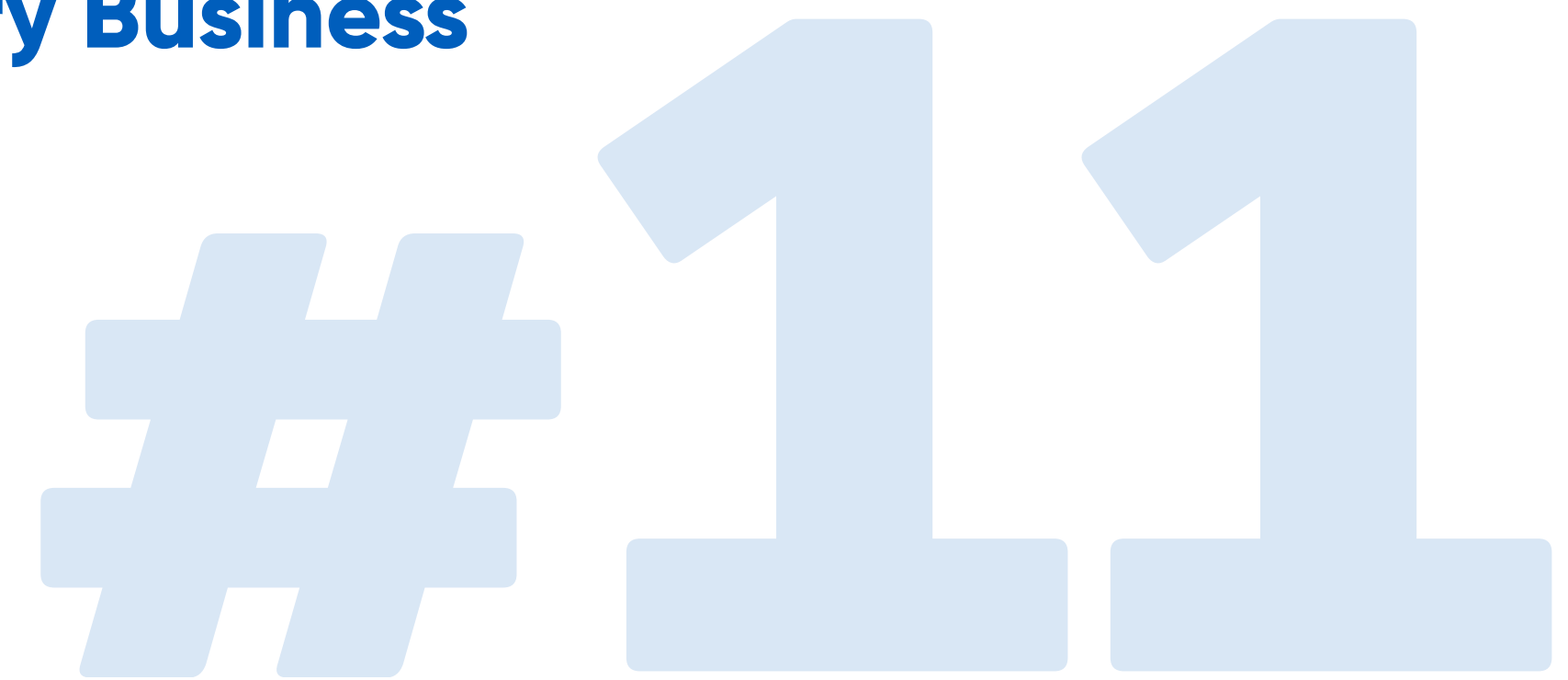




Horizons.

Our insights
on Today's Global
Dairy Business

November 2024



Page 3

Market Direction

Got Milk?



Read more →

Page 6

**The Wonderful
World of
Powders.**

Page 9

**A Quick Note
On...**



Page 12

World Comment.

Page 13

**Hoogwegt
Happenings.**

Editorial Note.

Disclaimer

Horizons is a publication of Hoogwegt Group. Information is gathered from reliable sources but it cannot warrant the accuracy of any of the data in the report.

© Reproduction with permission only.

Winter is Coming!

As we transition into the winter season, our latest newsletter brings you an in-depth look at developments across the dairy sector, capturing both market trends and industry insights. Whether you're planning for the year ahead or watching market shifts closely, we have the updates and analysis you need.

In Market Direction, we delve into the latest movements in global milk production, exploring factors influencing supply chains and production output in key dairy regions worldwide.

Our Deep Dive section shifts the focus to skimmed and whole milk powders. We take a closer look at the dynamics driving these two markets.

In our Quick Note section, Joris Thys offers a concise yet impactful update on EEX futures, and we also have a section on Higher Protein Whey.

Our World Comment feature presents insights from Anna Szymańska, Commercial Director of Business Unit Cheese. With her wealth of expertise, Anna shares her perspective on the cheese sector. Her commentary provides readers with an insider's look within Hoogwegt's portfolio.

Finally, Hoogwegt Happenings takes you to our latest tradeshow appearance at Gulfood 2024, where our team connected with global industry partners. This event was an exciting opportunity for us to strengthen our presence and explore emerging trends.

We hope this edition of our newsletter provides you with valuable insights as you navigate the upcoming winter season.

As Always,

Hoogwegt Horizons Editorial Team

Market Direction

Got Milk?

US Milk Production

Production growth appears stronger when considering milk solids, as both milkfat and protein levels have shown significant year-over-year increases, outperforming recent years. Milk protein content has risen by 0.6% and fat percentages by approximately 2%, although California remains an outlier due to recent challenges.

The bird flu has impacted certain states, particularly California, which still has active cases, raising concerns for milk production in September. Although states like Texas, New Mexico, and Idaho have largely recovered, California's bird flu situation is troubling because it produces 18% of the country's milk.

