



Horizons.

Our insights
on Today's Global
Dairy Business

July 2024

#07

Page 3

Market Direction

A (Positive) Look At Global Milk Production.

Read more →

Page 5

Dairy Deep Dive: Powders & Cheese.

Page 12

World Comment.

Page 13

Hoogwegt Happenings.

Editorial Note.

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Dairy Society Papers.

Dearest gentle readers,

It is with the greatest of pleasures that we present to you our forthcoming newsletter, a veritable feast of insights and intelligence that would satisfy even the most discerning of minds.

Firstly, in our 'Market Direction' segment, we shall explore the intricate dance of Global Milk Production.

Our 'Deep Dive' will plunge into the realms of Skimmed Milk Powder, Cheese, and Whole Milk Powder. These dairy delights hold secrets and stories that we are most eager to unveil.

Turning to 'Whey and Derivatives', we promise a thorough examination of these sometimes overlooked marvels.

Mr. Neil Hunt graces us with his expertise in 'CME Futures', offering predictions and insights in CME Butter, CME Non-Fat Dried Milk and Class III Milk that will surely be the talk of the ton.

Our 'World Comment' section features the esteemed Miss Carey Yu, Commercial Market Analyst for Pacific Dairy Ingredients. Her acumen and analysis will provide a global perspective that is not to be missed.

Lastly, 'Hoogwegt Happenings' will keep you abreast of the latest developments and events within our very own circle.

Prepare yourselves, dear readers, for a journey through the realms of dairy, guided by the finest minds in the industry.

Yours most sincerely,

Hoogwegt Horizons Editorial Team

Market Direction

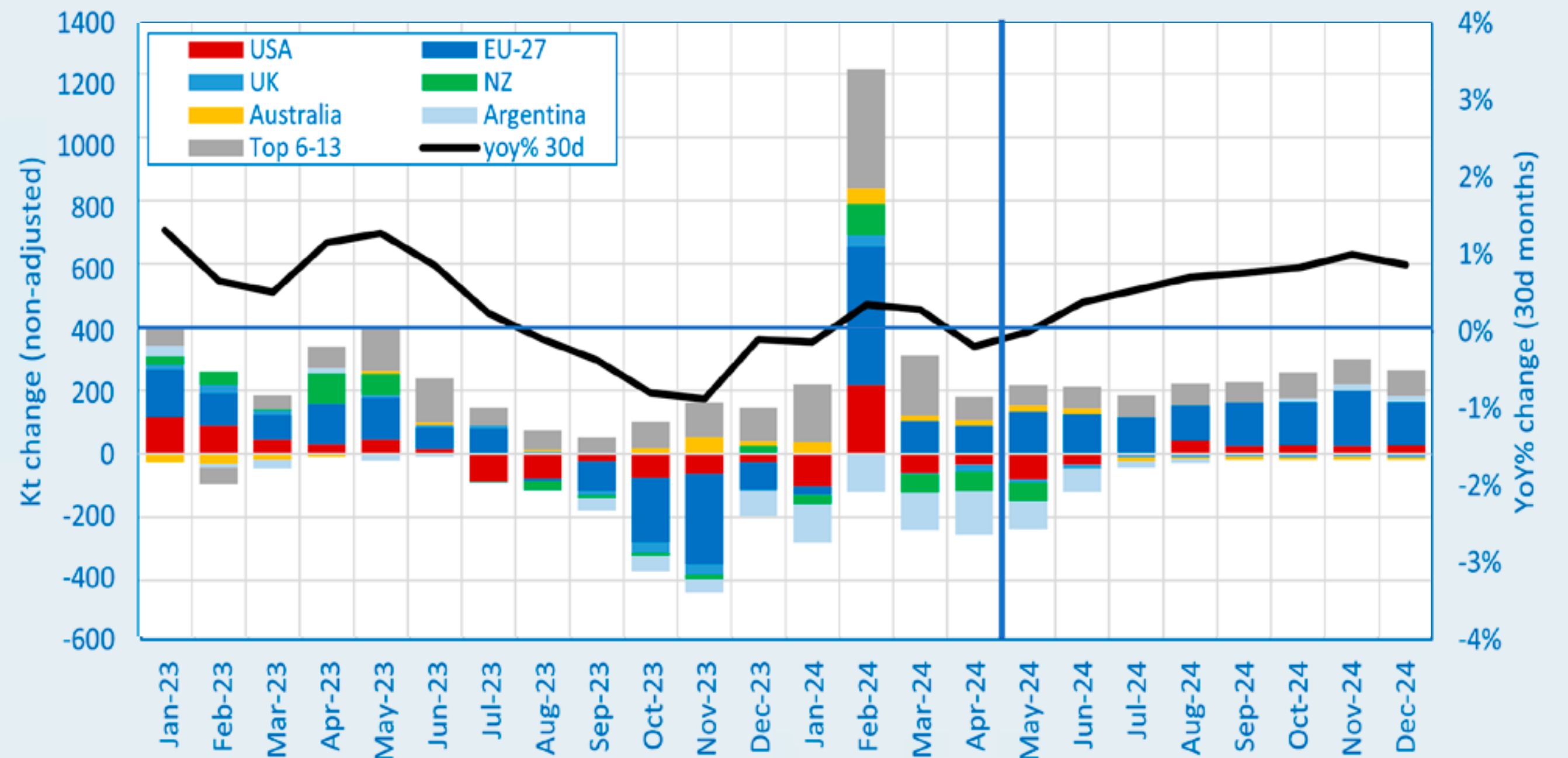
A (Positive) Look At Global Milk Production.

Current milk production from the top exporters should be mildly positive by now. Latest data on collected milk reports based on the complete European milk production for April, and the US and NZ are running a month ahead of Europe. Europe continued to track positive, the US still struggles and so did NZ, as compared to last year. Argentina stands out with negative numbers.

Europe production is mixed, with Eastern Europe seeing pretty favorable growth, powerhouse Poland excels in strong growth, April registering a 4.3% growth in milk solids, May exceeded that with a 7.6% growth in milk solids and 5% growth in milk production. Southern European countries are overall growing too, and mild growth in Germany outweighs the struggles that Ireland, the Netherlands and the UK have. France displayed a close to neutral +0.1% YoY growth. Overall, margins should be better than last year's, the weather has been wet but some regions are now facing a heat wave, and the political climate is a wait and see in terms of future environmental restrictions. Denmark seems to be adding restrictive policies in taxing cows, while the Netherlands has installed a new government including a pro-farmer party. Since the comparable months towards the end of the year were very weak last year, we expect a continuation of positive milk growth in Europe in this calendar year.

