



# HORIZONS

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



## Market Matters

# Impacts of Stimulus Could be Long-lasting

Measures to control the spread of COVID-19 since February 2020 along with stuttering attempts to reopen economies have been highly disruptive for global dairy markets. The profound and long-lasting economic impacts of government policy responses could also have far-reaching impacts on dairy demand.

In the face of covid-19, the world needed a comprehensive and coordinated cross-country policy response to the shutdown of large parts of many economies. This included swift deployment of medical resources, policy interventions to restore the normal functioning of financial markets, and other measures to support firms and households. Governments generally responded with fiscal stimulus measures to support households affected by losses in employment and businesses facing revenue losses, but they failed to respond in a coordinated way. Their resulting policies varied widely in scale and timing and ranged from being highly supportive and stimulative to austere. The chart at right depicts the wide range of fiscal stimulus as a percentage of gross domestic product (GDP).

### Largest Stimulus Ever

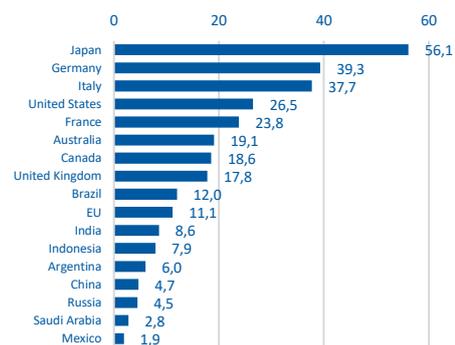
The stimulus was funded by the largest printing of money ever seen for a single event, including the global financial crisis. It is estimated that 40% of all money ever created occurred over the last year. The flood of new money varied across major developed economies but was most dramatic in the United States. The unevenness in these responses will shape the COVID consequences for the entire world for the next decade.

The rapid increase in liquidity drove interest rates to record lows, where they are expected to stay for several years. Increased liquidity was greatest in countries that experienced a massive decline in retail activity, employment, and mobility. Such a surge in liquidity can lead to waste and speculative investments as well as a rapid escalation of asset prices, followed by a contraction (or bubble) if underlying activity doesn't respond quickly.

Pushing such large amounts of stimulus to households to buffer their finances not only increased asset prices, both property and equities, but also massively lifted household savings. Personal

savings rates in the United States in March, for example, were nearly four times as great as the long-term average.

Fiscal stimulus as % of GDP to May 2021



Source: International Monetary Fund

Several factors have contributed to strong commodity price inflation. The restructuring of work life, spending of stimulus payments on household goods, and reopening of businesses have all put a drain on certain resources. Some governments and sectors have responded to the fragility of supply chains by building security stocks. This includes China's increased purchases of grains and oilseeds, which have coincided with weather challenges in production regions, as well as other resource commodities, all which have driven up prices. In addition to China's efforts, governments and companies worldwide have been trying to shorten supply chains and avoid undue exposure to just-in-time systems, further increasing near-term demand.

This inflationary surge is thought by many, including policy makers in central banks, to be transitory, because it is occurring when there is still considerable excess workforce and growth in wages has generally lagged upticks in economic activity. Yet the potential increase in spending of accumulated savings once U.S. and European economies fully reopen could unleash a surge in demand for goods and services, soaking up capacity and sustaining inflation for much longer than currently expected.



# Hoogwegt Forecast

	U.S. Average Prices			EU Average Prices			Oceania Average Prices		
	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend
SMP	2.845	1,29	Weak	3.050	1,38	Weak	3.350	1,52	Weak
FCMP/WMP	4.080	1,85	Firm	3.825	1,74	Weak	3.950	1,79	Weak
Butter	4.410	2,00	Stable	4.700	2,13	Weak	4.600	2,09	Weak
Cheddar	3.307	1,50	Weak	4.250	1,93	Stable	4.450	2,02	Stable
SWP	1433	0,65	Stable	1.310	0,59	Weak			
Lactose	1060	0,48	Stable						

U.S. prices stated ex-works/including expected CWT subsidy where applicable; world prices stated FOB main port; EUR/USD: this week \$1,194

## World Comment

New Zealand is showing a relatively strong end of the season and is well placed for a good start of the new season. However, sustainability limitations is expected to have impact on the growth in New Zealand, with nitrate reaching critical levels on the Southern Island. This is expected to limit growth to a maximum of 2% in the next season. The US is having an exceptionally strong year. But due to the high feed prices further growth towards the end of the year is not expected. These high feed prices also limits the production growth in the Northern hemisphere as a whole. But at the same time these high feed prices are balanced out by the good silage and corn quality in the EU. The growth figures in the EU in general seem to be healthy with acceptable farm gate prices. For the moment we don't see any big investments yet made by farmers to increase that output, but they simply try to max out production with their current herd. On the demand side China will be the most important factor again. We do expect for H2 2021 similar import levels as H2 2020, leaving the whole of 2021 at 8% import growth vs 2020.

## Bring it Home

# World Economies to Stage Uneven Recoveries

The International Monetary Fund (IMF) expects global economic growth in 2021 and 2022 to be better than earlier anticipated, due to additional stimulus measures and the rapid deployment of vaccines in key countries. Many of the world's developed economies are rebounding, but progress varies widely between the United States, the European Union, and Japan.

Economic recovery in the medium term across the world will remain uneven and impact the future of dairy demand. The sectors and regions scarred by extended mobility restrictions and lasting impacts on work practices and travel will recover slowly. Divergent recoveries will reflect differences in the speed and coverage of inoculations, government support, and reliance on tourism and informal employment.

China's economy has rebounded relatively quickly, and that has helped neighboring regions. The less-developed regions of Sub-Saharan Africa, South Asia, and Latin America face increased

poverty, which could take more than a decade to overcome. The Brookings Institute estimates 120 million more people (a 20% increase) will fall into extreme poverty in 2020 compared to pre-COVID levels, reversing strides already made to reduce poverty in these regions. IMF estimates 80 million more people will be undernourished as a result and expects food insecurity to remain a massive challenge well into 2022.

Caloric intakes and consumption of protein are closely linked to improving incomes, ethnic diversity, and living standards in developing dairy markets. Demand for dairy nutrition could suffer affordability challenges in coming years, as social inequalities become more apparent. To sustain dairy market expansion in these regions, processors and marketers will focus on innovation to address dietary benefits, portion costs, and viable product delivery systems.

## Did You Know?

The U.S. annual consumer price inflation (CPI) index jumped to 4.1% in April, while core CPI, which ignores food and energy prices, rose to 3%, the highest since 1996.

Acute shortages of some commodities such as lumber (home construction), semiconductors (home office computers), and aluminum, plastic, and cardboard (food packaging) are the result of changes made to daily living.

The IMF's April 2021 World Economic Outlook projects Asian economies will rebound sharply in 2021 and 2022. Latin America, Africa, and the Middle East will be slow to recover.

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