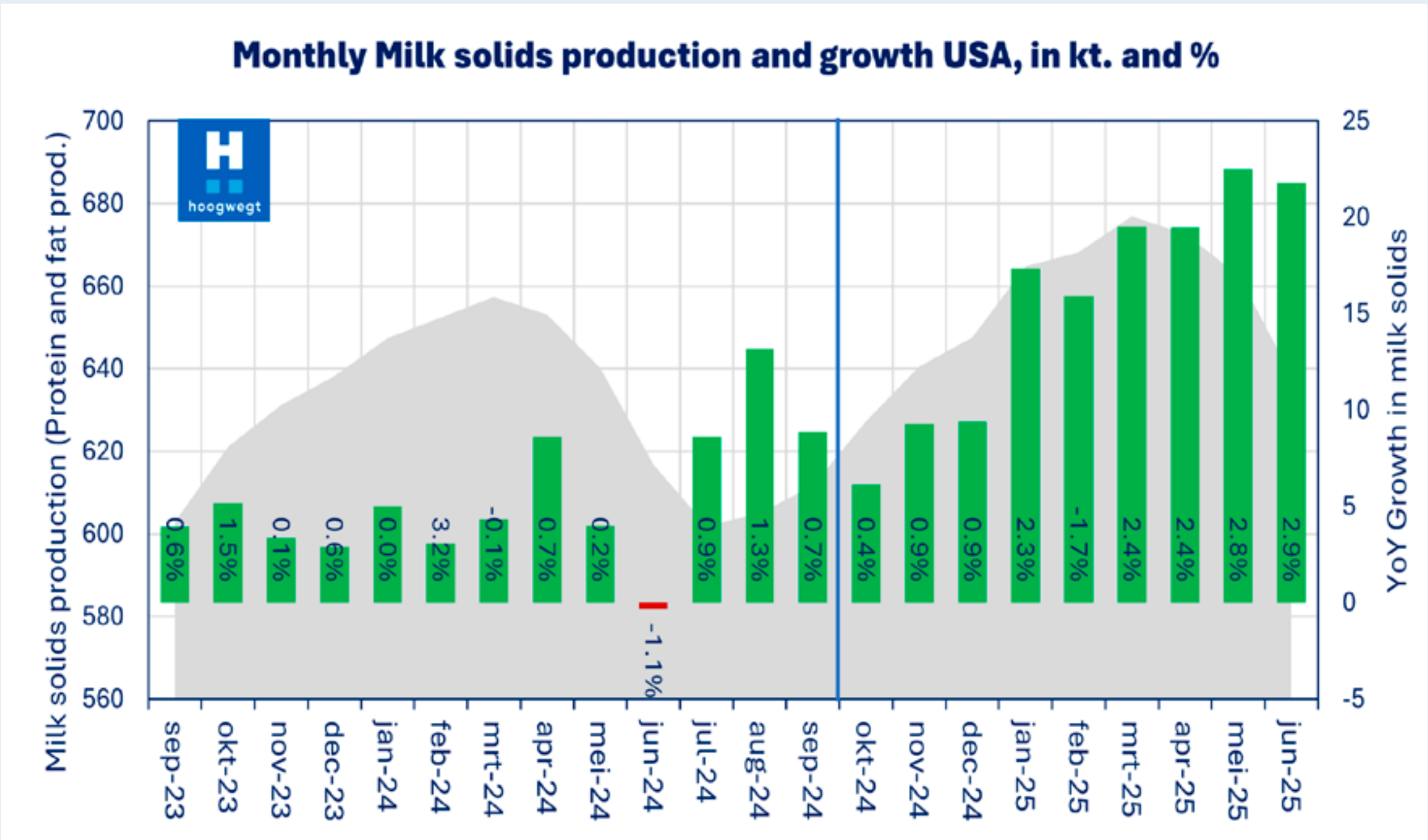
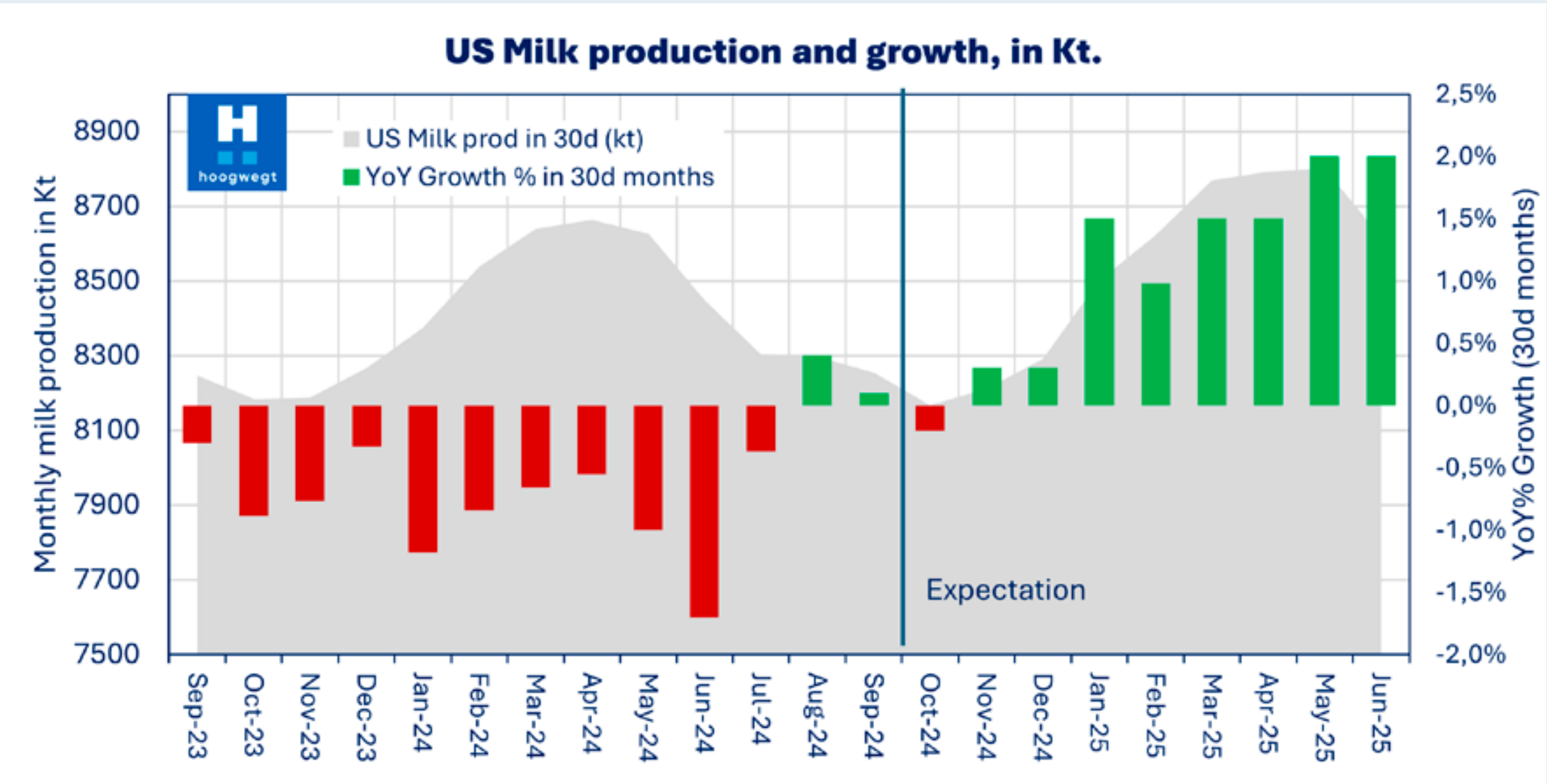
Economic conditions for producers are favorable, with high farmgate milk prices, reduced feed costs, and historically strong income-over-feed margins, which rank in the top 10% of recent years. The average yield per cow has increased by 0.5%, though overall herd size remains 0.4% smaller. High costs for replacement heifers and a low slaughter rate add pressure on milk supply, with California seeing a slight increase in cow slaughter rates due to bird flu effects.

For the short term, bird flu's impact on California's production is a concern, especially since it is a major producer of Skim Milk Powder (SMP) and Nonfat Dry Milk (NFDM). Hence our expected slight decrease for October. It comes with a question mark though, since the statistical impact of Bird Flu is still vague and comes with hearsay. However, there is some potential for growth in Q4 and Q1, given the weaker production levels in these periods in the previous year and the strong margins. Replacement heifers still seem expensive, but as long as cow slaughter remains low, a slow but steady rebuild of the dairy herd is still possible.

