



# Horizons.

Our insights  
on Today's Global  
Dairy Business

August 2024

# #08



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## A Snapshot of Global Milk Production.

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# Editorial Note.

As the Summer Olympics captured the world's attention with feats of strength, endurance, and skill, we bring you a newsletter that mirrors this spirit of excellence and competition in the global dairy market.

Welcome to this edition, where we explore the dynamic movements and innovations in our industry.

**Market Direction** takes the lead with an in-depth analysis of Global Milk Production, uncovering trends and insights that shape our market landscape.

Next, our **Deep Dive** focuses on Skimmed Milk Powder and Fats, examining their pivotal role and impact within the dairy sector.

We then present a three-part **Quick Note** series, offering concise yet comprehensive updates on Whey, China, and EEX Futures (by Joris Thys). These segments promise to keep you informed on key developments and market nuances.

In our **World Comment** section, Mah Zi Ling, our Technology Specialist from Hoogwegt Global Services, shares her valuable experience and highlights the innovative projects she is spearheading. Her insights offer a glimpse into the cutting-edge advancements driving our industry forward.

Lastly, **Hoogwegt Happenings** celebrates our latest partnership between Hoogwegt US and Great Lakes Cheese. This exciting agreement aims to deliver high-quality WPC80 and Whey Permeates to our valued customers, reinforcing our commitment to excellence.

Join us as we delve into these topics with the same passion and dedication that define the athletes of the Summer Olympics. Together, let's champion the pursuit of knowledge and progress in the global dairy market.

Yours most sincerely,

**Hoogwegt Horizons Editorial Team**

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## Market Direction

# A Snapshot of Global Milk Production.

**US Milk production:** June registered a -1% dip in US headline milk collections. (USDA)

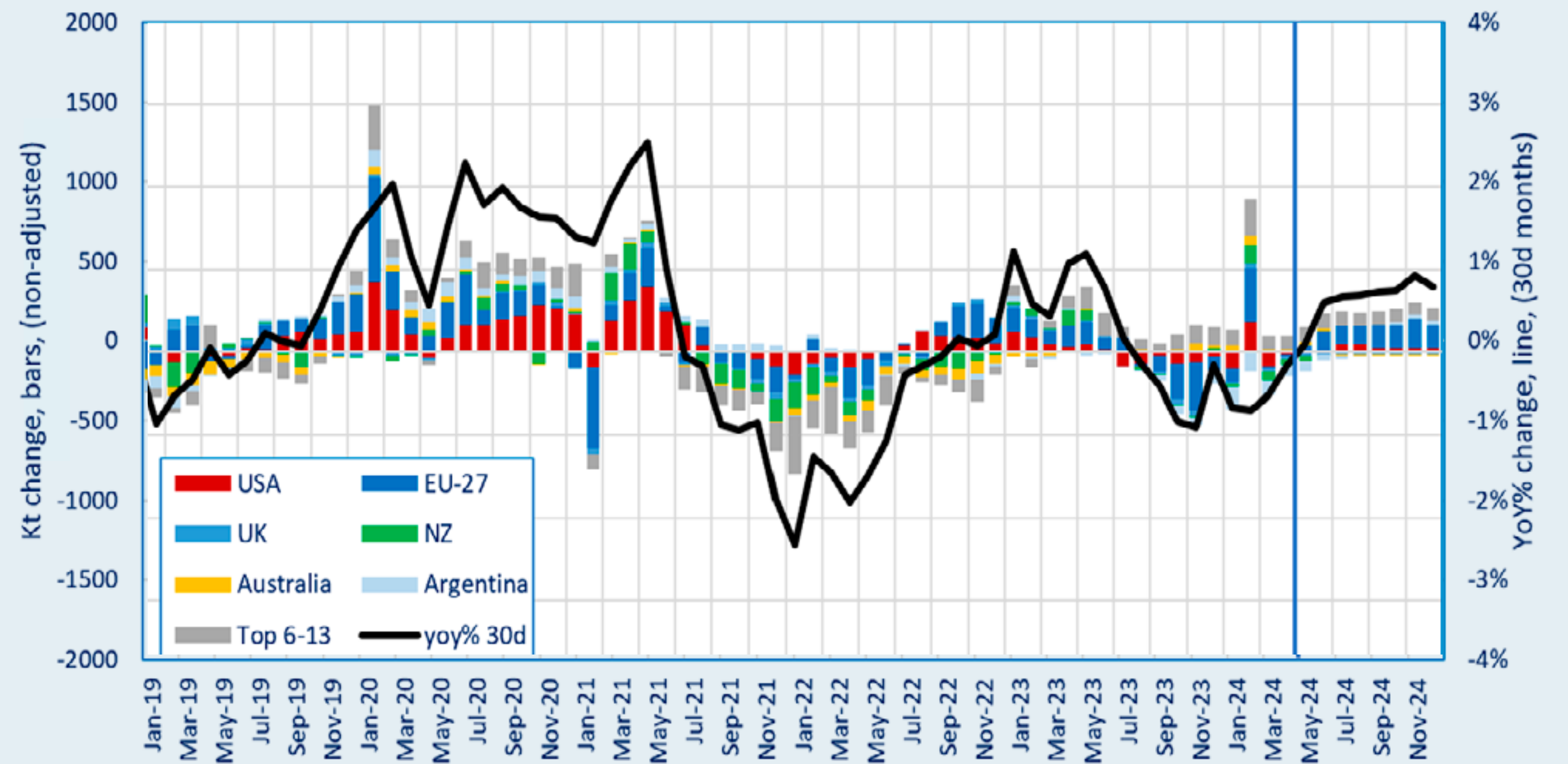
- Marking the twelfth consecutive month of year-on-year declines in US milk production.
- Milk production per cow experienced a decline of 0.3% compared to June 2023, while the herd size is still around 0.66% lower.
- Cow slaughter is still low, (YTD 250k less cows slaughtered) and has been low since September last year, but the replacement heifers aren't flooding the US either. Heifer replacements are expensive. As such, farmers are still keeping older cows, that might affect the yield per cow.
- Increased cases of Bird Flu but the overall impact on milk production still seems to be limited.
- July 2023 was the start of the weak streak, giving a lower comparable basis from July onwards.

**EU Milk production:** Latest official; May: +0.7% YoY. (Eurostat)

- Lower EU average fat content (-0.02pp), Protein content also down with 0.01 percent-point.
- Mid-July weekly figures are neutral for Germany, positive for France and negative for UK.
- Lower feed costs and better payout comparing to mid-2023.
- The weak milk production from Q4 2023 should be easier to beat in Q4 2024 since margins seem better compared to 12 months prior.

[more →](#)