[more →](#)

Top Exporters Milk Production

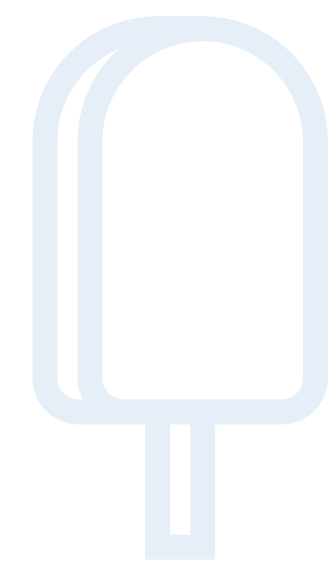




→ continuation

The US registered a stronger than expected negative number for May: -0.9% YoY. While slaughter is still very low, replenishment cows aren't added either, so the herd is still negative compared to the same month last year, and on top of that, the yield per cow isn't great. There is a discussion around Bird Flu and the effect it has on milk production, but the overall data still doesn't seem to show significant effects in the affected states. The US too is facing the weaker numbers from last year, so there might pop up some green lights on the horizon.

In NZ, slaughter numbers had another uptick as compared to last year. The pasture growth level (30d rolling average) is average and comparable to last year. But it's winter in the Southern Hemisphere, so in an absolute sense, that doesn't matter all that much, and all eyes are on the coming season. Given the dependency on weather for the Kiwi way of farming, that still is a bit of a casino currently.



Dairy Deep Dive

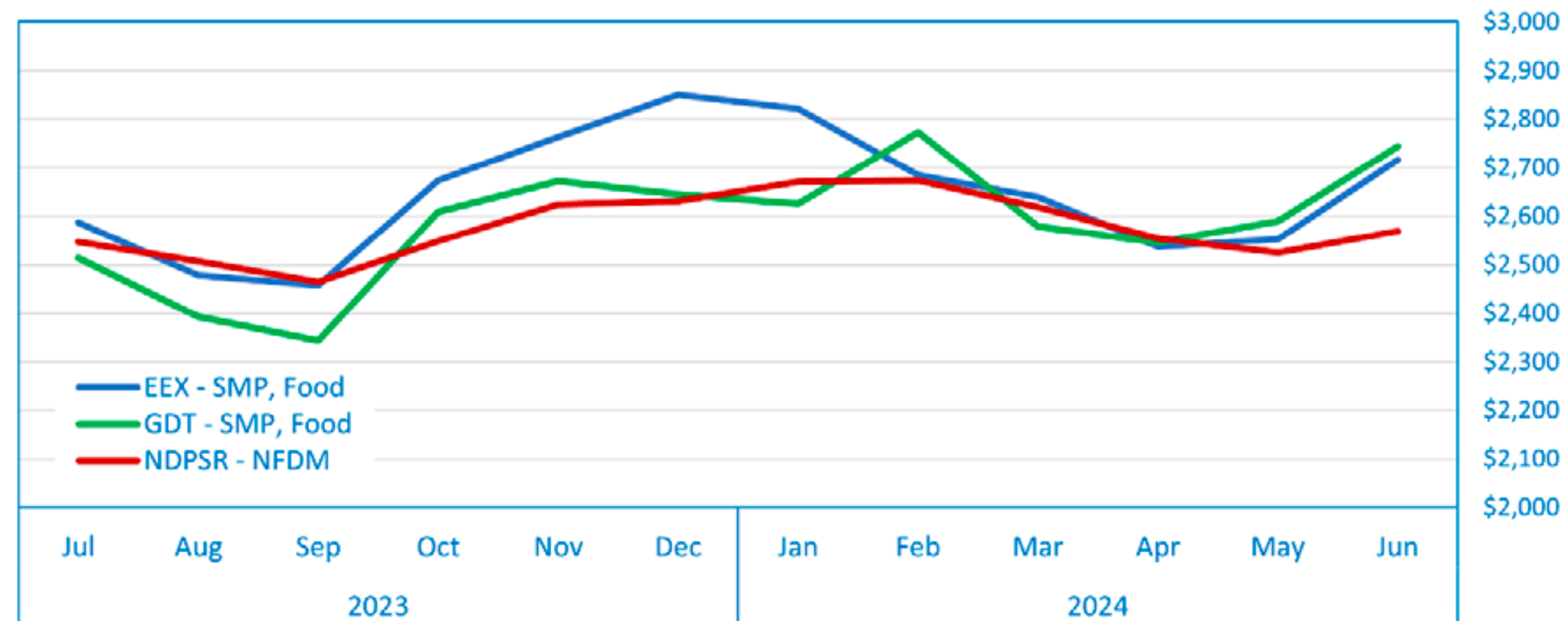
Powders & Cheese.

The SMP/NFDM price levels have been moving range bound for the past months, as the low production and low stock levels in the North, is balanced with the fair NZ availability and low demand in the East. Competition between the three main suppliers for market share has been strong, and other alternatives provided sparks here and there, with Belarussian and Australian product popping up in N-Africa and SE Asia respectively.

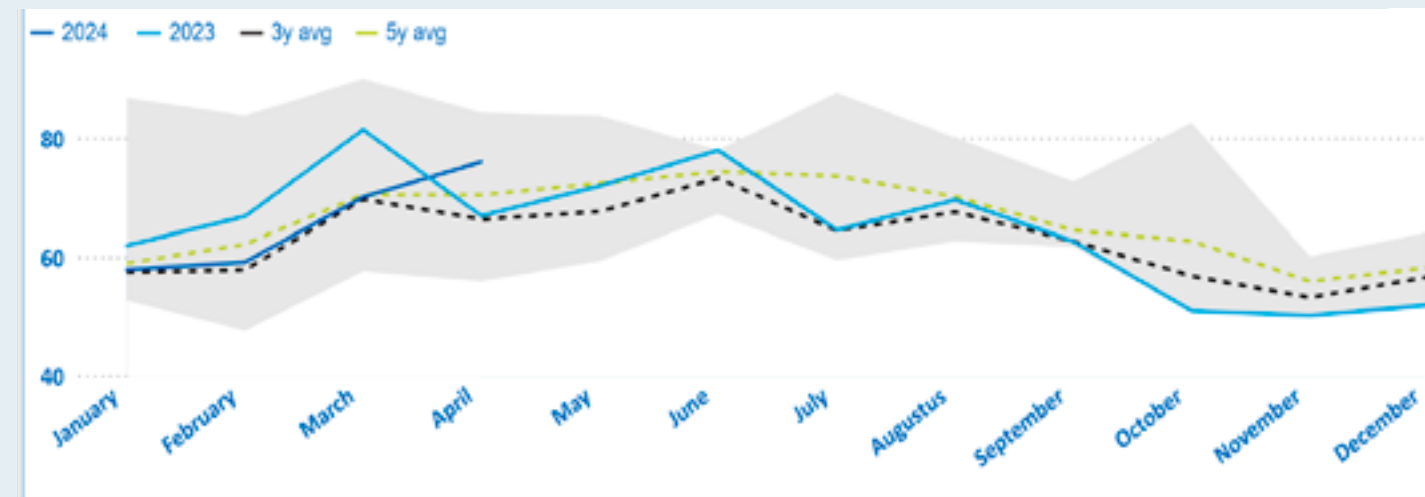
The US production continued to be low, exports were average, but the stock level showed a pretty interesting increase, it is on the watch- list as it could indicate several things: , a revision; , very low domestic use (specifically for April);, or a stock report while some of the use was still "tussen wal en schip" (pending between shore and ship) as we Dutch tend to say. The May report should provide more insights.