Long-term Outlook

Margins should give farmers the incentive to ramp up production. Cheese production facilities are expanding across the U.S., which may shift milk supplies away from NFDM and SMP production if overall milk production isn't increased significantly.

[more →](#)





→ continuation

EU Milk Production

European milk production has shown a weak to neutral trend in Q3, with potential mild growth in Q4 and Q1. Although margins are favorable, giving producers an incentive to increase production, various challenges temper growth. The persistence of Blue-Tongue disease (BT) has affected production in the short term, especially in northwestern Europe, where the disease led to herd management issues and higher mortality rates. While the spread of BT has slowed with cooler weather, its effects linger, and concerns about herd sustainability remain due to structural issues like an aging farming population and policy-related constraints.

From a financial perspective, in Europe farmer margins are strong too, supported by farm gate prices averaging over 50 cents and feed costs down 20% year-over-year. Prices for SMP and in particular butter remain strong, with potential for further growth for the farm gate milk price that is often lagging behind the commodity price development for proteins and fat.

Overall herd size in key dairy countries like Germany, Ireland, the Netherlands, Denmark, and Belgium has seen greater than average reductions. Reports before the BT outbreak in June showed a 2% year-over-year decline in milk cows among the top 12 milk-producing countries in Europe, exceeding the 5-year average decrease of 1%, with most declines concentrated in Western Europe. Therefore we think that the better margins are still an incentive, but growth is limited by the mentioned structural issues. Besides, Blue-tongue disease continues to pose a risk to European milk production because it messed with the herd management of farmers that were affected. All in all there is hope for stabilization and mild growth in Q4 and Q1 2025 reports. Note that most EU countries still have to report on September and beyond.

New Zealand Milk Production

In September 2024, New Zealand’s milk production saw a significant increase, rising 4.2% year-over-year, with a 5.2% increase in milk solids. For Kiwi farmers too; improved pay-outs for farmers compared to the previous season.

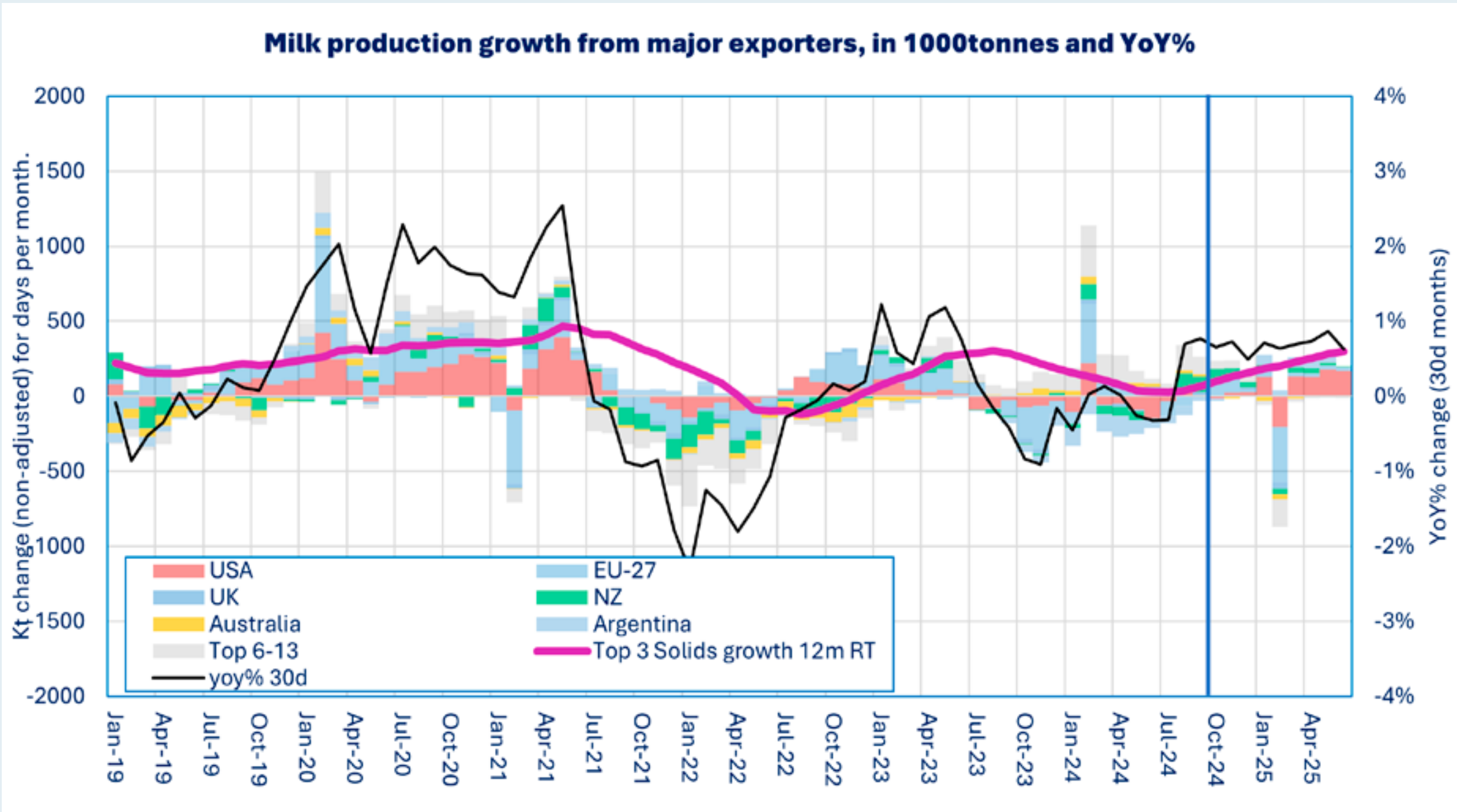
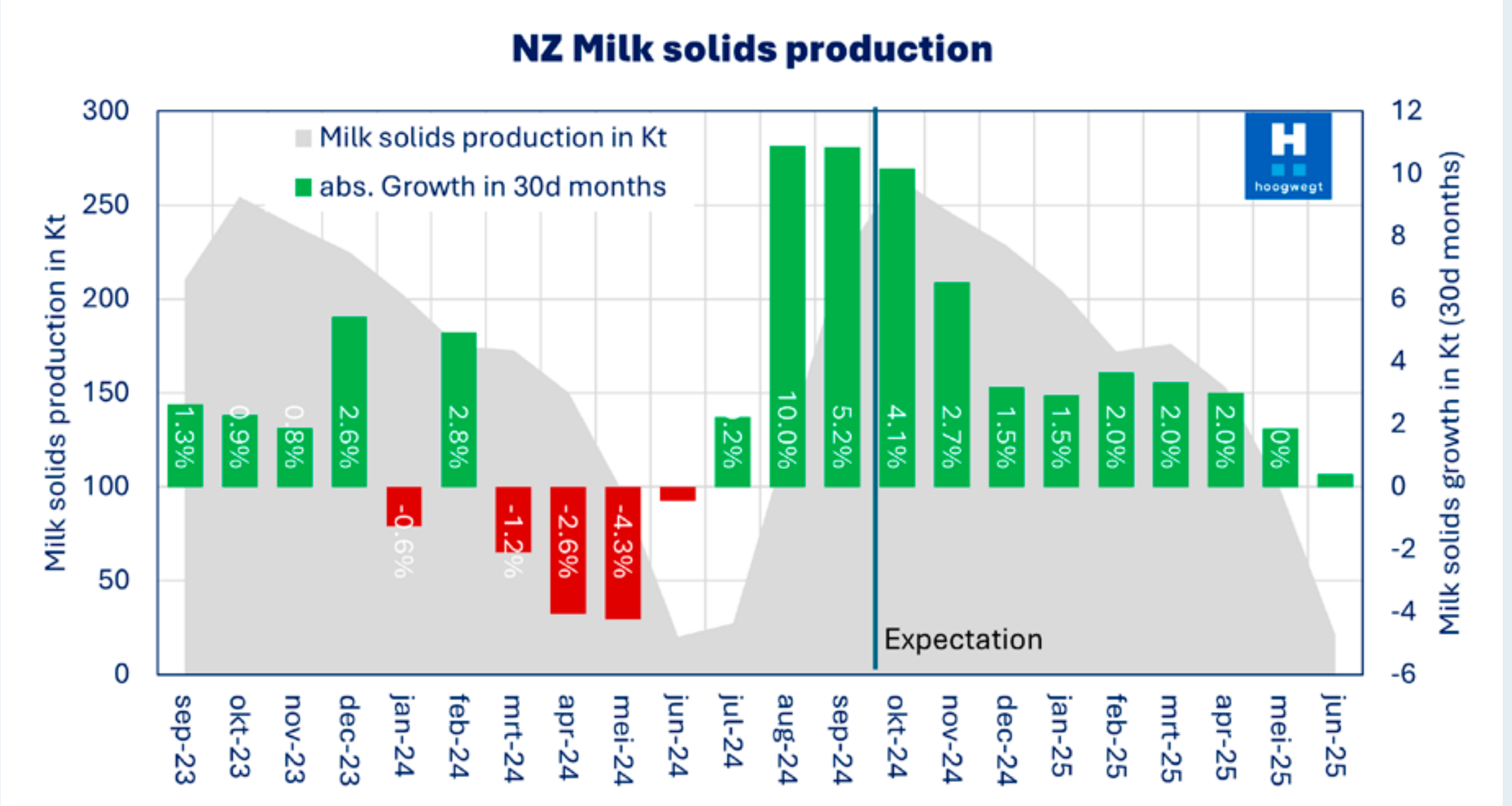
The dairy herd has slightly decreased by 0.3% year-on-year, a reduction that is modest in comparison to the five-year average decline of 1.4%. Meanwhile, cow slaughter numbers have been notably low, with a 29% decrease in July and a 37% decrease in August, amounting to around 33,000 fewer cows slaughtered over these months.

