 and 2023 (Ktonnes)



The biggest taker of WMP saw a decreased demand. Last week, Chinese trade data for January and February 2023 came out . Although some anticipated China to return to the market in a big fashion, thus far, that is not the case. NZ is still the main source, but both NZ and LatAm saw decreasing export numbers for WMP towards China. The lackluster figures from China corresponds with a mixed bag on their economical indicators, and an assumed favorable local milk production, but the other thing at play is the removal of the NZ-China FTA zero-tariff window which in turn shifts demand as there is no longer a need for Chinese imports to arrive prior to January.

Another interesting thing when thinking about WMP supply and demand, is certainly NZ's product mix. Increased SMP exports pop up in the trade data as expected, providing a firmer fundament on NZ's change in product mix that assumes significantly more SMP production at the cost of WMP.

The loss in WMP export demand (NZ reported a low 92Kt of WMP exports for February 2023) compensates for the loss in production, so the availability is still sufficient to move towards the end of the season without real deficits (unlike the low availability we saw around July 2021), but it should end a bit lower than 2022.

more →

→ continuation

Bulls vs Bears...

On the bullish side:

- A struggling Southern America and Australia in terms of milk production.
- Farmgate milk prices coming off in the Northern Hemisphere.
- Turkey and India aren't competitive on the short-term.
- China's change in paradigm and 're-opened', and unprecedented FTA and tariff changes.
- Prices dropped; this should attract some buyers.

On the bearish side:

- US, EU current growing milk production. EU SMP on increased production over H2 2021 and Q1 2022 low levels.
- SE Asian demand seems to be low.
- Recessions, inflation, leading to drops in demand.
- Better availability compared to 2021 and 2022 from the producer side.
- Fresh consumption closer to pre-pandemic levels.
- NZ Product mix change, bearish for SMP.

Things we watch:

- Volatile forex skewing trade shares. Volatile input cost.
- Geo-political turmoil shifting away from free trade.
- Possible stock building by China, although that may be a bit further down the calendar.
- If and when Turkey lifts its exporting ban on dairy products. (Ban exists to 'fight' inflation)

A Quick Note on...

Futures

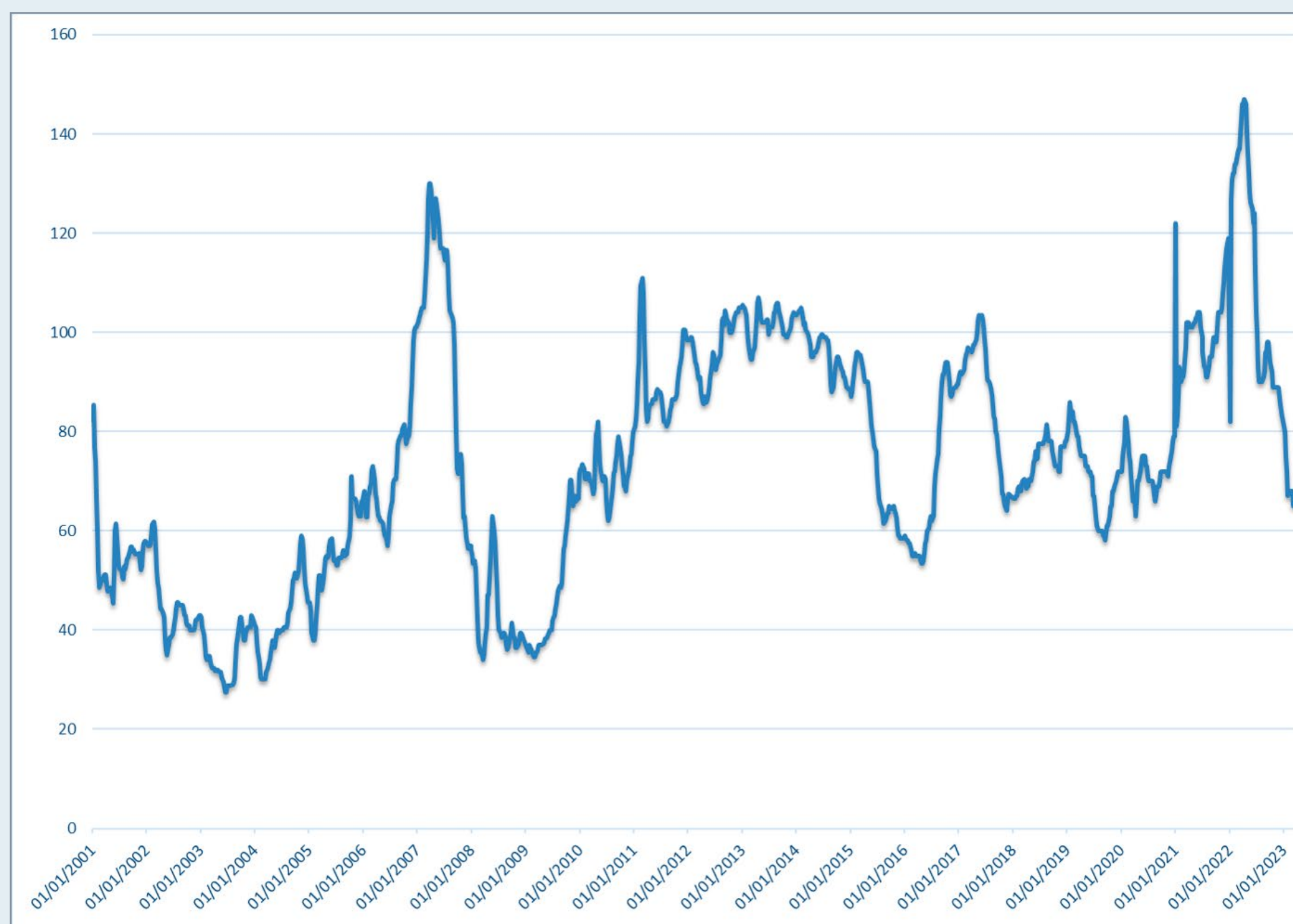
By Ton van den Oever, Managing Director, Hoogwegt Trade Management (HTM)