European production is also still not far above neutral. Milk production has improved and although butter prices have increased (which helps the valorisation of the SMP + Butter combo), Cheese, except Cheddar, still seems to be the better valorising product. Last year, we saw SMP production drop in April which started the streak of low production, so the comparable months are relatively weak. Thus, a neutral number still isn't great.

SMP/NFDM Price History in USD/t



**SMP (Food) (HS:040210) exports
European Union (27 Countries), 2024**



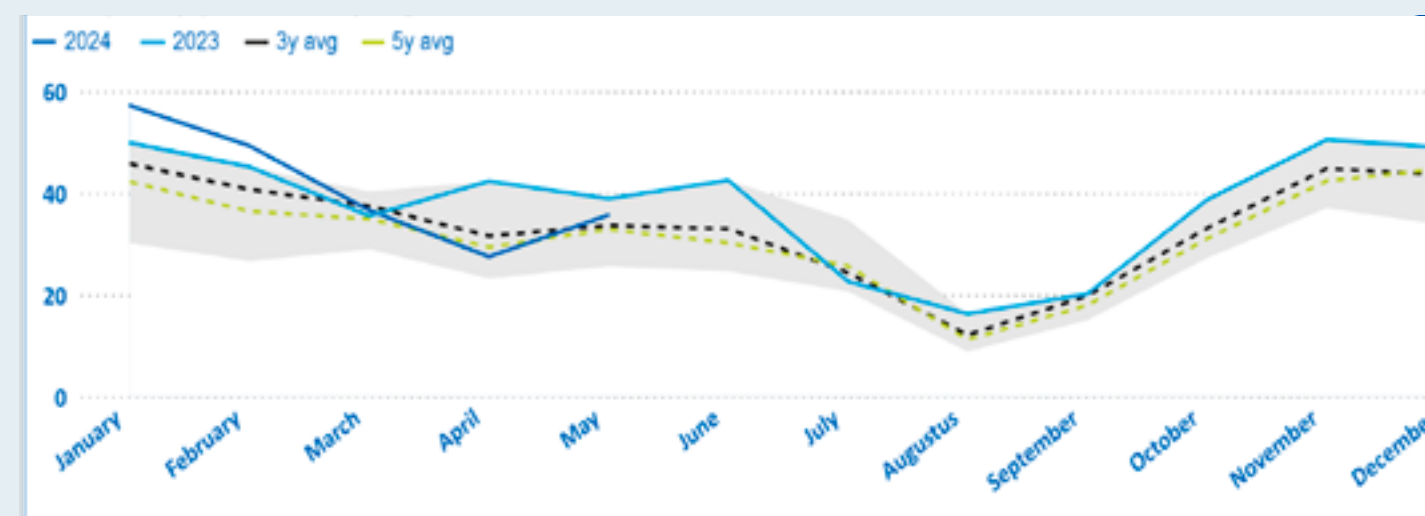
Given the fact that in NZ SMP+Butter still valorises better than WMP and Cheddar, NZ should continue to report a product mix that favors SMP. But note that limitations in the peak months still exist. May exports saw an increase over April, but were below the very strong May exports of last year.

As stated, NZ is in their winter season now and that usually means a drop in their market share, which could help the US and Europe temporarily. But they should be back in September and in the meantime, the summer import demand is usually on the lower end because people are enjoying their holidays. And who can blame them?

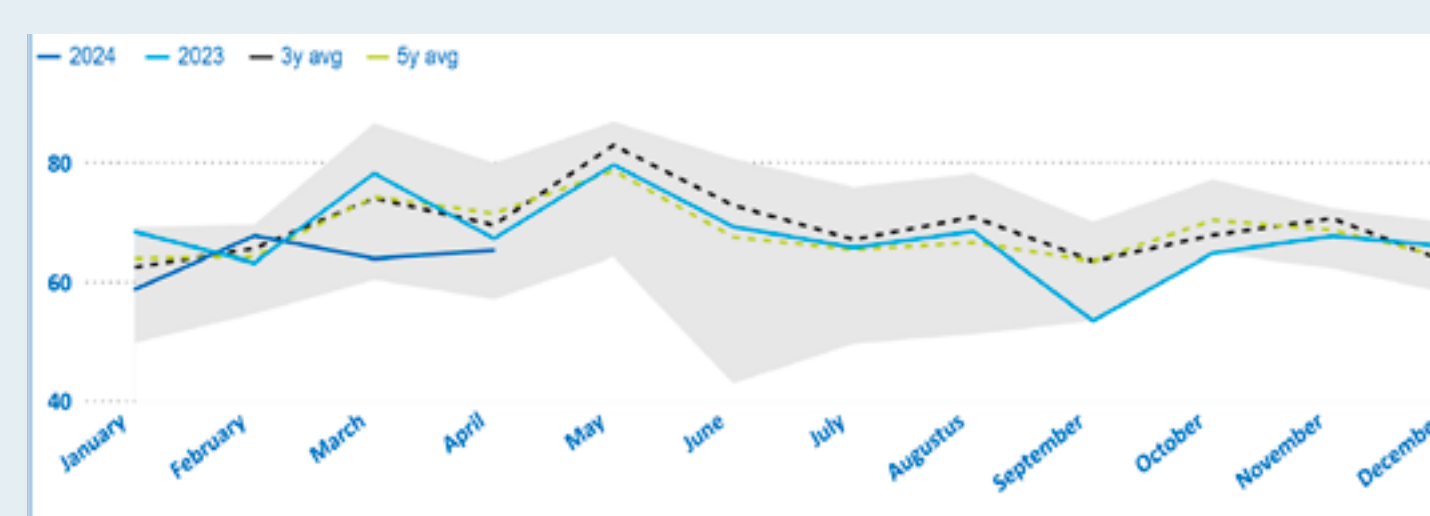
Europe had a reasonable April export numbers thanks to N- African and Middle Eastern import demand, of which Europe seems to be depending on, and the US April numbers were weaker than the 3- and 5 year average and below last year, reporting 2Kt less than last year.