Pasture growth (PGI) on a 30-day rolling basis is positive for the North Island (NI) and the South Island (SI) looks good as well, after a dip in October. Both remain above the five-year average. Overall, the outlook for the season appears positive. The below graph is our consideration in milk solids production.

Global Exporters Milk Production Summary

- Margins are overall good.
- NZ had a very positive start, so did Australia (+1.4% YoY in September).
- Current Blue Tongue puts a question mark on its impact on EU milk, Bird Flu on California. But let’s not forget margins are providing an incentive.
- Chile grew strong (+8.5%), Argentina (-1.9%) and Uruguay (-1%) were closer to neutral in September, after several months of strong declines.
- Belarussia reported a strong rebound (+7.6%) in August. Russia was flat in August (+0.1% YoY).
- We’re expecting a mild positive global milk production going forward and growth in milk solids.
- China’s milk production growth is easing, we’re hearing it’s negative due to slaughter triggered by the significant decreased milk price.
- The black line in below graph represents the milk production YoY growth% (right axis) in 30d months (adjusted for leap years and days per month).

[more →](#)

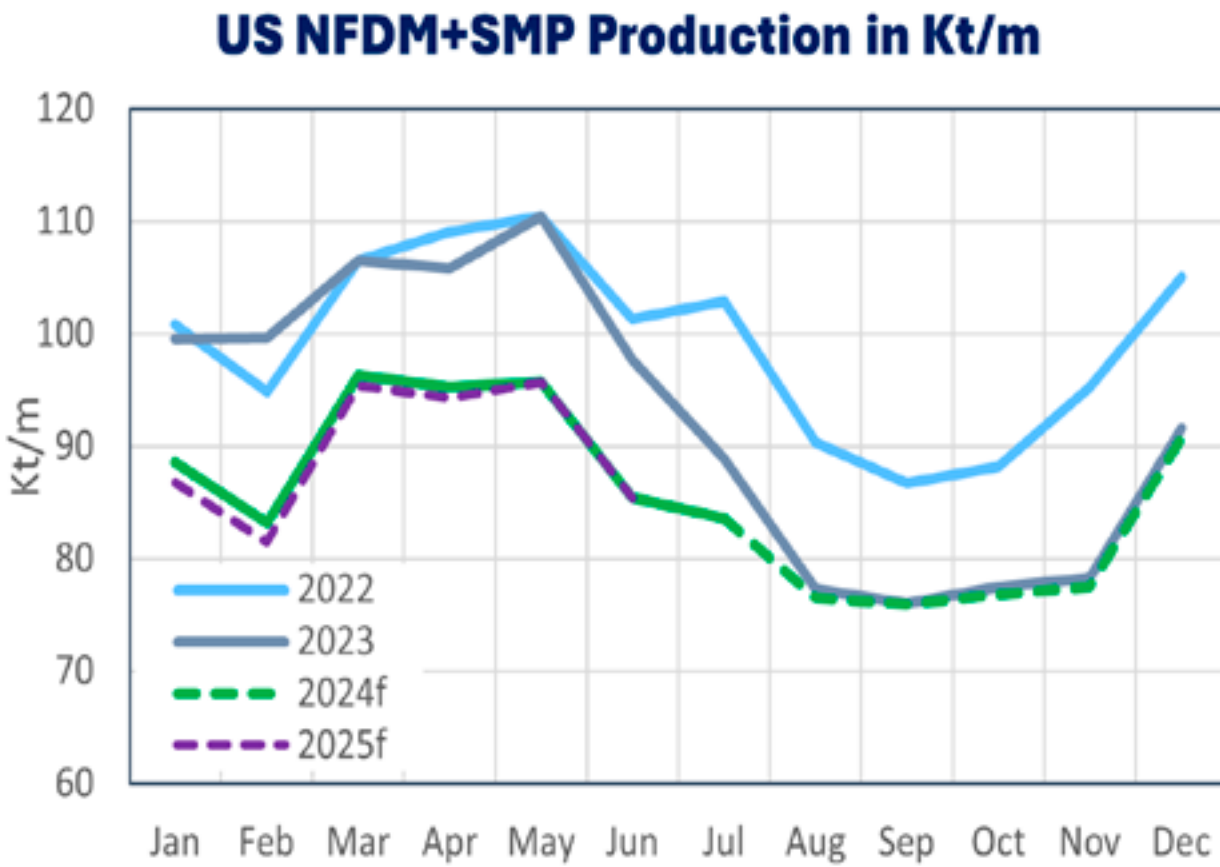
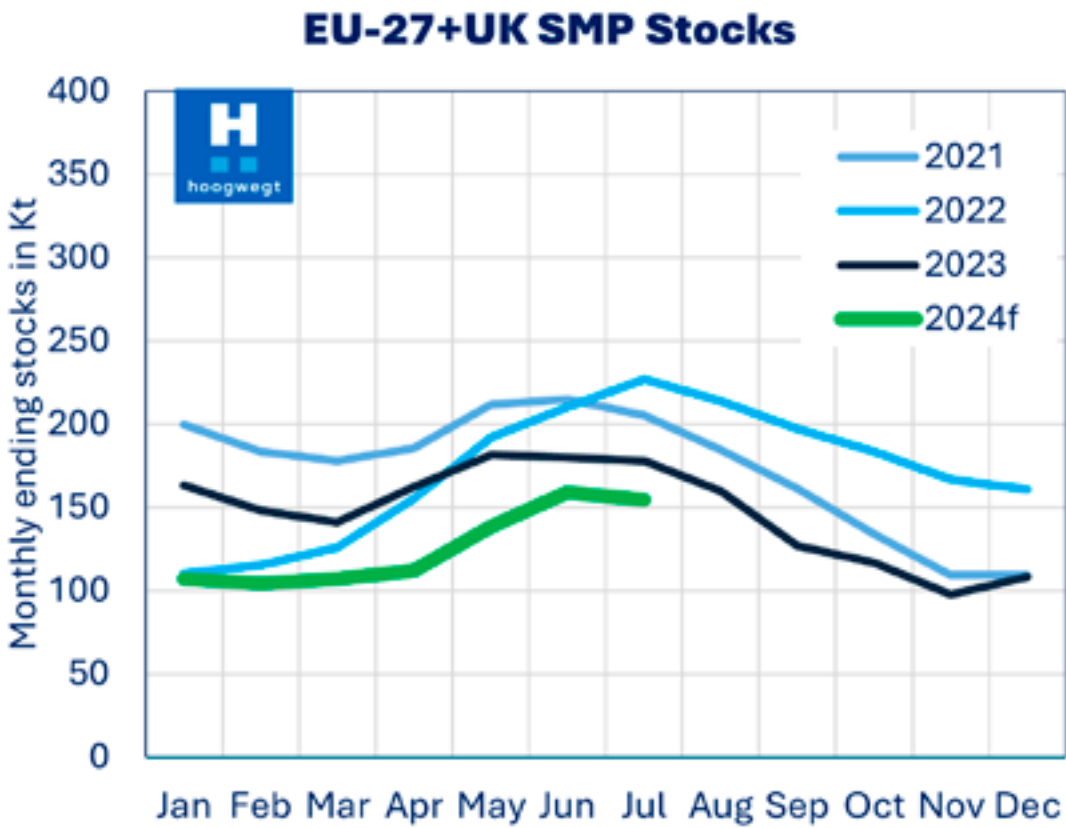
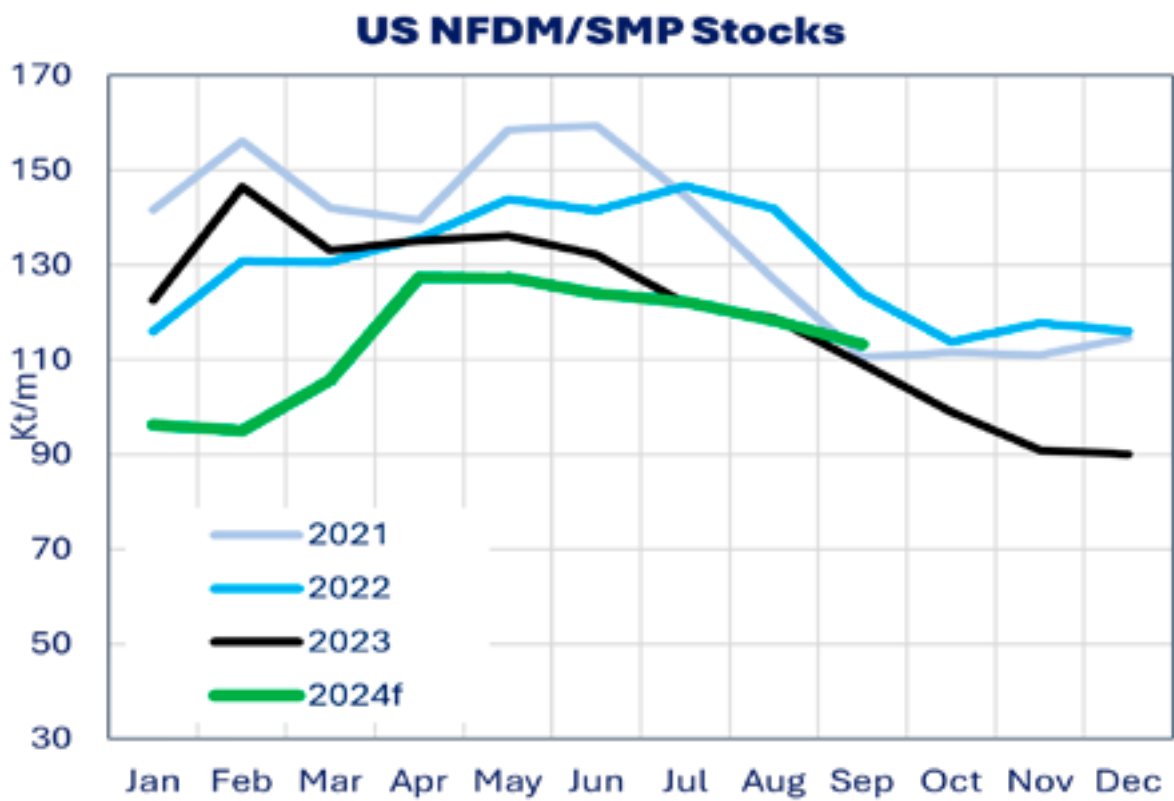
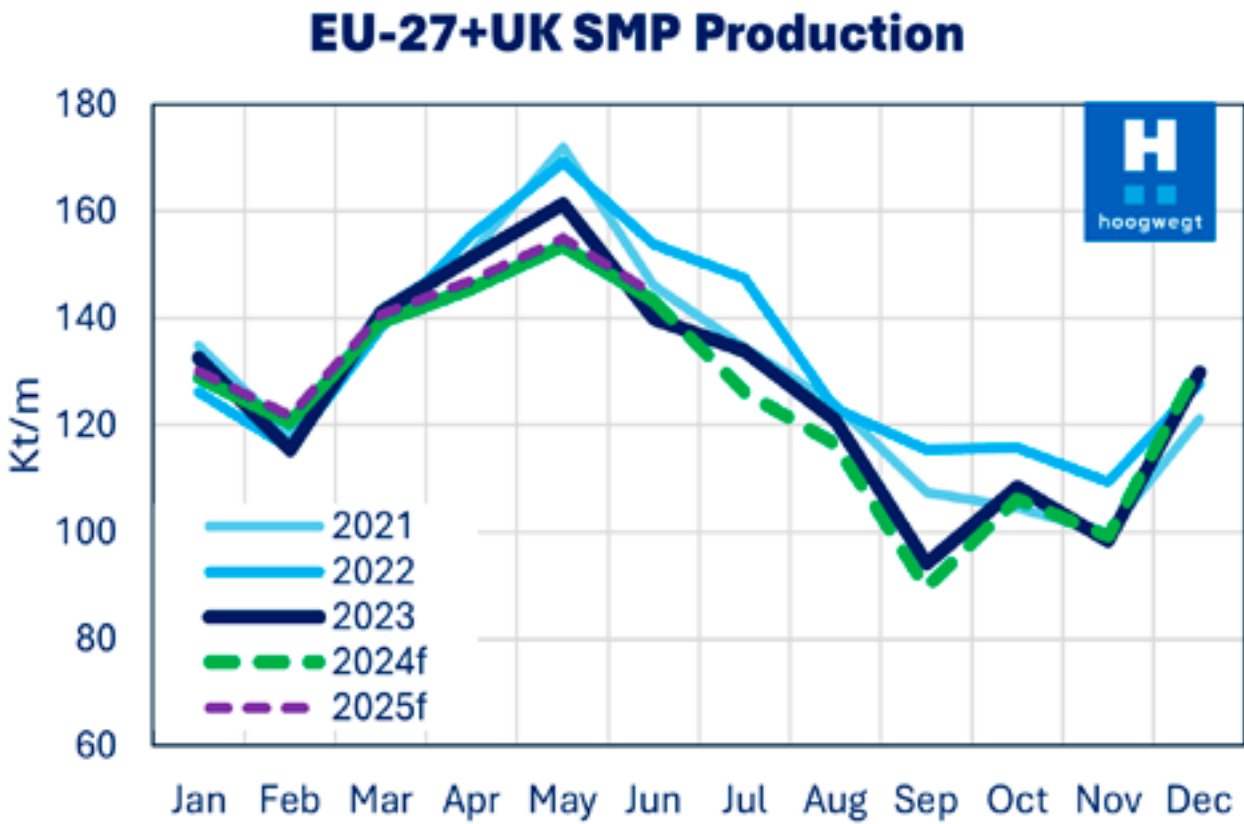