**Milk Production From Top-13 Exporters**





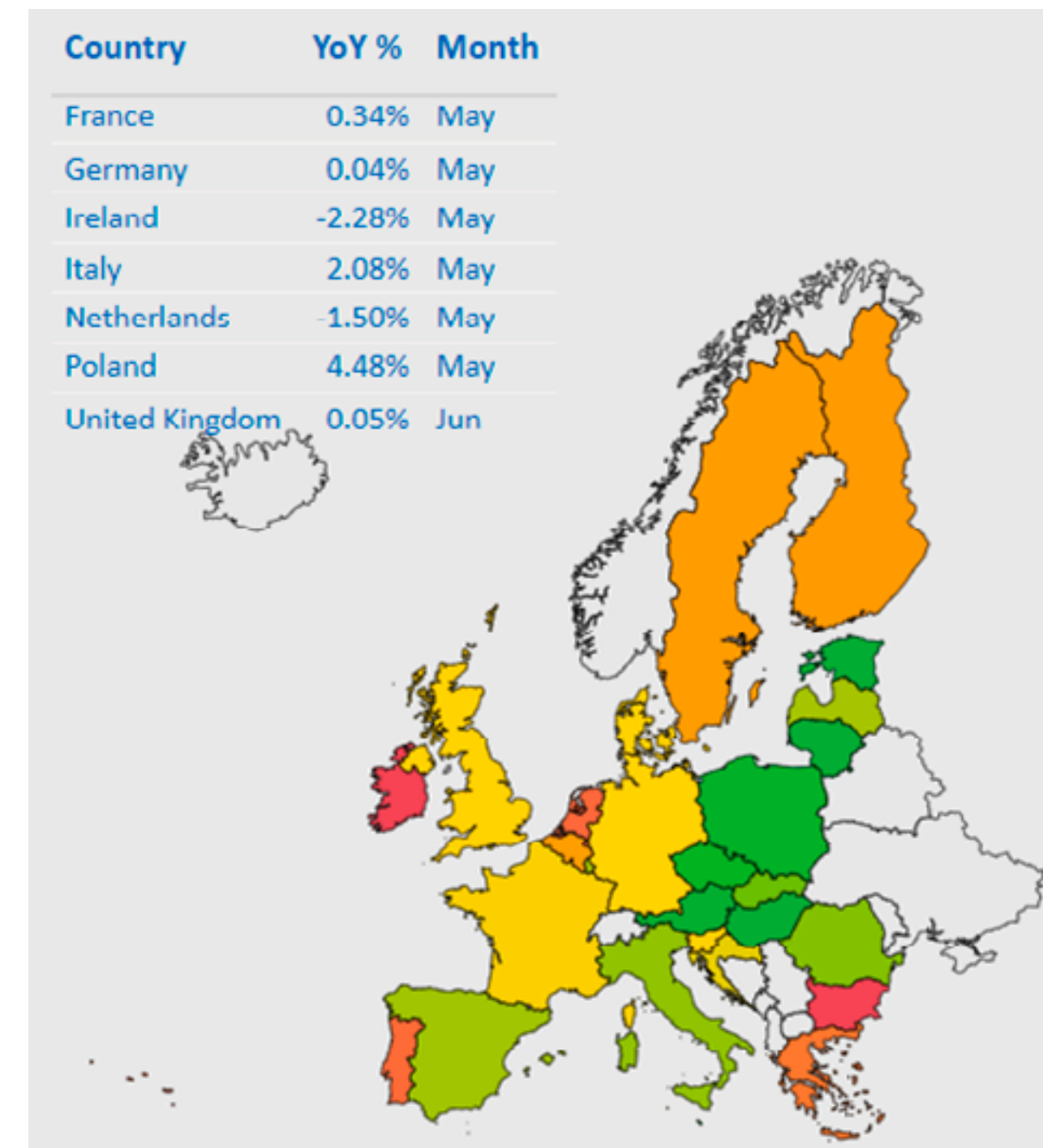
→ continuation

**NZ Milk production:** Latest official; Jun: -1% YoY. (DairyNZ)

- Cow slaughter is 2.8% stronger than last year (Jan-May), or 14.000 cows.
- PGI, for what it's worth, is neutral since its winter.
- Farm gate pay out still isn't great but should be better than 12 months ago.

**Others:**

- Uruguay -13% YoY in May, Argentina -7.1% YoY in June.
- Belarus +6.1% in May.

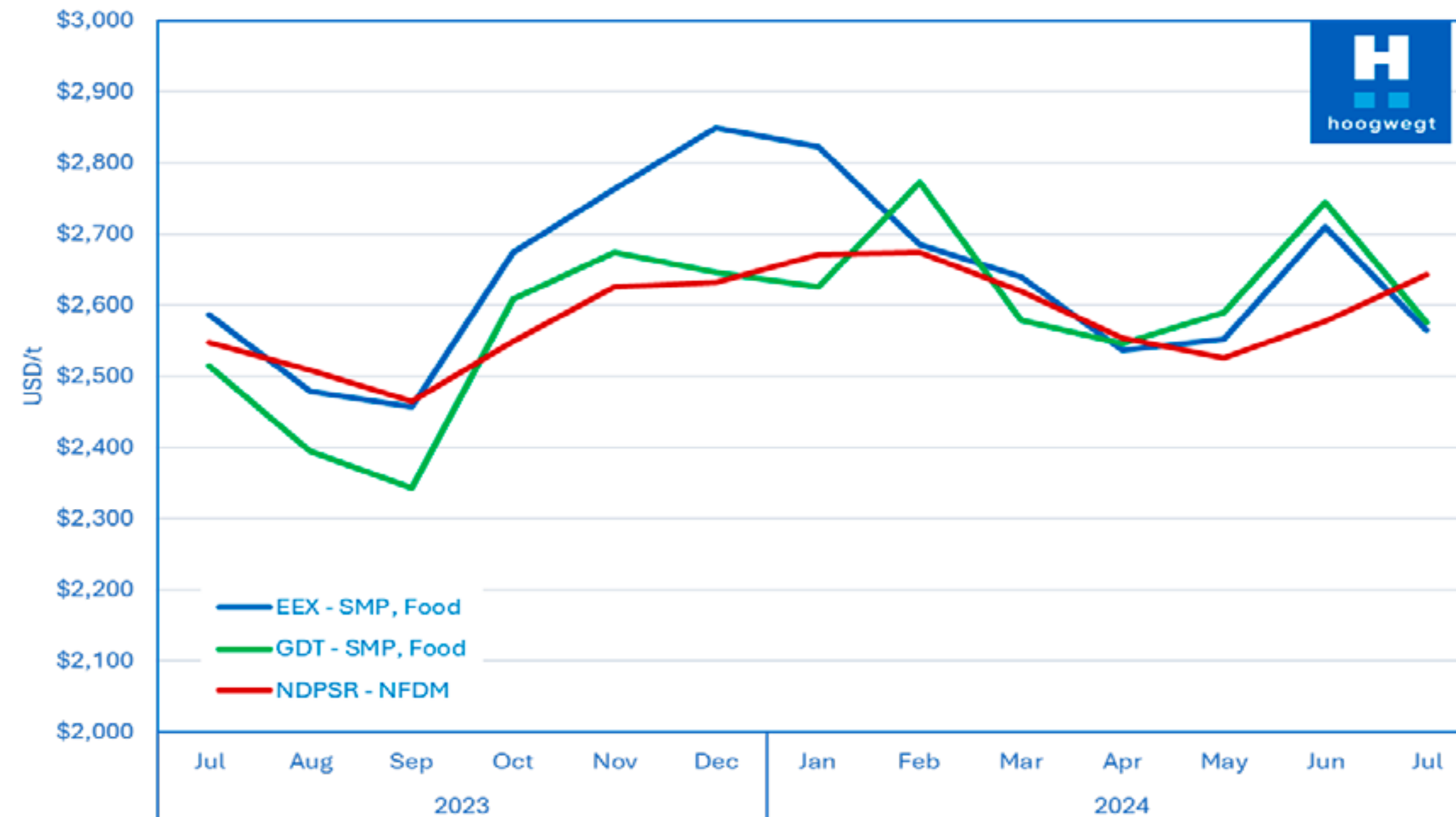


## Dairy Deep Dive

# The Economics of SMP + Fats.

Looking at the SMP/ NFDN prices for the last 12 months, it seems that prices bottomed in September '23, increased to 2850 USD for EEX, before easing to the 2600 USD level. Currently major exporters (NZ,US, EU) are still cheaper than most alternatives, and had a combined market share close to 90% in SMP trade, with the exception of parcels of Belarus.

SMP/NFDM Price History in USD/t



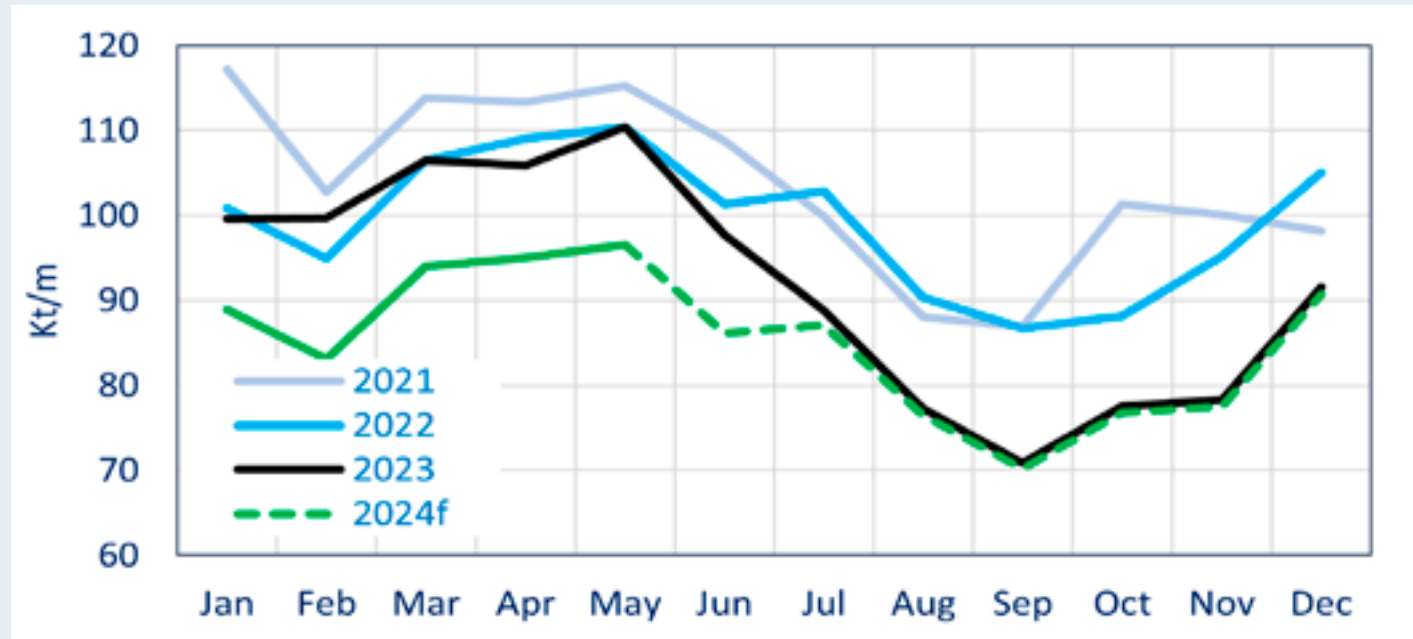
For the Northern Hemisphere, SMP/NFDM production continued to be in the lower range of the spectrum. For the US, the streak of low SMP+NFDM started in June 2023, and while milk production in the US should be closer to neutral, or even positive in the second half of 2024 and start of 2025, some of that milk growth could flow to cheese production.