Looking ahead, it's not an insane take to expect supply and demand to be in balance, indicating that the range bound theatre could continue, but keep an eye on the milk production in Q4. One of the ingredients of the past range bound months was struggling milk production, and Q4 should be stronger than last year based on current knowledge. Stronger demand can of course outpace that as last year's demand was below average from September onwards.

**SMP (Food) (HS:040210) exports
New Zealand, 2024 - Exports in tonnes x 1000**



**SMP (Food) (HS:040210) exports
US, 2024 - Exports in tonnes x 1000**



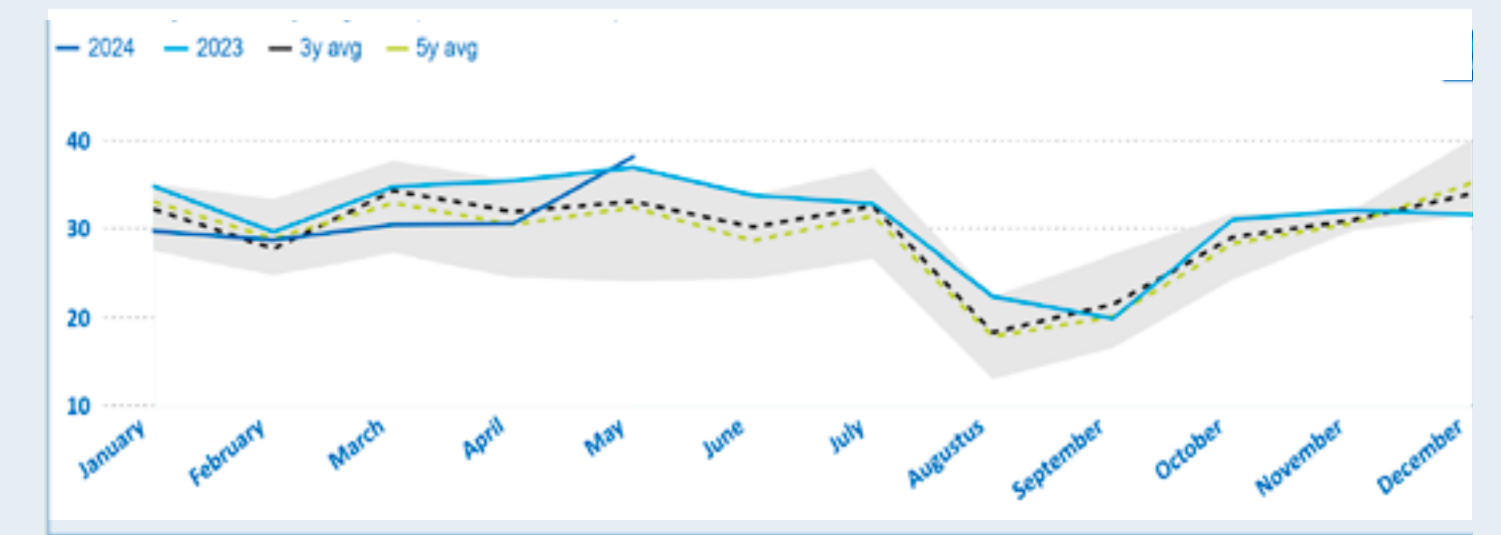
Say Cheese!

Cheese production in the US was +1.8% stronger than last year in their April report but stocks were significantly lower than last year in the May and April reports.

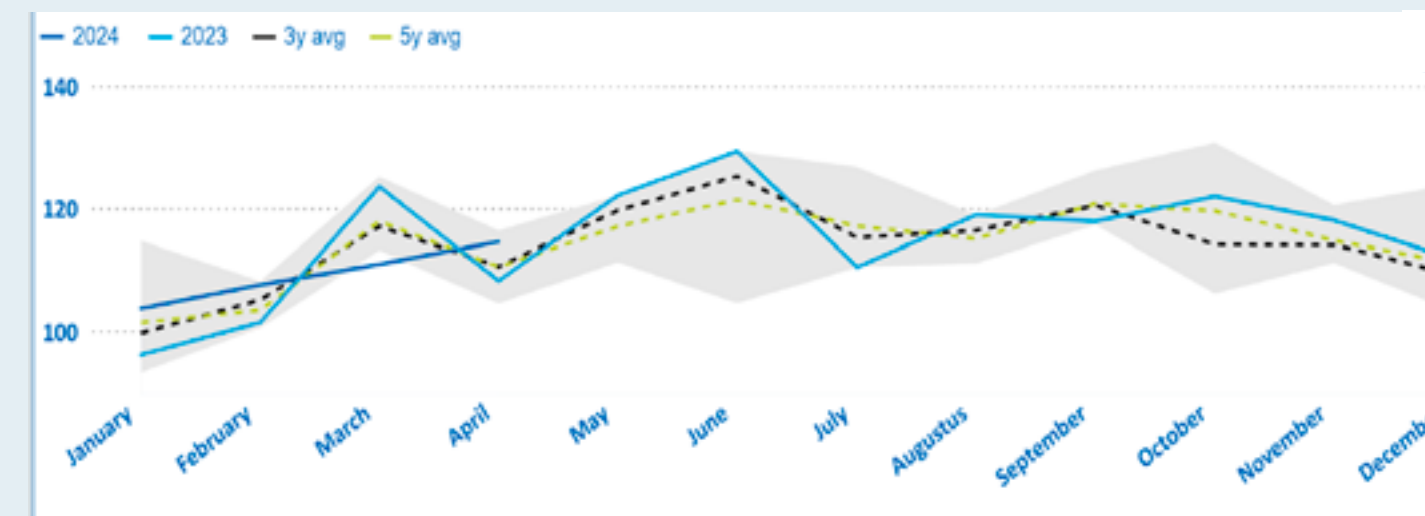
In Europe, cheese production also has been strong relative to the milk production but their stock report is still pending. Note that Europe only estimates their stock level quarterly and the upcoming report should estimate March stock levels.