Dairy Deep Dive

The Wonderful World of Powders.

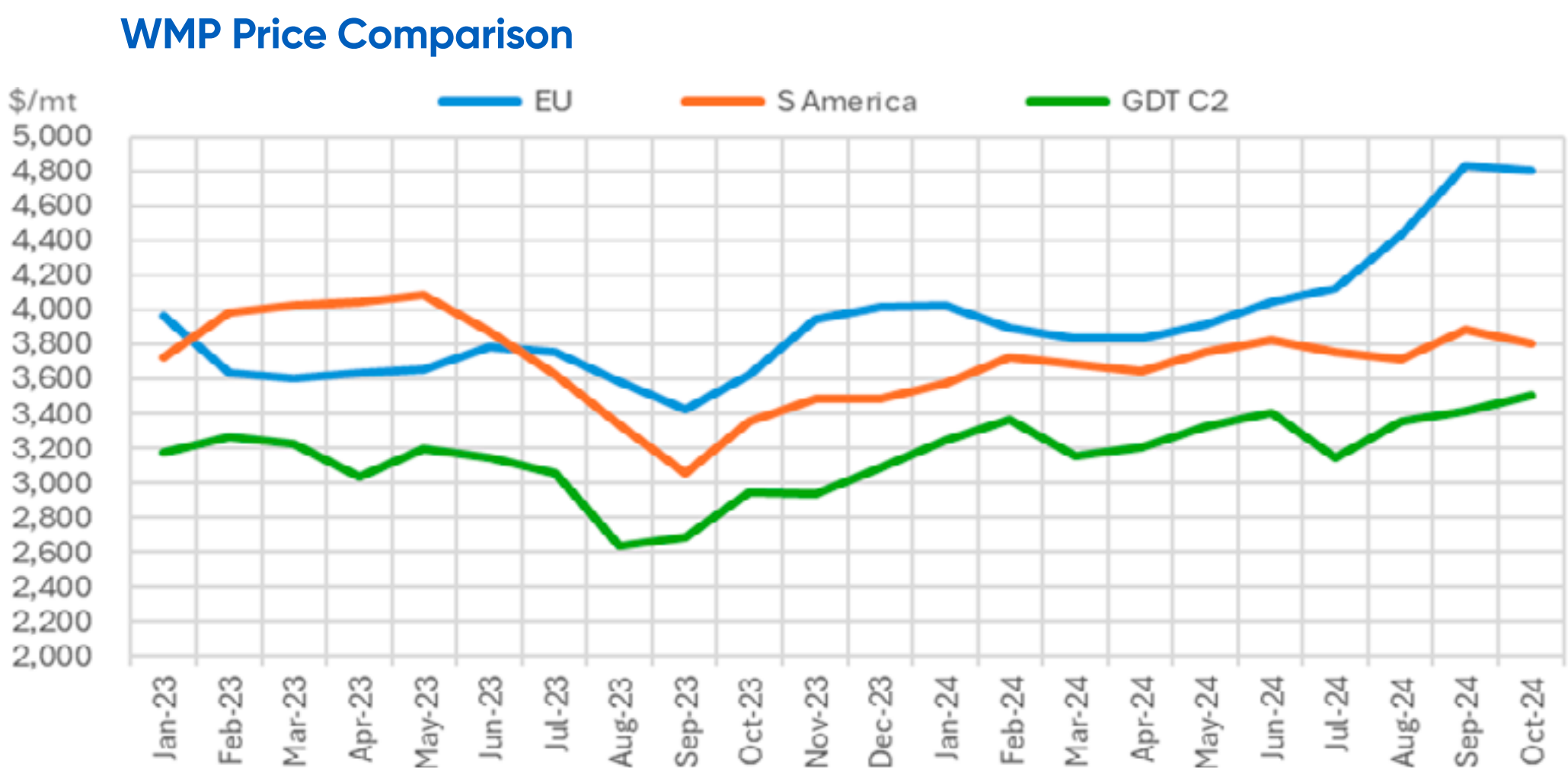
SMP:

SMP+Butter is close to cheese in terms of valorization in Europe, but in NZ, it does better than WMP or Cheese. Thus, we expect a continues strong SMP (+Butter/AMF) from NZ while production in the Northern Hemisphere is still focused on cheese. On top of that, the stock levels remain low. The US had an uptick, compared to the low stock volume 12 months ago, indicating that domestic disappearance struggles as well. Going forward, with Bird Flu-cases in California still a potential problem for milk production in the Golden State, we don't expect production to increase strongly over the already weak numbers from Q4 2023. In Europe it's not much different. A continuation of a low production trend, while cheese production is still on the increase.



WMP:

If we look at the historical international WMP prices since last year, we would find out that WMP prices of top 3 WMP export regions all bottomed in Aug-Sep 2023 and then stepped up, and keep a firm trend till now. Oceania WMP prices remained the most competitive compared with Europe and South America.