Note that California, an important producer of SMP/NFDM has seen a below average milk production, Asian demand for SMP hasn't been great; Mexican demand was ok, but not great either reducing the incentive to produce. All in all, we're expecting that the US production should remain on the lower end of the range, but what could help production is the expensive fat.

- Other July averages:
- LatAm 2900 USD/t,
  - India 2760 USD/t,
  - Turkey 2700 USD/t.

In terms of European valorization, the SMP+Butter production combo comes closest to most of the cheeses and the will to produce butter could help SMP production.

### US NFDM + SMP Production in Kt/m



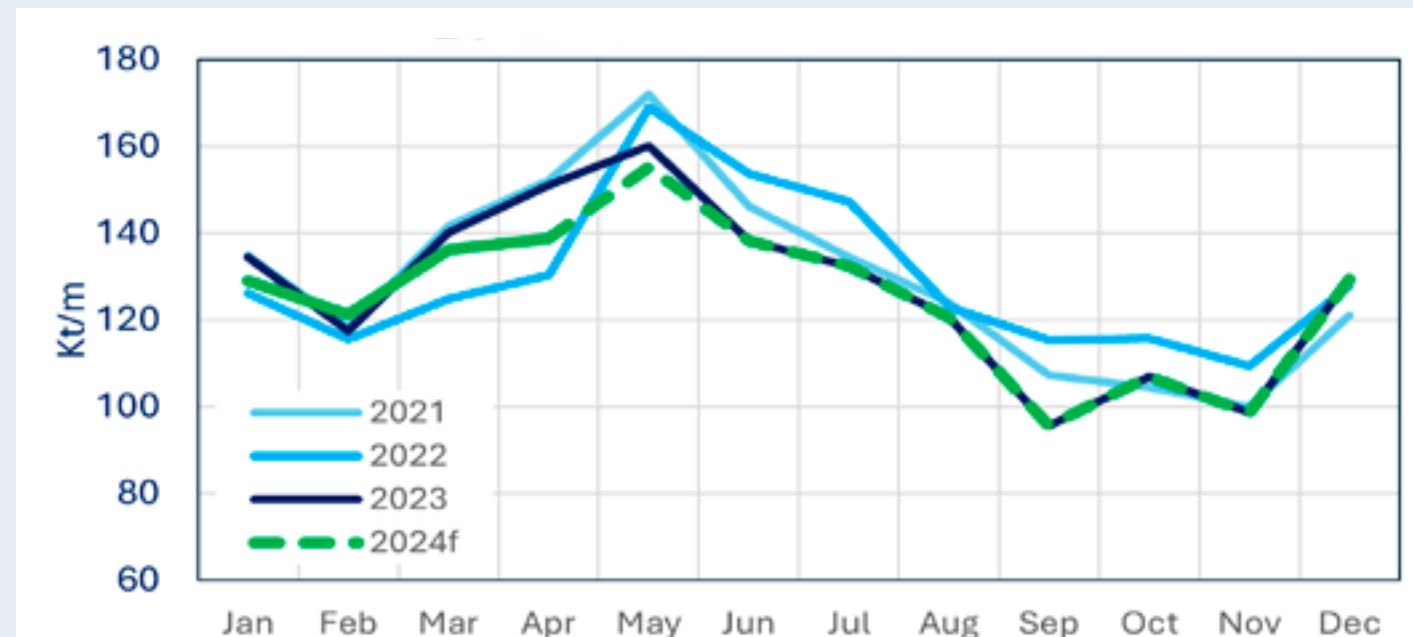
NZ usually isn't very clear on its monthly production, but their exports could provide a valid indicator and of course there's the GDT. A GDT-based calculation of NZ valorization still indicates that SMP+Butter/AMF should be the product that brings NZ more money than WMP or Cheddar.

Also note that the reported stock levels in both EU and the US are lower than previous years.

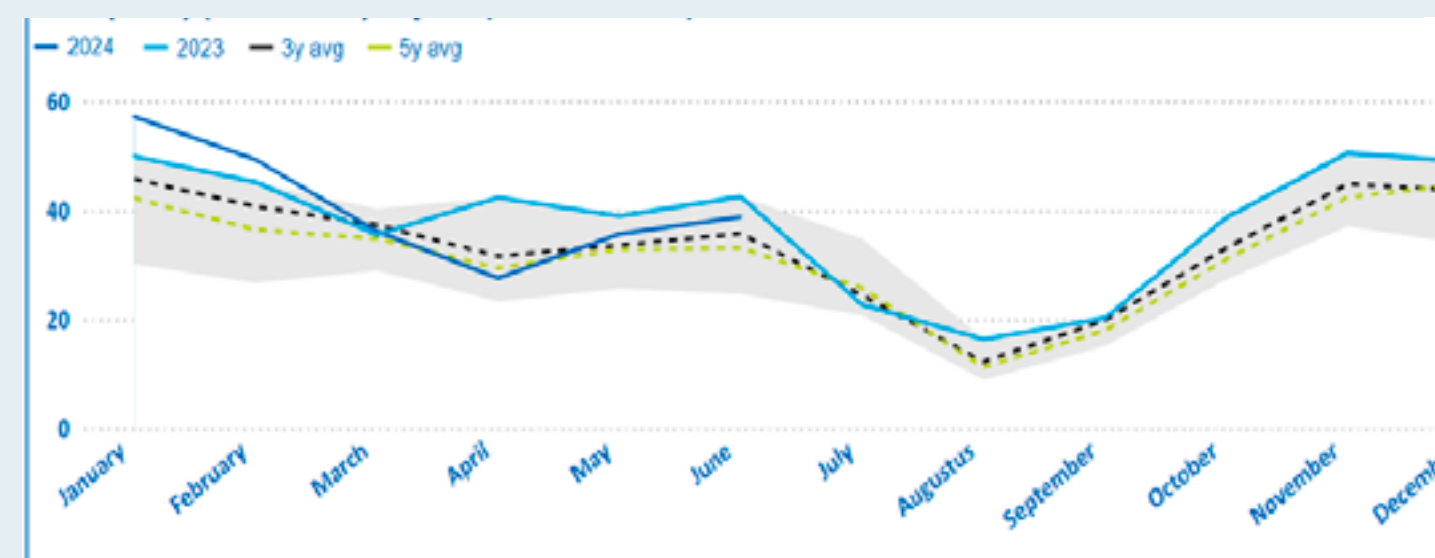
SMP Demand is soft. While global production overall isn't strong, demand is also relatively weak. US Exports have been soft so far. Mexican demand is lower than the strong numbers last year, and the US market share in SE Asia dropped. The US lost around 40Kt of exports YTD (Jan-May), close to 11%. EU-27+UK Exports lost around 31.5 Kt in the first five months compared to last year, around 8%.

While NZ had favorable exports in Q1, their Q2 was weaker than last year as well. They reported June at 38.7Kt (-3.7Kt YoY). Their YTD (Jan-Jun) is 9Kt lower than last year, at 245Kt. Domestic use in the US is below last year. Eurostat doesn't report the domestic use monthly but nobody is expecting wonders there.