Exports out of the US registered several strong months, but earlier in this calendar year, the US offered at a very competitive price level compared to Europe and NZ. That gap has now decreased. Nonetheless, April continued to be strong due to stronger demand from Mexico.

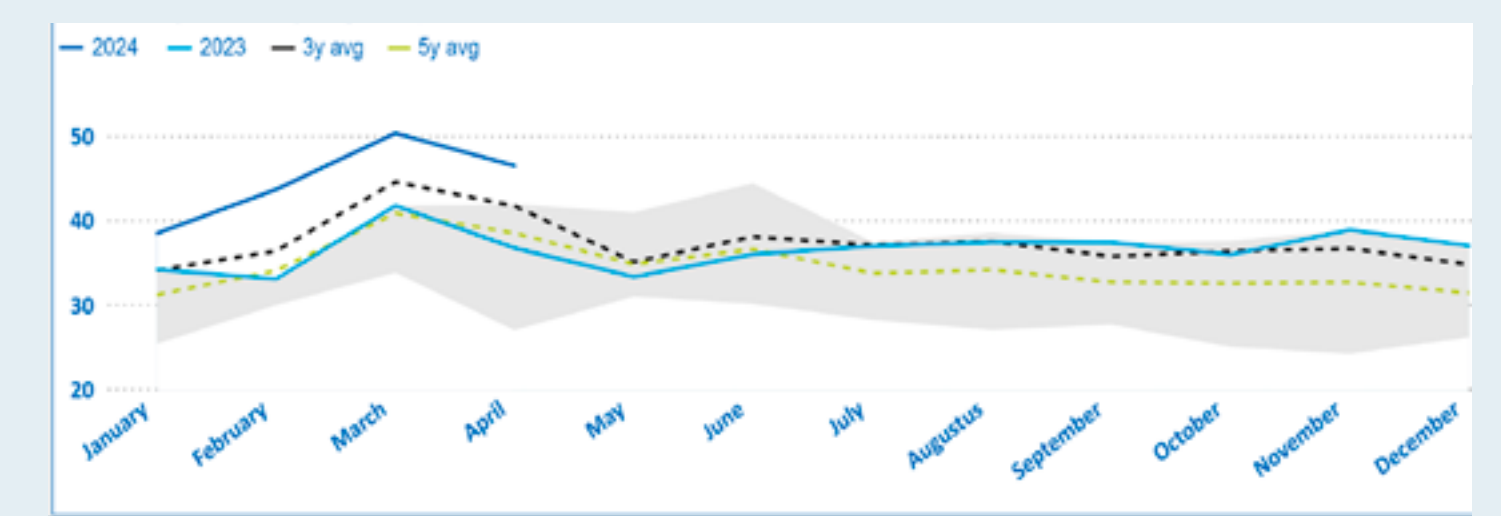
**Cheese (HS:0406) exports
New Zealand, 2024 - Exports in tonnes x 1000**



**Cheese (HS:0406) exports - European Union (27 Countries)
2024 - Exports in tonnes x 1000**



**Cheese (HS:0406) exports
US, 2024 - Exports in tonnes x 1000**



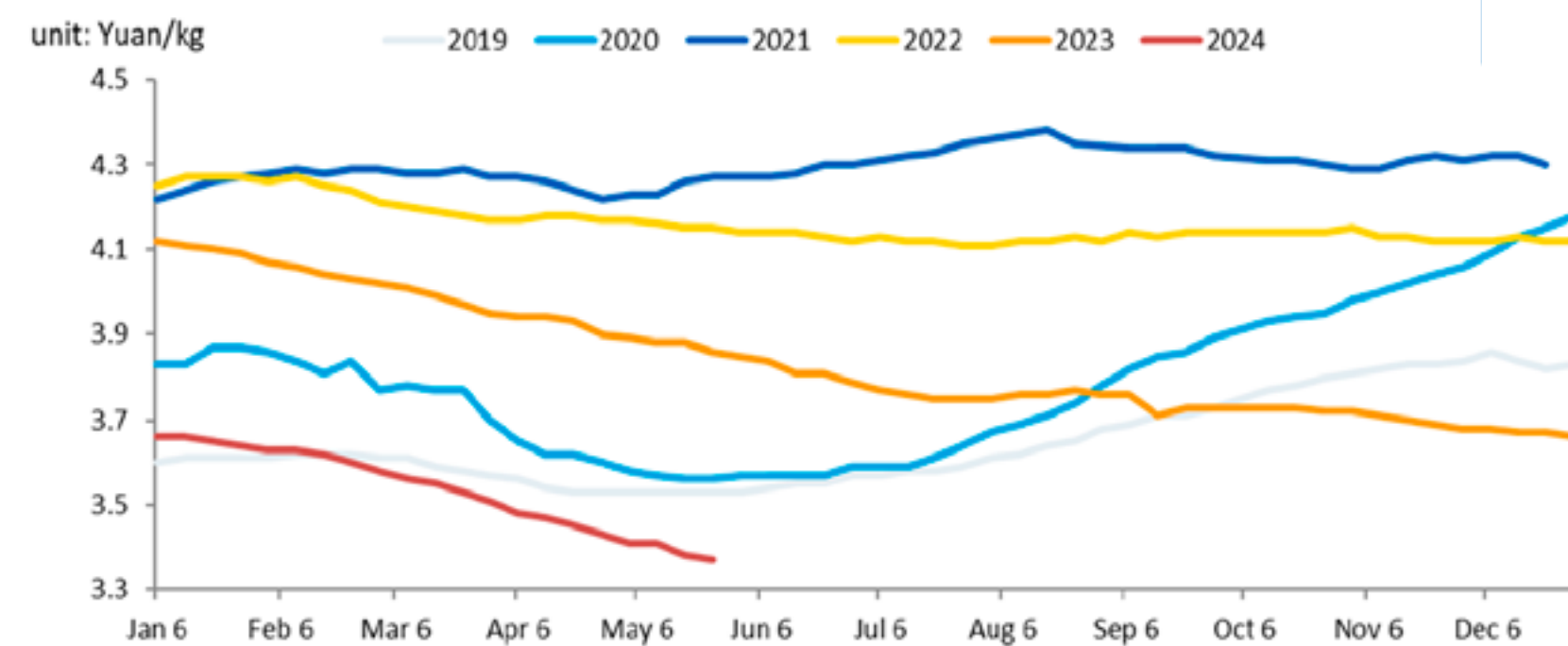
WMP

Let's start with some thoughts on China.