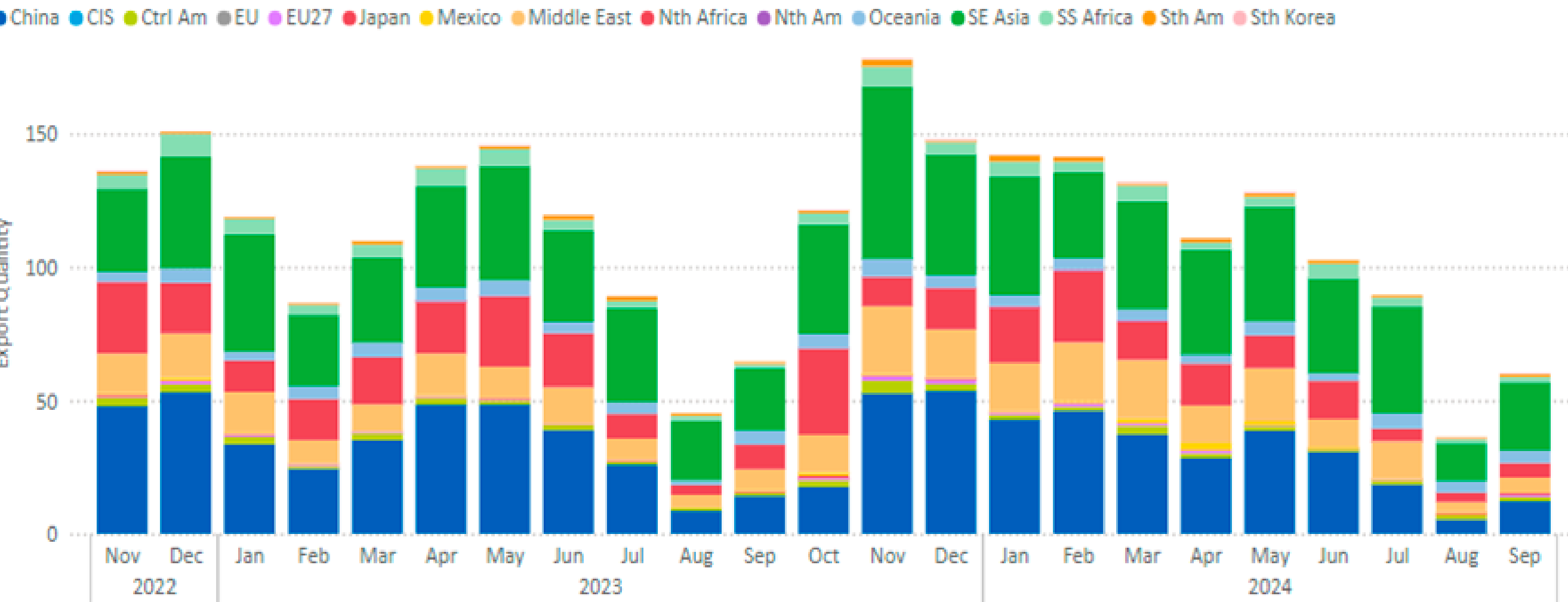


However, WMP imports of China, as the largest WMP importer in the world, decreased by 12.5% YOY – during Jan-Sep period this year. In this context, how can global WMP prices be supported?

The answer is strong demand from Middle East and S.E. Asia. In the first seven months this year, Middle East WMP imports increased substantially, +38% YOY or +52 kt, while S.E. Asia WMP imports advanced obviously as well during this period, +10.6% YOY or +30 kt.

Rising buying interest from Middle East and S.E. Asia not only made up for the losses in China WMP imports but also brought world WMP trade volume up +6.4% YOY or +75 kt during Jan-Jul period this year. Below graph of New Zealand WMP export destinations presents such situation quite well that higher import demand buoyed global WMP prices this year.

WMP (HS:040221, HS:040229) Exports in 2023 and 2024, New Zealand



Bulls vs Bears...

On the bullish side:

- On the very short term the EU struggles with BT. US herd size is still below last year and Bird Flu.
- 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.
- Expensive milk fat affecting the value of milk.
- Global import demand for H2 is expected to be a little bit better than last year, and lower Chinese milk production might be a catalyst for that.

On the bearish side:

- Domestic demand feels weak; the US has registered very weak domestic use figures (double digit decreases) and the EU is said to be neutral at best.
- Assuming slightly better milk production for H2, for US and EU perhaps in Q4. The expectation is milder due to Blue Tongue (BT) and Bird Flu.
- European exports are dependent on N-Africa, will their demand stay strong?

A Quick Note on... Whey.

US WPC and WPI Production:

Total cheese production remained steady compared to both September 2023 and August 2024, in line with a slight 0.1% increase in milk production. Whey Protein Concentrate (WPC) production is down significantly across all categories.

Both WPC 25-49.9% and WPC 50-89.9% showed declines in monthly and annual volumes and stock levels. WPC 25-49.9% recorded its lowest monthly volume since data tracking began in 2003, while WPC 50-89.9% hit its lowest September level since 2014, with stock levels dropping over 10 million pounds from last year.

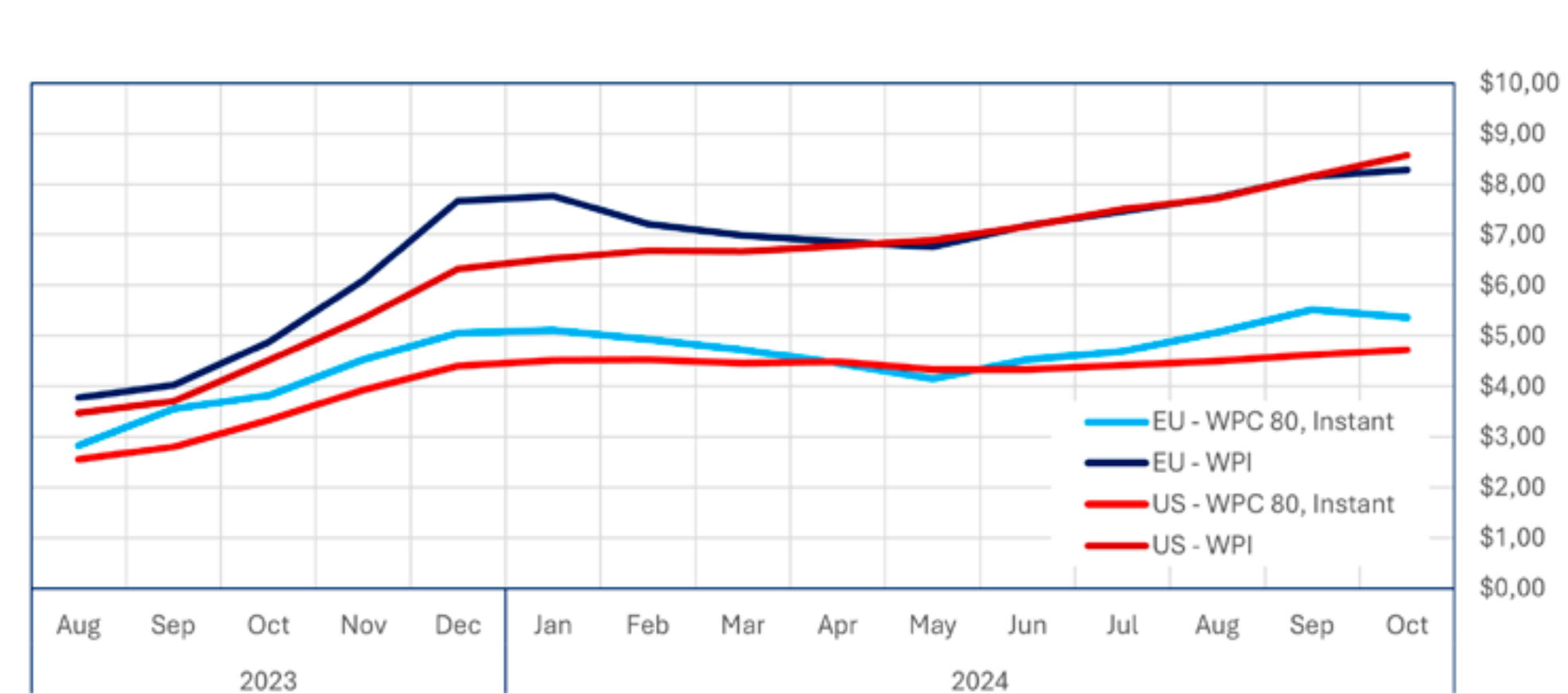
Meanwhile, Whey Protein Isolate (WPI) production has surged, reaching 17 million pounds for the first time, up 23% from September last year. Year-to-date WPI totals have already surpassed 2023's annual numbers by 46%. Despite this growth, WPI stock levels declined compared to both last month and last year, driven by strong demand. Inventories fell month-over-month by 4.8% and year-over-year by 18.7%, reaching their lowest point since April 2022.