### EU-27 + UK SMP Production



### SMP (Food) (HS:040210) exports New Zealand, 2024



### Butter & Milk Fat.

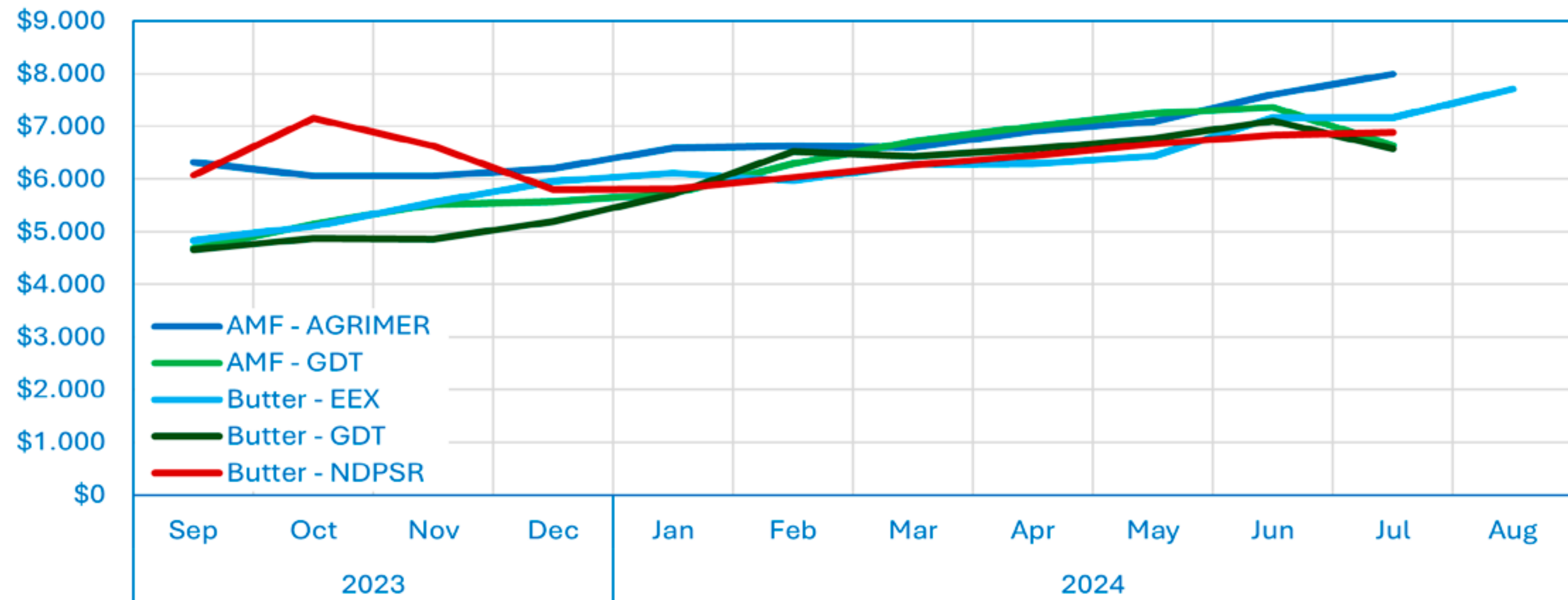
Anyone who has been following the butter market saw prices firming in the past months. Usually there is a reasonably strong correlation between the international butter price levels from major producers, and while the US saw elevated prices in October, coming off at the end of 2023, currently all major exporters saw increased prices.

The US saw an increased butter production compared to the previous year in recent months, and stock levels are higher than last year. While in Europe, the quarterly stock report published in July indicated that the April stocks were lower than last year due to struggling production.

Around half of what is being produced in Europe is produced as a co-product for SMP. From the valorisation perspective, the SMP+Butter combination is closing in on cheese valorisation in Europe, but so far production indeed has been lower. Add firming cream prices into the equation (European Cream prices firmed by around 25% in the past months), and the current low milk fat percentage in European milk and you have a recipe for firm butter prices.

Beware though, with butter and cream demand comes seasonality. High butter prices do come with some elasticity, as last time they really close to the 7000 euro we did see a drop in demand for butter. High prices sometimes are a recipe against high prices.

**Milk fat (Butter, AMF) price history in US\$/t**



# Bulls vs Bears...

## On the bullish side:

- US Milk production continues to struggle on the shorter term. The EU is doing better on the short term but isn't great either as they're facing structural problems in ageing farmers and environmental restrictions.
- SMP (and NFDM) production and stocks in the US and EU are still low, and NFDM/SMP is a little undervalued from their stocks/use perspective.
- NZ: End of season, so their availability is expected to be lower in June-Aug before picking up again.
- Expected global Import demand turned lower for Q2 and could be YoY-neutral in H2.
- Of all new dairy plants that are coming online in the coming year, cheese plants take a chunk of the milk, so that could and should affect the milk available for SMP in a negative way, unless we're seeing a flood of milk.
- Expensive milk fat affecting the value of milk.

## On the bearish side:

- Global import demand is weaker in H1, in particular China.
- Assuming better milk production for H2 and in particular Q4 in US and EU.
- SMP European exports are dependent on N-Africa, will their demand stay strong?

## Things we watch:

- Geopolitical issues, affecting trade and logistics. France/Algeria and of course the Middle-East.
- Cocoa prices came down but are still very high making it difficult for multinationals to sell big volumes. This is limiting their need for milk powders, towards H2.





# A Quick Note On...

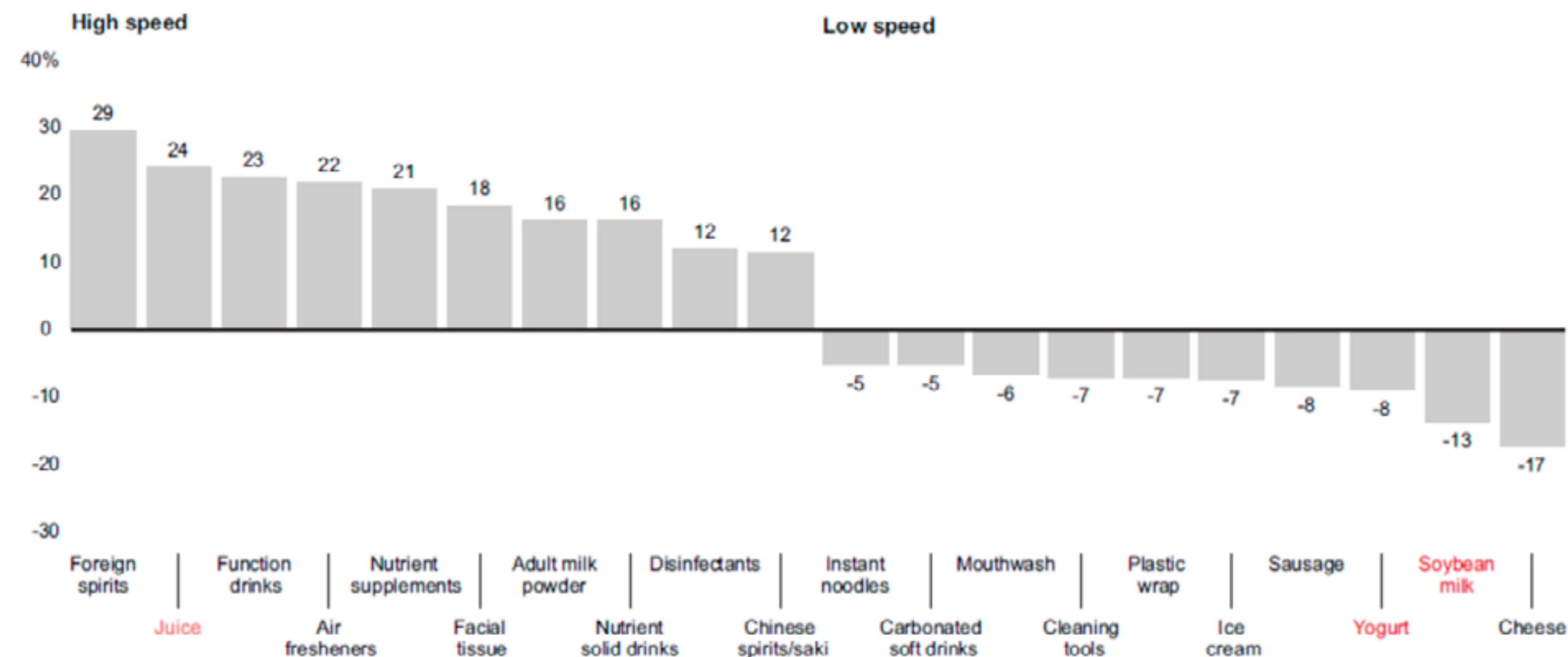
## China

China's macro economy is showing signs of recovery, despite facing significant challenges such as the trade war, issues in the real estate sector, and a declining birth rate.

Retail sales are improving, with the food service sector performing particularly well. However, liquid dairy consumption is recovering slowly. This year, local milk production remains in oversupply, leading to falling milk prices and calls within the dairy industry to reduce the number of cows.