- More than one topic drove markets in the last few weeks.
- In the Asia Pacific region, everyone was looking at Chinese demand. How would it react now that people returned from their holidays and the market is open? Could it break the downward trend for SGX WMP we have been in since March 2022?
- In the last few days, the narrative has become increasingly bearish with Chinese demand disappointing and Fonterra increasing volumes on GDT. SGX WMP is therefore now again trending lower, although not at the same pace we saw before. The 2nd continuation is now trading close to its recent low of \$3160. Big question is if we will break this support level.
- A lot of bearish news is already priced in. It looks like we will need more bearish news before the market can push prices lower. If we can't break the support, there is some upside to this market, with a first resistance level at the 100 day moving average of around \$3350. After that, \$3550 seems the next target.
- In Europe, EEX SMP was reluctant to go down in Feb and first half of March. Anecdotally, participants were filling in shorts and taking out carry which was and still is rather large. However, due to a weak GDT and attractive Kiwi SMP prices, the EEX SMP seems to break a bit in recent days and trade lower. Hard to see where this ends, but €2450 seems to be in the cards.
- In the US, the CME Non fat is also back in its downward trend, making new lows after a 3 month period where prices seemed to hold for a bit. With the weakness in both EEX and SGX SMP, more downside can be expected for CME Non Fat as well.

Daily WHOLE MILK MAY 23



→ continuation

WHEYPOWDER**Whey****By John Kramer, Global Head – Whey, Lactose & Permeates**

- Global whey markets remained in a relatively depressed mood in recent weeks.
- On both sides of the pond, milk continues to reach processing industries in larger volumes than actual demand is capable to absorb.
- Demand for inflated priced dairy products is simply weak, consumer awareness on what they spend in supermarkets is clear and present.
- High hopes for Chinese restocking to sweep the market clean are fruitless so far.
- In the longer run, raised salaries and softening inflation will likely turn this picture although the new established uncertainties in global banking are not supportive.
- From a supply perspective, farmers still like what they receive for the produced milk, and with seasonal peaks nearing, no dampening actions can be expected.
- Although Cheese producers (where possible) try to direct milk to alternative bulk products (like SMP and Butter) to protect cheese prices, one way or the other, the surplus volumes of milk end up in the Cheese vats.
- As a result, we see enough whey products around and increased nervousness among suppliers who witness stock building and start dumping actions every now and then to alleviate pressure.
- The Feed Industry, usually important for offtake of large whey volumes, is of no assistance at all.
- First of all, we see the Calf Fattening Integrations putting up limited number of calves directly influencing consumption.
- Secondly, the Calf Rearing sector's farmers are unwilling to invest in cow herd growth by setting up new female calves.
- The growth in milk output is generated through keeping cows at the end of their cycles for a longer period of time.
- Therefore, we still see low price levels both for the Food and Feed markets where consumers are buying hand to mouth or postponing call offs.
- Whenever movements occur, most of the time, this is caused through brokers activities and trade selling and buying back and forth.

