



# HORIZONS

Insights on Today's Global Dairy Business from the Hoogwegt Companies



## Market Matters

# India's Milk Output Reaches 200 billion Kilograms

USDA estimates that India's 2021 milk collections will grow 2% to almost 200 billion kilograms (441 billion pounds). While output grew 6.4% per year, on average, for the five years leading up to 2018-19, growth has since slowed, according to statistics from the National Dairy Development Board.

The Indian dairy industry and its end markets are highly diverse. An estimated 52% of milk is processed, and 40% of that is processed by the organized sector made up of cooperatives and farmer-owned operations as well as large private companies. The unorganized sector of small private companies and milkmen processes the remaining 62 billion kilograms (136.7 billion pounds). The remaining unprocessed 96 billion kilograms (211.6 billion pounds), collected from 75 million to 80 million household and village herds with one or two cows, is consumed mostly as milk and ghee.

### Demand Increasing Rapidly

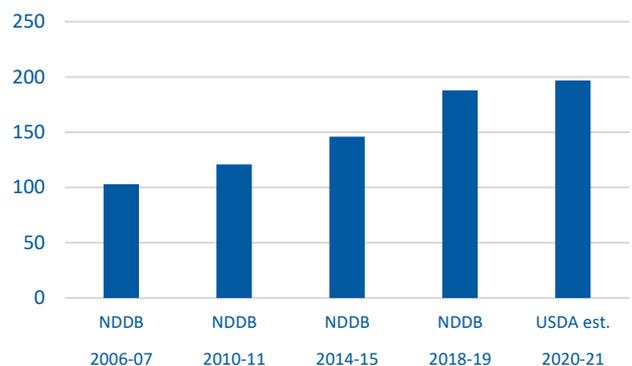
Milk volumes collected by the organized sector are growing quickly, and national demand is rising as living standards improve in India. USDA estimates 2020 fluid milk consumption at 81 billion kilograms (178.6 billion pounds). Using 18-20% of organized sector milk collections, 2020 skim milk powder (SMP) production is estimated at 660,000 metric tons (MT). Output of SMP has been rising quickly to meet growing demand for use in value-added dairy products.

India has a highly protected dairy market. Exports of SMP usually occur during supply gluts and are assisted by government subsidies, with most of these exports going to neighboring countries. India imports dairy commodities not locally produced, such as lactose and dry whey, and small volumes of specialty lines, such as milk protein concentrates, infant formulas, and ingredient blends.

Lack of feed and the country's low-input production systems have limited growth. Cow productivity has risen slowly, but the composition of the national herd has been changing. Expansion in the formal market and supply chain favors higher-yielding breeds that suit commercial dairy facilities.

India's latest national livestock census was conducted in 2019 after a seven-year interval. The survey showed that 59% of the herd was composed of cattle breeds, with the remainder buffalo. Exotic and cross-bred dairy cattle accounted for more than a third of the herd, growing 32% between surveys, while buffalo numbers showed little growth. Almost half of India's milk was estimated to come from higher-yielding buffalo. The expanding portion of the herd, exotic and other cow breeds, produced 8-12 kilograms (7-26 pounds) per cow per day, providing significant room for improvement.

India's milk output 2007 to 2021 (billion kilograms)



Source: National Dairy Development Board, USDA

India's recent lockdowns, imposed during two major waves of COVID infections, have had a profound effect on the dairy sector. During these lockdowns, a ban was in place on door-to-door sales of liquid milk by households, forcing them to sell milk to dairy cooperatives at much lower prices. Forced closures of some fresh dairy outlets as well as disruptions to collections and distribution also occurred.

Due to this, cooperatives were forced to dry substantially more milk, leading to a build in SMP stocks estimated at more than 200,000 MT. However, reopening of sales channels, recovery in demand for dairy ingredients, and adverse weather that slowed milk output averted any long-term impacts resulting from COVID.



# Hoogwegt Forecast

	U.S. Average Prices			EU Average Prices			Oceania Average Prices		
	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend
SMP	3.420	1,55	Firm	3.525	1,60	Stable	3.500	1,59	Firm
FCMP/WMP	4.080	1,85	Firm	4.400	2,00	Firm	3.950	1,79	Firm
Butter	4.720	2,14	Firm	6.000	2,72	Firm	5.300	2,40	Firm
Cheddar	3.970	1,80	Stable	4.650	2,11	Firm	4.600	2,09	Firm
SWP	1325	0,60	Firm	1.325	0,60	Stable			
Lactose	880	0,40	Weak						

U.S. prices stated ex-works/including expected CWT subsidy where applicable; world prices stated FOB main port; EUR/USD: this week \$1,162

## World Comment

Production growth has been somewhat disappointing in the main export regions, expecting a growth approximately 0.5% in July and August. And September figures are expected to be similar. The US has been presenting the best growth throughout 2021, but the drought in California is having its effect on the total growth in the US. Where its scoring just above the 0 mark for July and August. The total milk production in the US is still at +2% for this calendar year. But the herd is declining faster than average. Hence for 2022 growth below 2% is expected, also due to the strong numbers of 2021. Eu growth is expected to remain around the 0 mark, also given the tightness that is currently experienced in the EU. On the demand side China seem to become a bit more active than in the previous month. Where local trading prices seem to get closer to the world market levels. Stocks seem to be mainly with the larger and financially stronger companies, and less with the middle-sized companies. A scenario like 2014 doesn't seem to be close. Demand in the Middle East is decent, and Ramadan purchases are still to be expected. However, like in South East Asia, buyers are not keen on confirming the new prices.

## Bring it Home

# Challenging Times Ahead

The massive second wave of COVID infections, which peaked in May 2021, has subsided, but new daily cases remain in the tens of thousands. By late-September, India was reported to have fully vaccinated only 15% of its population, according to Bloomberg.

Due to COVID-driven supply chain disruptions, India's dairy industry is still working through surplus SMP, and state governments have pledged direct subsidies to support exports. India's foreign trade department has also extended a freight support program (announced in 2019) until March 2022, giving a 50% cost subsidy to exports moved by sea and a 100% subsidy to perishables exported by air. Between June 2020 and June 2021, India exported 17,400 MT of SMP, whereas two years earlier, it exported 43,000 MT.

Several positives from COVID have emerged. The Indian dairy industry has already increased its reach to consumers through

online sales. The prominence of dairy as an important food group to improve immunity to disease also grew, which will continue to drive greater demand for a range of domestic value-added dairy products including fermented yogurts, health drinks that feature milk, buttermilk, processed cheese, and ice cream. Local innovations in product form and packaging also improved access to and the affordability of fresh milk during this period by increasing the number of portion sizes. India's success provides a valuable lesson for other developing markets.

The government has an ambitious plan to grow the volume of milk processed by the organized sector to 40% of the total, or 80 billion kilograms (176 billion pounds), in the next few years. However, to improve farm productivity, instill sustainable practices, and enhance milk quality to meet the enormous unmet demand for dairy nutrition, the industry will need to overcome immense logistical and resourcing challenges.

## Did You Know?

India's top-seven dairy states, mostly in the west and north, accounted for 66% of reported milk production in 2018-19. Of these, Rajasthan added the most milk, growing by more than 10% a year in the latest five years of available data.

India's 2020 import volumes of lactose (a record-high 61,000 MT) and dry whey (12,900 MT) were the largest of all commodities traded.

The Gujarat Cooperative Milk Marketing Federation, which owns the Amul brand, is India's largest co-op, collecting almost 25 million kilograms (55 million pounds) per day from 18 regional milk unions, 18,000 village societies, and 3.5 million producers.

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