The demand for Whole Milk Powder (WMP) imports has slowed as more factories switch to using local powders. Conversely, the demand for Skim Milk Powder (SMP) is plunging due to poor performance in the infant formula, ice cream, and yogurt markets. On the brighter side, there is a rising demand for butter and whey, driven by the strong performance of the food service sector, a trend that is expected to continue.

## Percentage point change in value CAGR (percentage, 2023 vs. 2022)



## Chinese economy in H1 2024:

- Q2 China GDP growth slowed to +4.7% from 5.3% in Q1, with 1H 2024 GDP growth +5%.
- The value of cargoes China imported and exported +2.9% YOY in USD, hitting the highest in RMB. Among them, exports +3.6% YOY while imports +2% YOY.
- Electricity consumption +8.1% in 1H 2024.
- Domestic tourism +14.3% YOY, while travelers' expenditure +19% YOY.
- China's major industrial firms above designated size profit +3.5%, sales revenue +2.9% YOY.
- China real estate sector is still struggling, and major cities reported falling home prices.

## China retail/food service improved, but dairy consumption seems slow:

- China general consumer goods retail sales +3.7% in 1H 2024.
- Food service sector keep good performance +7.9% YOY in 1H 2024.
- (Bain & Kantar CRT) Q1 FMCG +2% YOY, package food +2.7%, beverage +4.3% (fruit juice +20%, RTD +8.6%, Water +5.6%, liquid milk -2.9% (due to high base last year when people experienced infection at home), yogurt -8.4%, infant formula remains poor.

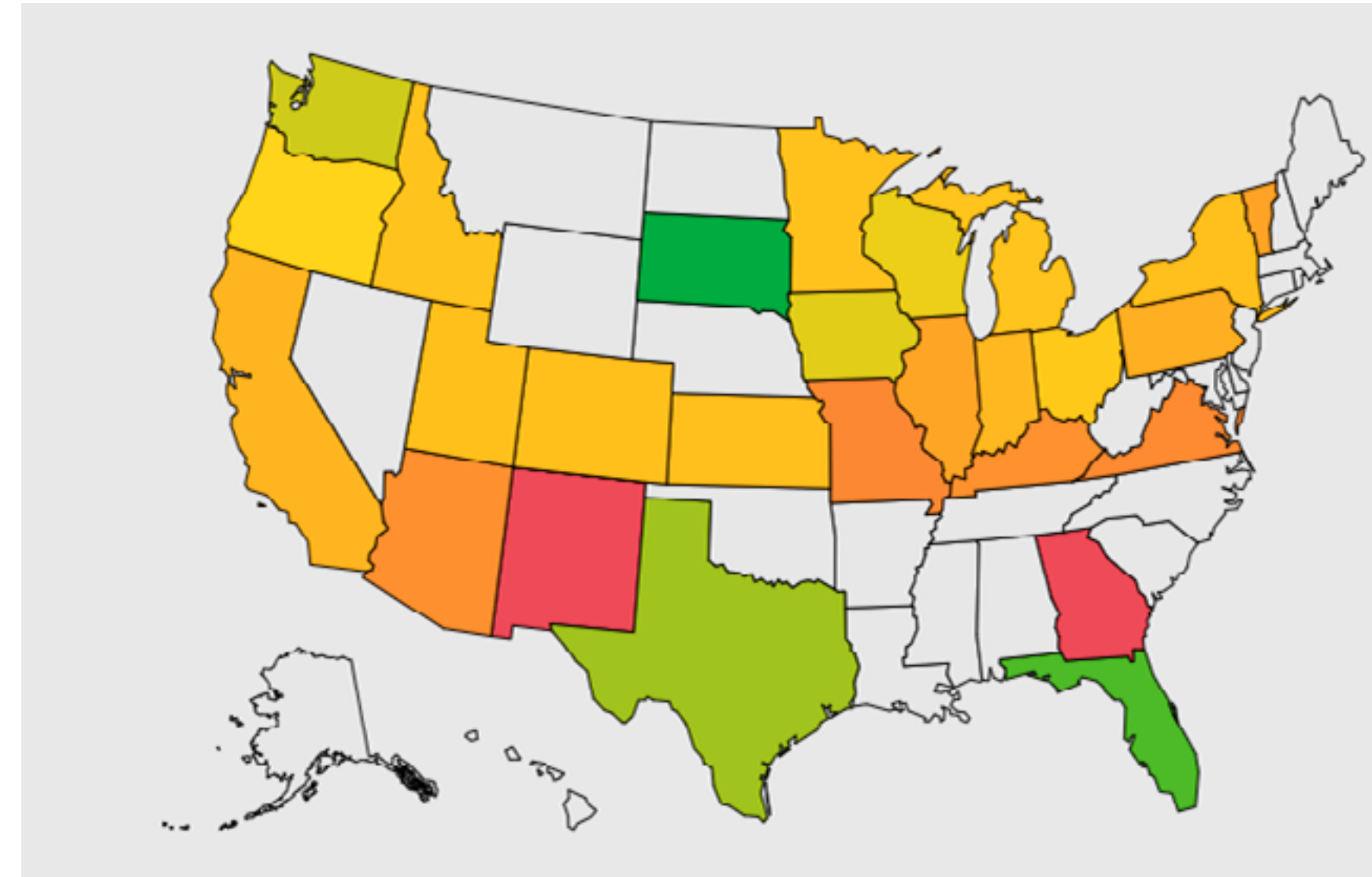
## US Whey Supply-Side

US Milk Fat: levels in May were continued to be strong, 4.08% is significantly stronger than the sub 4% levels of June 2023.

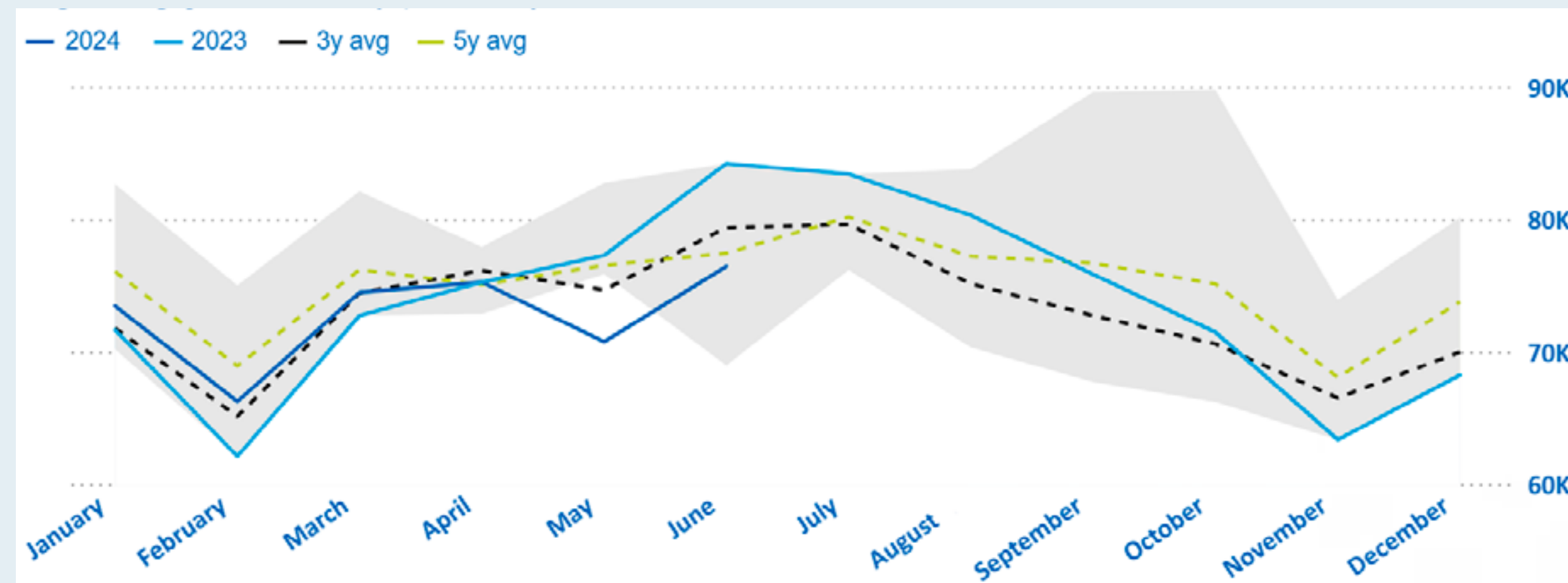
US Milk Protein: levels for June were at 3.22%, above the 3.20% from June 2023, 2024 outperformed 2023 in every month.