China's milk production should just pass seasonal peak in mid May. The country's average farmgate raw milk prices in top ten producing provinces slid by -0.06 Yuan/kg MOM to 3.37 Yuan/kg in late month (-12.7% YOY), hitting the lowest in recent five years. 80% of farms are losing money due to reducing milk prices, leading more small-to-middle farms to phase out, as well as rising slaughter rates and slowing growth in milk production.

On the supply-side, one cannot ignore the struggling South-American milk production affecting the production of WMP. In NZ, we already see the mentioned SMP+Butter favorable valorization over WMP, so NZ producers would see the incentive to increase more SMP+Butter/AMF and less WMP. Relatively speaking, production of WMP shouldn't be great. In an absolute sense, the Southern Hemisphere where most WMP is being produced is also in their winter. With production not being great, the same could be said about demand.

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).

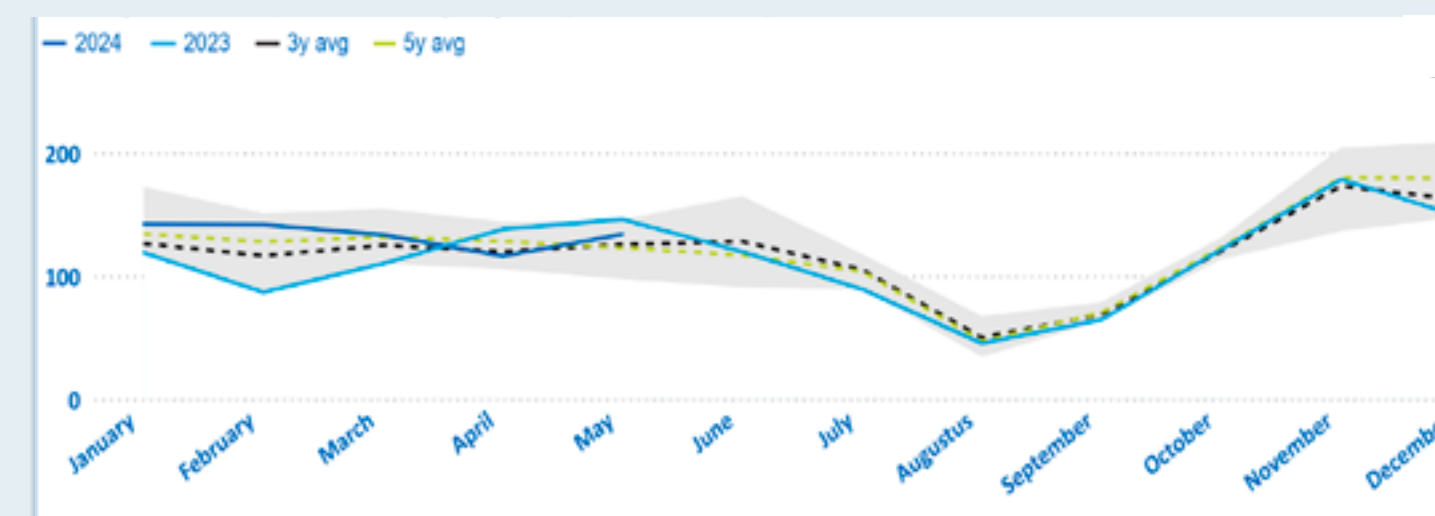
data source: China's Ministry of Agriculture

NZ just published their May report on exports and while it's above the 3- and 5 year average, it's still lower than last year.

In conclusion, the WMP availability and level of unshipped WMP in NZ could well be lower than last year's end of season. South American availability and stock level should also be lower, even though domestic use struggles due to current economic turmoil, it's hard to outpace a double digit decrease in milk production and thus far, an increase in YTD exports out of Argentina.

China hasn't been very active on this year's GDTs, and local production and acceptability has been good, the growth in local milk production should stagnate when normal economic laws apply given the low farm gate payout in China. Import demand for WMP doesn't have to be great to see tighter supplies.

WMP (HS:040229) exports New Zealand, 2024 - Exports in tonnes x 1000



Bulls vs Bears...

On the bullish side:

- US Milk production continues to struggle, and the lower herd size is a problem for production to ramp up on the short term. And what's up with that Bird flu?
- SMP (and NFDM) production and stocks in the US and EU are still low.
- 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, and with milk production growth stagnating in China, who says they won't need to import more dairy/WMP further down the year?
- Expected global import demand turned lower for Q2, and to YoY-neutral in H2.

On the bearish side:

- European milk production turned to pretty decent growth given the circumstances, and margins in Europe and in the US should be better than the same months last year. And Bird Flu, is it really a concern?
- Demand, just doesn't look great. We see chocolate producers weary of producing big volumes given the still very high cacao price levels, affecting their demand for SMP and other dairy products. Butter saw strong demand but it is known to have customers who will buy less when prices get too high.

Things we watch:

- The ever-ongoing trade conflicts, geopolitical turmoil and environmental policies affecting production, trade and logistics.
- Inflation, volatile currency rates and of course, interest rates, as high interest rates incentivize farmers to pay off debt, rather than to invest in new stuff.

A Quick Note on Whey & Derivatives

US Dry Whey production

In April, dry whey production for human consumption increased slightly by 23,000 pounds compared to April 2023, marking a 0.0% year-over-year change. Although production has risen each month in 2024, April's increase was the smallest, reducing the year-to-date growth from 2.6% in March to 1.9% in April. However, from March to April, production saw a significant boost of 4.4% or 3.2 million pounds, surpassing the five-year average monthly increase of 1.1%.