Eric Hoekstra Senior Account Manager Havero Hoogwegt



In April, I will celebrate my 13 years anniversary with Havero Hoogwegt. Quite a milestone for myself as this would be the longest I have worked for a company.

I have always been active in International Business. In 1990, my working career started in Import / Export of various Fruits and Vegetables. Later, I worked for 11 years as an Exporter in the Meat Industry. I very much enjoy International Trading and to communicate in different languages.

So today, I am still active and enjoying the Dairy Industry which never brings a dull moment.

Initially, I started for Havero at the old office in Gorichem, The Netherlands as Account Manager for Vegetable Ingredients. Products like wheat starches, gluten, oat flakes and many other mainly bakery ingredients etc.

After 2 years, Havero moved and integrated into the Arnhem office. With that move, Havero's vegetable Ingredients moved to Meelunie, which is the plant based business unit of Hoogwegt. And Havero started to concentrate on Milk & Whey Ingredients only.

I became responsible for all commercial activities in the Casein business we were doing for the Technical Industry. Throughout the years, more milk proteins were added to my responsibility like Rennet Caseins, Caseinates and MPC.

World Comment.

Today, our traders sell the whole portfolio of Havero to dedicated regions. Currently, I am responsible for countries like Spain, France, Portugal, North Africa and South America.

Hoogwegt is great company to work for. Although I have a long trading experience, I still feel that there is always something new to learn. This is because, the main driver of this job is to think how the market will develop for the coming months / years.

Every year is different and with the great team we have, it is good to have discussions together and to exchange views and thoughts. The right strategy will help to bring good results for the company, but more importantly, satisfied customers who rely on your opinion.

In recent months, we have faced price corrections in the Milk Proteins, but this is nothing compared to the enormous corrections we have seen in the Whey Proteins. Most important factor remains to be the global demand. Will this demand return to pre-covid level? How strong will the European and US milk production develop in coming months?

To close off, our organization has professionalized rapidly throughout the years. Today, it is a great environment to work in with good balance of talented young people and experienced people.

I am proud to be part of this strong growth and success of Hoogwegt all these years. Time flies but as they say - pressure makes diamonds, and hard work pays off.

Hoogwegt Happenings.

For the first time in what seems like forever, Hoogwegt's Pacific Dairy Ingredients (PDI) and Meelunie set up booth at the Food Ingredients China (FIC) 2023.

Held in Shanghai 15th-17th March 2023, the exhibition was teeming with activity as we welcomed customers, suppliers and potential partners with warm embrace.

With a successful conclusion of the exhibition, we hope to see you all again at the next FIC!





Hoogwegt Dairy Spew Goes Transatlantic!

After a short hiatus whilst we incubated some brand-new ideas...
We Are Back!!

Tune in for this special episode for recorded by the **Hoogwegt US** office in Chicago! Join us as **Fabiana Correa, Adnan Mikati and Luisa Resendiz** from the American Team discuss dynamics in supply for US dairy products in 2022 and early 2023. They also give insight into the demand pulls affecting the region, including a look into the world's largest NFDM importer, Mexico.

Listen in to find out more!

Note: Podcast was recorded on 26/Feb/2023

Subscribe today!!

Curious to hear the Hoogwegt Dairy Spew talk about other regions? In other languages?

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

--- Hoogwegt Dairy Spew Team

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Episode Guide:

- 1:00** Introduction
- 5:40** US Milk Production
- 11:05** A Look Back at 2022 for US Products
- 13:35** 2023 Trends
- 19:05** Mexico 101
- 23:49** Demand and Supply Dynamics on Futures Markets
- 32:56** The Hoogwegt Hats Story