US Dry whey production in June decreased compared to the previous year but increased by nearly eight million pounds from May. Month-over-month, stocks rose, suggesting that manufacturers are working to adjust their product mix. Demand for high-protein whey remains strong, as inventories of Whey Protein Concentrates (WPCs) and Whey Protein Isolates (WPI) declined both monthly and annually.

Manufacturers are adjusting their product mix in the whey sector, with dry whey production continuing to trail behind 2023 levels. June's output was 76.4 million pounds, down 9.2% year-over-year and 1.3% compared to two years ago.



### Dry Whey Production (1,000 lbs)



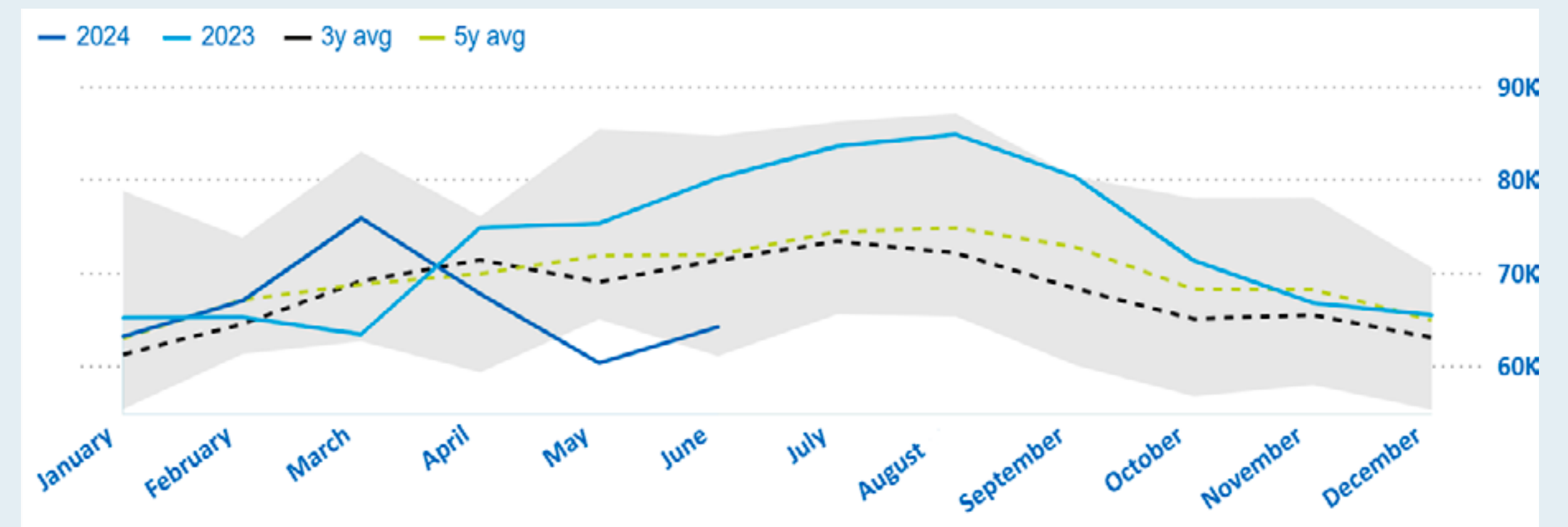
**Stocks:**

- From May to June, stocks rose by 3.9 million pounds (+6.4%), reaching 64.1 million pounds. However, this is still the lowest June inventory level since 2021, with days in inventory at a two-year low of 25.2 days.

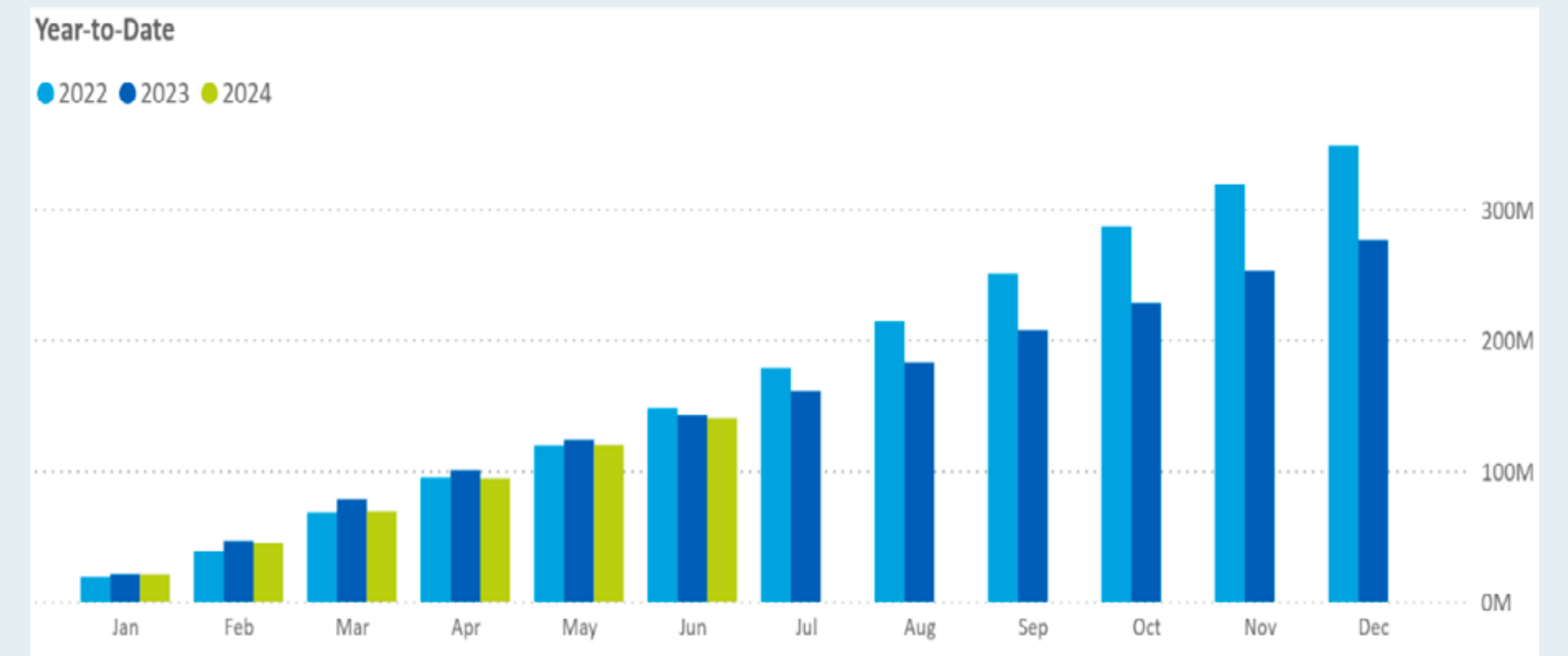
**Demand side:**

- Dry whey exports increased, driven by rising demand from China (+19.1% YoY, +0.71 Kt). However, weak volumes earlier in 2024 have caused year-to-date totals to lag behind 2023, with reduced demand from China, the Philippines, Thailand, and Malaysia contributing to the shortfall.
- WPC<80% shipments grew for the third consecutive month, with a significant increase from Indonesia (+80% YoY, +1.04Kt). In the WPC≥80% category, year-on-year growth continued for the eleventh straight month, bolstered by strong buying from China in June, which captured a 29% market share (+62% YoY, +0.81 Kt).