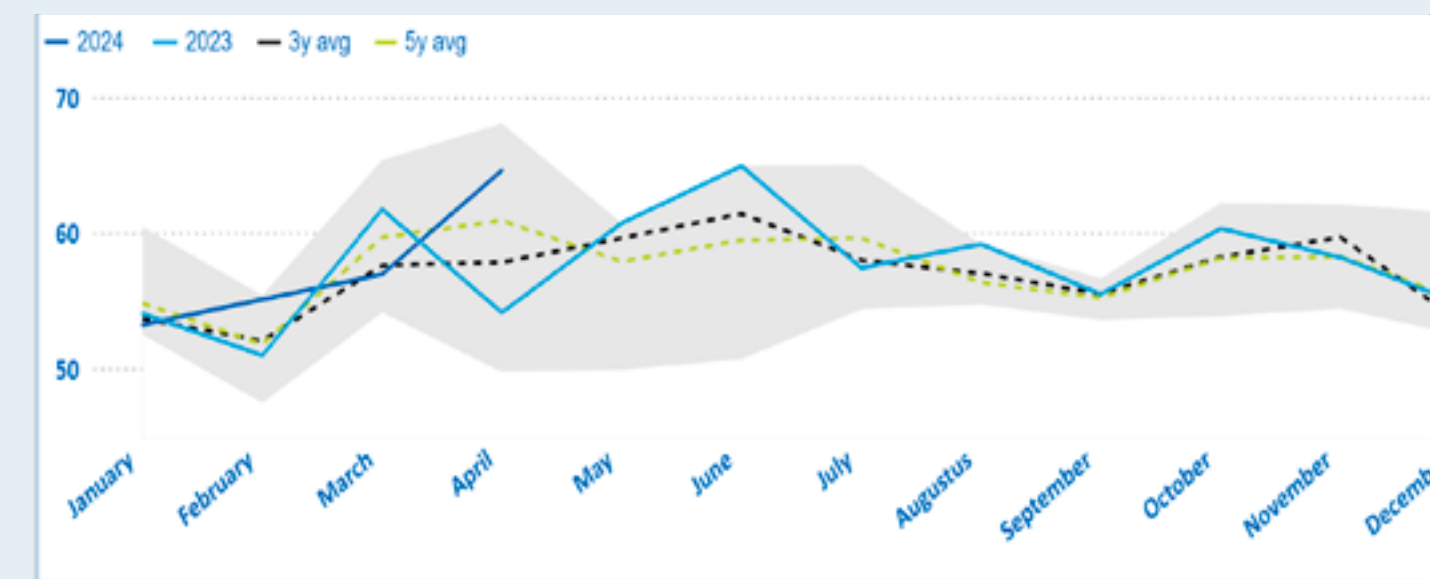
Conversely, whey stocks decreased both monthly and yearly. Typically, inventories rise from March to April, but this year saw a counter-seasonal drop of 8.1 million pounds (-10.7% month-over-month). Additionally, days in inventory fell from 31.6 to 27, a notable decrease.

Note that Europe doesn't report their whey production on a monthly basis but Cheese production overall was stronger than last year. This would be an indicator on whey production.

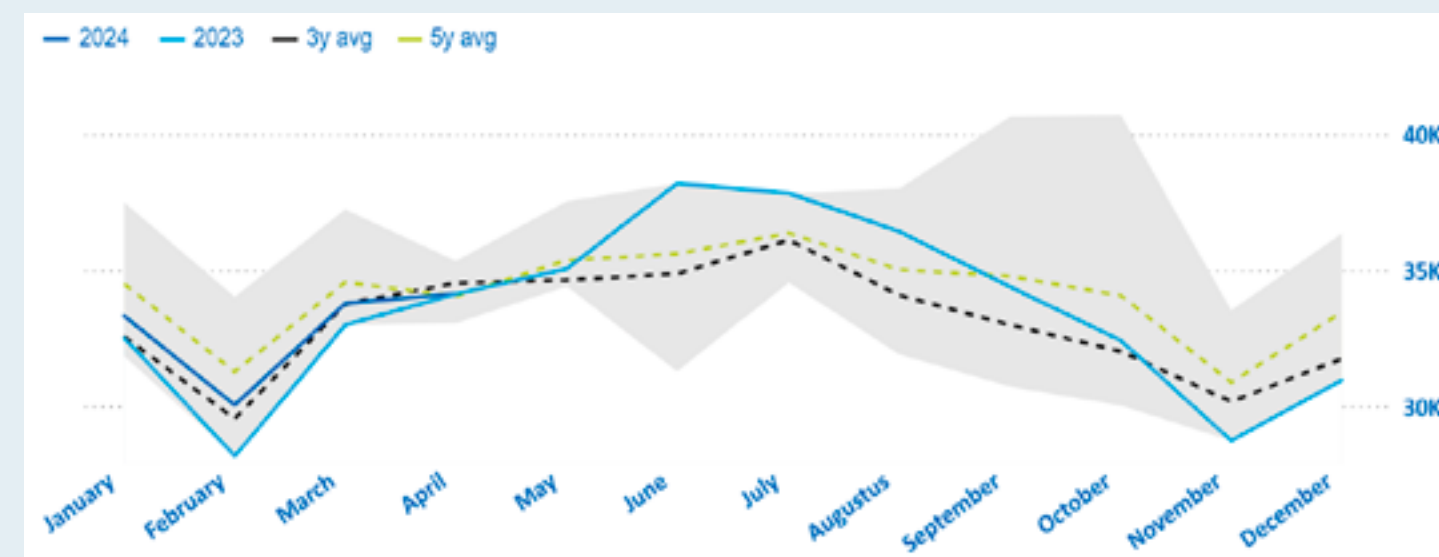
Demand side:

Domestic Use for Dry Whey has been pretty strong, in the US, compared to a weak base last year. Exports out of Europe saw a strong April figure, stronger than March and above average and last year's weak April.

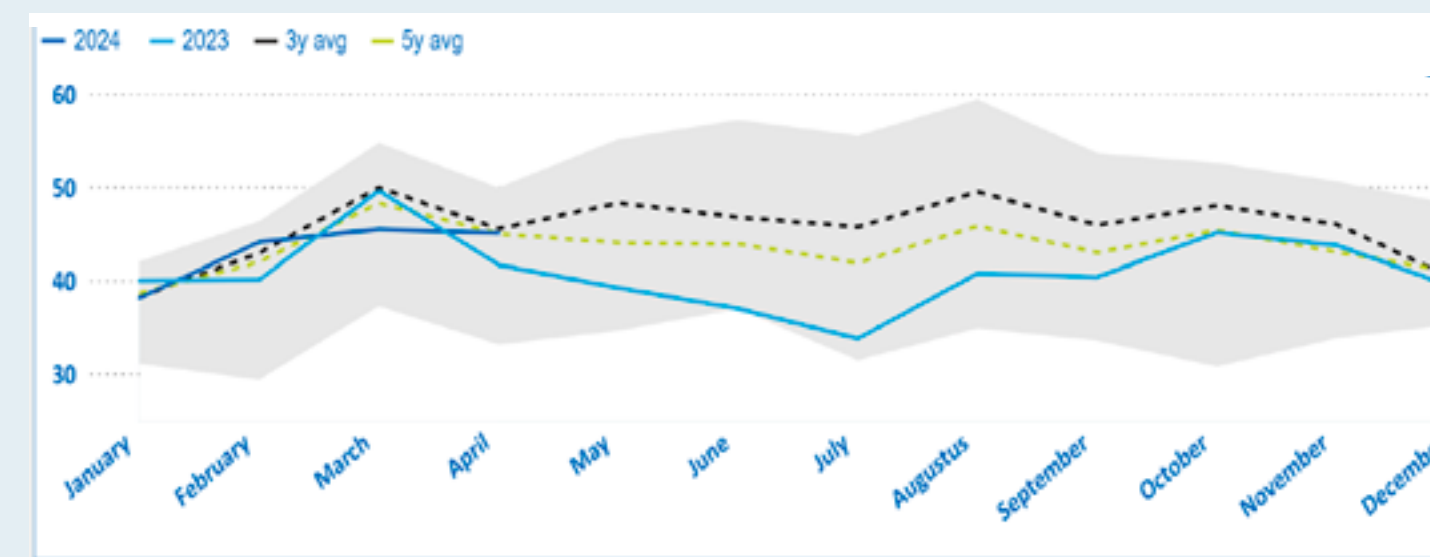
Dry Whey (HS:040410) Exports, European Union (27 Countries), 2024 - Exports in tonnes x 1000



Dry Whey Production (MT) - Exports in tonnes x 1000



Dry Whey (HS:040410) Exports, US 2024 - Exports in tonnes x 1000



Futures

By: Neil Hunt, Derivative Trader, HTM/AM

CME Butter

The chart shows CME Spot Butter with weekly bars spanning the past 3 years. Since our last update on the CME in the Apr24 Issue of Horizons, we have formed a sustained uptrend channel beginning with the breakout above \$2.75 per lb. in late January 2024. This orderly uptrend has tested and held the 10 week simple moving average a few times taking prices to \$3.125 currently. Butter has caught a wave up upward momentum, and it continues to surf! The trend higher has bucked Q2 seasonality where even as we have seen Butter stocks build, supply of bulk Butter remains limited. The forward futures curve tells a similar story, with a sustained uptrend currently projecting Q3 Butter prices at \$3.15 per lb. Peak pricing is expected in October as Cream tightens seasonally in the Summer, and the futures curve projects a fall off in pricing back to \$2.94 per lb. by the end of 2024.

Class III Milk

The chart shows CME Class III Milk Futures on the 3rd continuation contract in weekly bars spanning the past 3 years. Since our last update in the Apr24 Horizons issue, Class III Milk held the lows of \$15.50 per cwt., broke out above longer term trendline resistance at \$18.00 per cwt., and now sits at \$20.00 per cwt. We are currently having our first test of the 10 week simple moving average since the breakout in mid April.

Short-term fundamentals support the move higher, with concerns of H5N1 Bird Flu spreading throughout the US Dairy herd, Summer heat limiting Milk supply, and Cheese and Dried Whey demand steady. However, the forward futures curve shows an inversion, with lower prices projected by the end of the year. With new Class III production facilities expected to come online in 2025, steadily increasing supply may ultimately limit further upside potential, forming a future price ceiling for Class III Milk.

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 \$1.25 per lb. would signal an end to this now nearly 18-month consolidation. The forward curve is currently predicting average prices of \$1.23 per lb. in Q4 2024, and \$1.27 per lb. in Q1 2025.

CME Spot Butter (Weekly)



CME Spot Non-fat Dried Milk (Weekly)



CME Class III Milk Futures (Weekly)



World Comment.

Carey Yu
Commercial Market Analyst
Pacific Dairy Ingredients



I joined Pacific Dairy Ingredients (PDI), the wholly-owned subsidiary Hoogwegt in China, on March 1st, 2018, and started the new journey together with PDI on the same day PDI moved to the current beautiful WeWork office.

Since mathematics is my favorite subject, I worked as a market analyst for major commodities like steel and coal previously. And then PDI came across me at the time I wanted to restart my career when I got interested in dairy since I wanted to choose a good infant formula product for my baby daughter. Aha there is no story without coincidence!

However, at the beginning I found it very challenging being a dairy analyst in China because there was almost no valid local data/price published which could be analyzed except imports data... That's why people say that the China market is like a black box, and it took me years to source, consolidate and build the data base for China dairy market even till now.

But I think we can understand the difficulties of getting the national statistic figures like dairy production in China considering traditional farms were small family-run ones with limited cows back then.

However, big changes happened in the China dairy industry 3-4 years ago when the government decided to improve milk self-efficiency. Huge amounts of money were invested in building large cow farms, leading milk production to increase rapidly and turn into oversupply. Raw milk prices were reduced for two years and, so did the demand for dairy imports.

80% of China dairy farms are losing money now which has caused rising cow slaughter rates. Would it change the current milk oversupply in China? I believe market analysis could

help find the answer—not this year! Cow numbers and milk production are forecasted to keep increasing in 2024 at a slower rate compared with previous years, still leading to more supply than demand.

As we all know, the market is always driven by supply and demand. Looking at the production, inventory and import data helps us get the idea of what happened on the supply side, while the consumption and export data could help explain the dynamics on the demand side, avoiding the noise of sentiment. That's the magic of market analysis!

However, statistical data are usually released with time lags, representing the past market situation. It is very important that every team member collects valuable real-time information from different channels and share views and forecasts for coming months, which points us to the right direction for the future together with market analysis.

Two years ago, PDI was able to get much tighter connection with the global team after the structure changes of Hoogwegt Group, which not only enhanced our knowledge and relationship with both China and global markets but also made benefits to our business.

The restructuring also provided me the chance to a larger stage of overseas markets, picking up each piece of different regions towards a whole map of global WMP market with the great support of our colleagues in all the regions to consolidate valuable data, information and market views. Really appreciate such a nice big family and so lucky to keep learning!

I am glad more and more clients give positive comments on our weekly and monthly market reports/presentations now, and hope to keep providing bullets to our business in the way of market analysis. I believe a well-cooperated team could unite toward a bright future together!



Hoogwegt Happenings.

IFS Broker Audit

We are elated to announce that all our entities passed the IFS Broker audit again! What's more, we received a higher score!

It is notable that we were praised for our higher Food Safety culture within the company. Great job Team Hoogwegt!