**Dry Whey Stocks (1,000 lbs)**



**Cumulative exports (Dry Whey; HS0404104000)**



## Futures

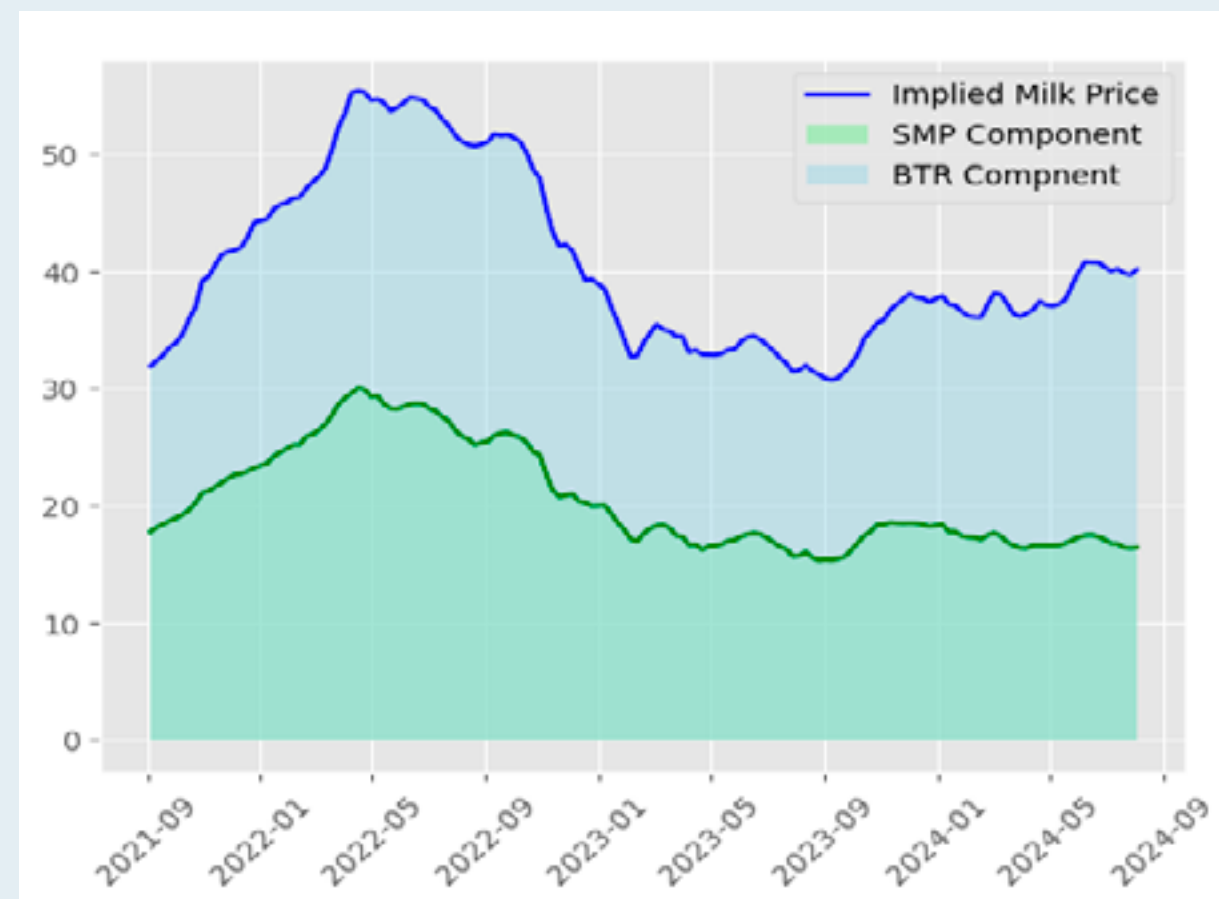
By: Joris Thys, Derivatives Trader, HTM

When examining the EEX main futures for SMP and Butter, distinct dynamics are evident: SMP prices have remained relatively stable and range-bound since 2023. In stark contrast, Butter prices have shown significant volatility. Notably, this week, Q4 Butter futures surpassed the 6800 mark, nearing all-time high levels.

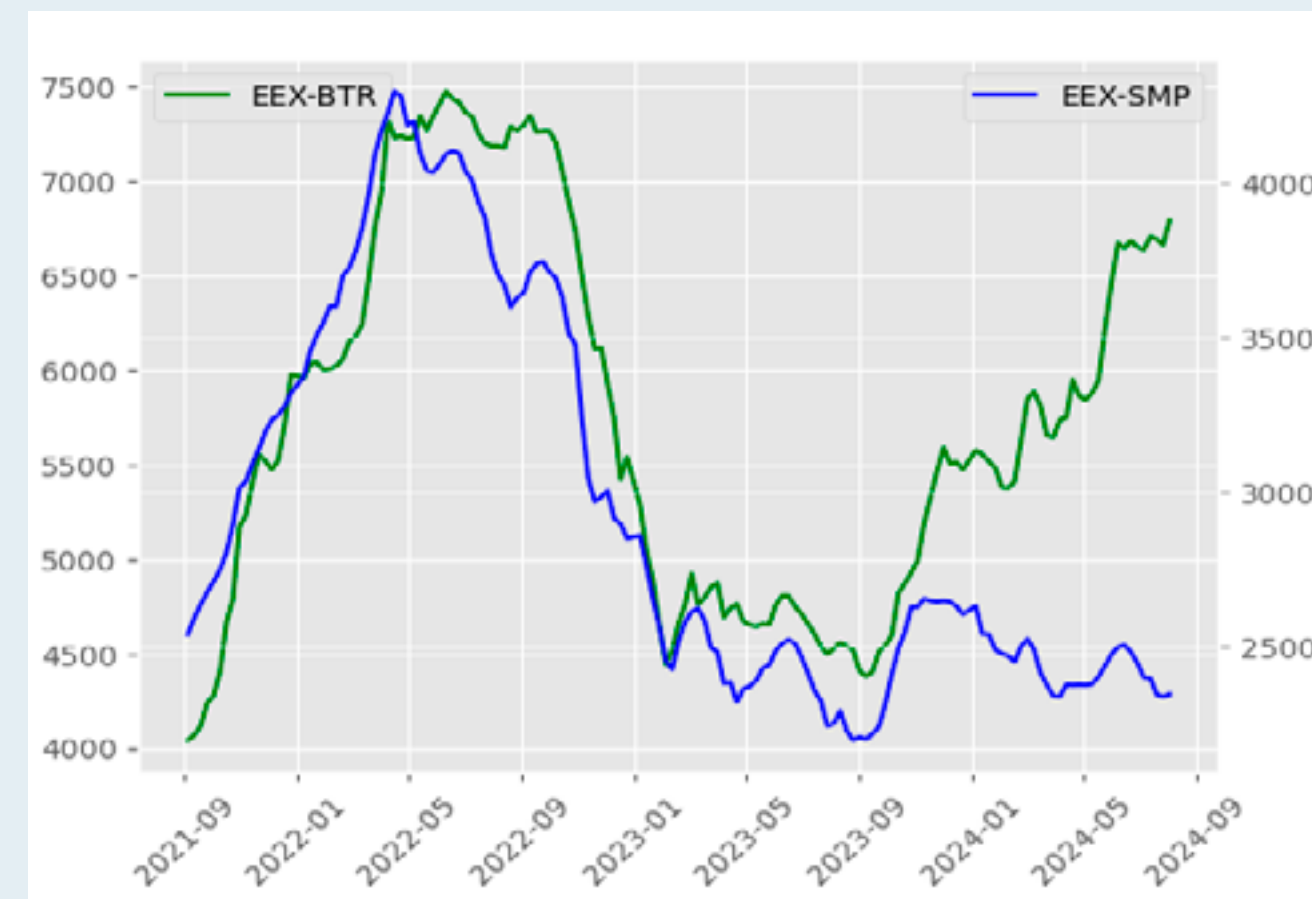
To fully grasp these dynamics, one must begin with milk. Although a liquid milk future does not exist, we can infer an implied milk price based on SMP and Butter values. Milk prices peaked in 2022 due to a hot and dry European summer, then declined, reaching a low in Q3 2023. Since then, prices have been rising moderately.

Milk comprises Protein (70%) and Fat (35%). When analyzing the milk price by its component values, it is evident that SMP's contribution is stable at best. SMP has essentially become a byproduct, whereas Fat is in high demand, driving up its prices. This trend is unlikely to change soon, and it would not be surprising if Butter prices reached new highs in the market. One of the reasons for the continued rise in Butter prices is the strong demand for cheese. Cheese prices are high as they need to be competitive for milk.

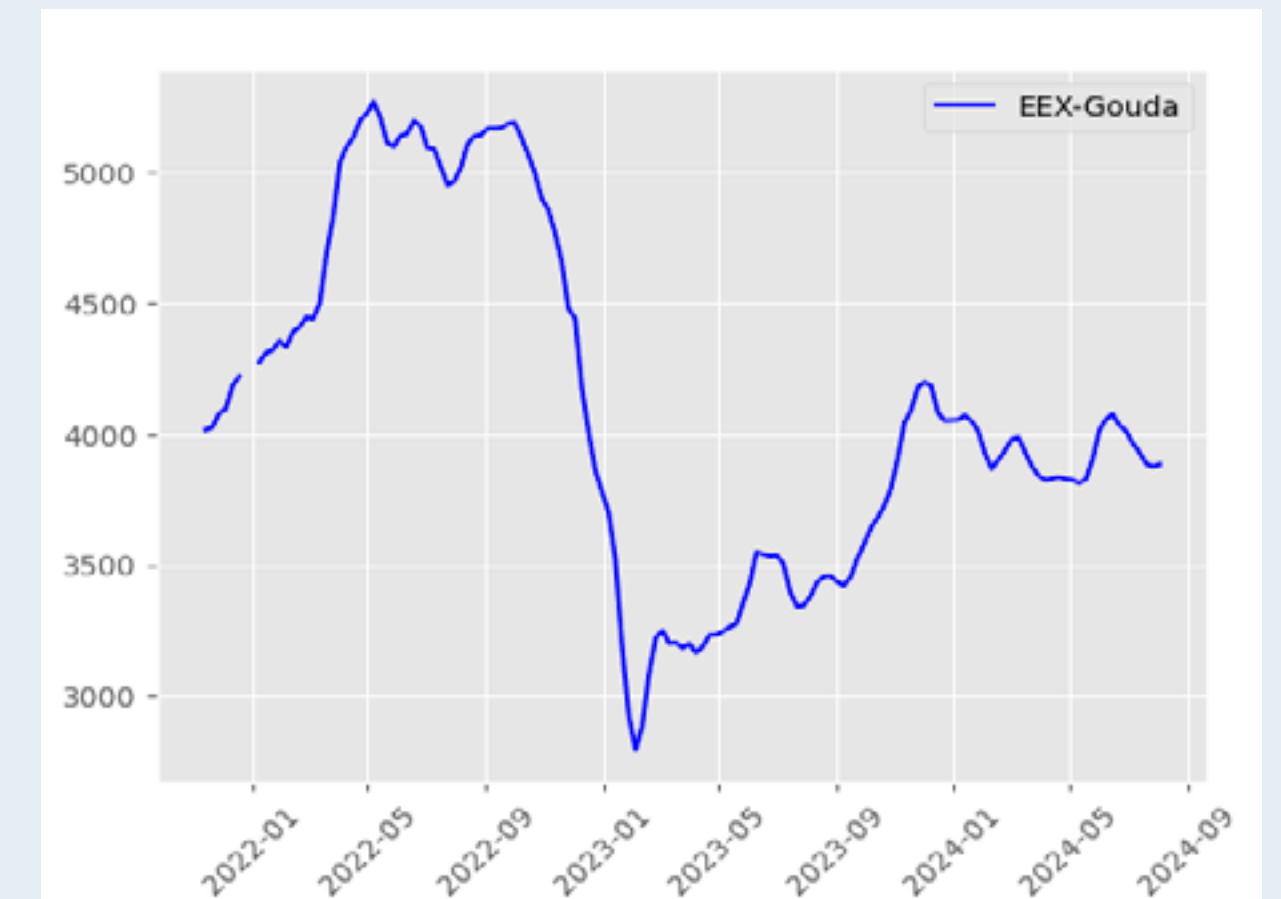
### Implied Milk Price Split in its Components



### EEX Butter and Skimmed Prices



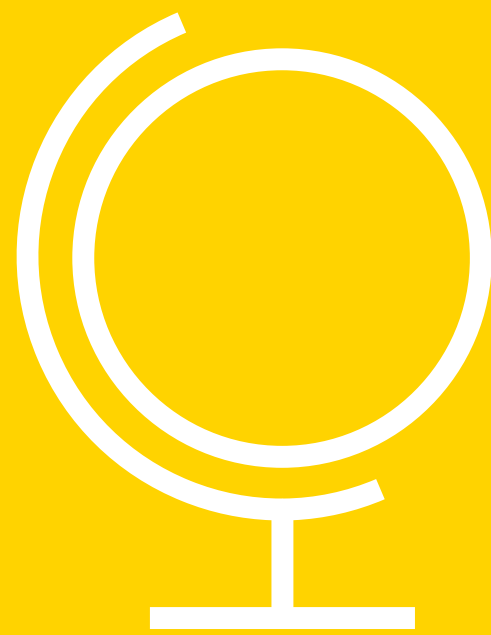
### EEX Gouda Prices



# World Comment.



**Mah Zi Ling**  
**Technology Specialist**  
**Global Services (QA Tech)**



**For this edition of World Comments, we sat down with Technology Specialist, Mah Zi Ling to talk about working at Hoogwegt and the Dairy Industry – from a Quality perspective!**

**Q: Can you please introduce yourself and your role within Hoogwegt Group?**

Zi Ling: On April 22nd, 2022, I began my career at Hoogwegt Singapore as a Technology Specialist after a series of interviews, culminating in a coffee chat at Starbucks on Valentine's Day as well. This was the longest interview process I've had ever experienced. Coming with a Bachelor's Degree in Food Science and Nutrition, and extensive experience in food manufacturing (with a major function in Quality Assurance and Quality Control), my previous roles include being Senior Quality Executive at Kerry Ingredients Malaysia for 5 years and Quality Manager at Asian Blending Singapore for 3 years. Thus, joining a family-owned trading company like Hoogwegt was a significant career shift for me!

**Q: Can you tell us one memorable experience you've had at Hoogwegt?**

Zi Ling: The decision to join Hoogwegt has proven to be a great one, and I have no regrets. One of my most memorable experiences here was being assigned my first project: successfully launching the first sales of US Milk Permeate Powder into the Malaysian market. This project required extensive research and collaboration with our US supplier and the trade team in Singapore to understand regional preferences and regulatory requirements. It was incredibly rewarding when we confirmed our first deal and received positive feedback from our clients. This was quickly followed by a second recurring order. This underscored the importance of teamwork and adaptability in meeting diverse market needs.

**Q: What are the latest dairy trends in QA/Technical?**

Zi Ling: From a technical perspective, several trends are shaping the dairy industry today. Firstly, there is increasing emphasis on sustainability and traceability. Consumers and regulators alike are demanding more transparency about the origins of dairy products and their environmental impact. This has led to advancements in blockchain technology for supply chain traceability and more sustainable farming practices.

Another significant trend is the focus on functional dairy products. Consumers are increasingly seeking products that offer health benefits beyond basic nutrition, such as probiotics, high-protein formulations, and dairy products fortified with vitamins and minerals. Ensuring the quality and efficacy of these functional ingredients presents new challenges and opportunities for QA teams.

Lastly, the rise of plant-based and alternative dairy products cannot be ignored. While traditional dairy remains strong, there is a growing market for plant-based alternatives. This trend is pushing the dairy industry to innovate and diversify its product offerings while maintaining rigorous quality standards.

**Q: What is an exciting project in the works for you?**

Zi Ling: Currently, I am working on an exciting project involving the innovation of Hoogwegt's dairy-based solutions, including dairy powder preparation, mozzarella, and growing-up milk formulas. These new solutions are designed to cater to the industry's needs, from a profit improvement perspective, and to bring innovative solutions to our clients. The project combines our expertise in dairy technology with cutting-edge nutritional science to create products that are both effective and palatable. This initiative involves close collaboration with our innovation team, technical sales specialists, and traders to ensure that the new products meet our high standards for quality and efficacy. It is a challenging yet fulfilling endeavour aimed at enhancing the health and well-being of our consumers through innovative dairy solutions.

As you can see, the field of dairy technology is becoming more dynamic. Next year will mark my 10th anniversary in the dairy industry since I started my first job, and I am still excited and looking forward to continuing my journey of innovation and excellence in the dairy industry.



# Hoogwegt Happenings.

We are pleased to announce that Great Lakes Cheese and Hoogwegt US have signed a new agreement that will expand their strategic partnership. Under the agreement, Hoogwegt will market WPC80- and Whey Permeate volumes that will be produced at the brand-new Great Lakes Cheese facility in Franklinville, NY.

The agreement builds on a previous engagement between the two companies; since October 2021 Hoogwegt markets an annual 2.2 million pounds of WPC80 from the Great Lakes Cheese facility in Adams, NY to a mutual satisfaction.

The Franklinville facility is expected to be operational as of Q1, 2025 and Hoogwegt is excited to start distributing an additional 10+ million pounds of 'PowerUp' branded WPC80 and 40+ million pounds of 'Empire' branded Whey Permeate annually.

"The expansion and growth of Hoogwegt's Ingredients business is a key element of our global strategy. Incorporating high-quality protein from the Great Lakes Cheese facility in Franklinville, NY, is a significant step in advancing this ambition. As two family-owned companies with long histories of success, Hoogwegt is thrilled to partner with Great Lakes Cheese to elevate the global recognition of its protein products. We are confident that the PowerUp brand will be recognized as a premium product produced by a company known for its equally high standards." said Jeramy Fisher, CEO of Hoogwegt US Inc.

"Great Lakes Cheese is very excited about deepening our collaboration with Hoogwegt in the Ingredient channel. Hoogwegt is globally renowned for its extensive knowledge and expertise in this field. We anticipate a long-term, strategic partnership that will mutually benefit both companies and further solidify our commitment to excellence in the industry." Said Brad Belanger, Vice President Foodservice & Specialty Channel at Great Lakes Cheese.

For more information, reach out to your Export / Account Manager.