Demand side

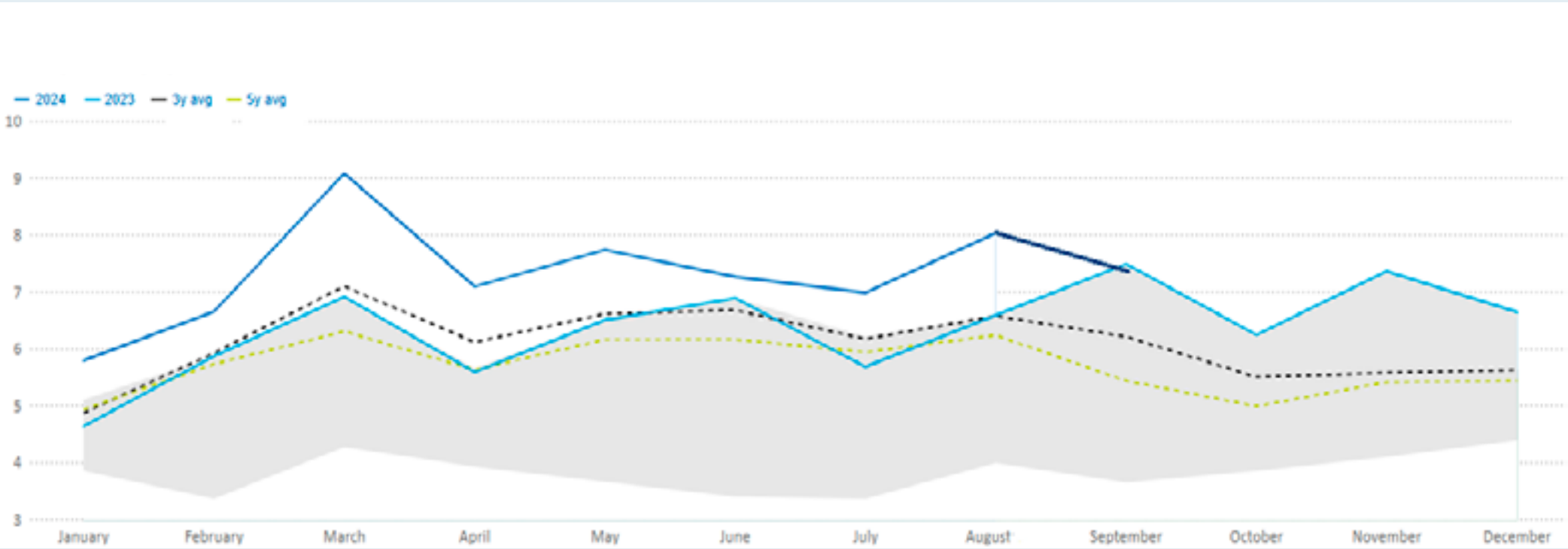
Exports: September 2024 marked the first annual decrease for WPC≥80 since June 2023; however, exports for the month still ranked fifth all-time, just behind September 2023, which ranked fourth. Both WPC≥80 and WPC<80 categories saw year-over-year declines in WPC production.

The USDA also revised June's production down by 8.577 million pounds but slightly increased stock estimates.

WPI & WPC-80 International Price Comparison is US\$/lbs. Monthly averages



WPC-80(HS:350220) exports, US, 2024



A Quick Note on... Futures.

By: Joris Thys, Derivatives Trader, HTM

If hindsight trading were an Olympic sport, I'd be in with a shot at Gold. Looking at the EEX SMP market, everything now seems so obvious. Since early 2023, prices have bounced between 2300 and 2800. If I'd gone short at 2800 in October 2023, I could have bought back in March 2024 at 2300 for a nice gain.

Since then, prices have been trending upward within this longer sideways range, giving another opportunity: in October 2024, buying at the 2575 support level would have been a winning move, as prices have risen since then. Right now, the market feels strong, hovering around the first resistance level of 2750 (the high from September). If prices break above 2750, we could see a push toward 2800—the top of the two-year range—where we'd likely face more resistance.

A clear break above 2800 would be a bullish signal, suggesting a shift in the market fundamentals that have kept prices in this range. Until then, it's probably best to stick with what's worked: trading within the familiar range.



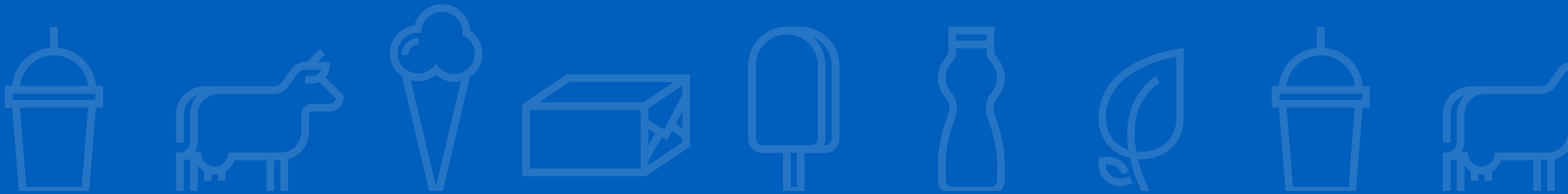
Unlike the stable SMP market, butter has been a rollercoaster of volatility over the past two years, with big price swings. In 2023, the third continuation contract for butter hit a low of 5200 in Q1 before surging above 8000 by September.

Afterward, prices dropped back to 7000 on expectations of more milk, fat, and butter supply. However, the market soon realized that butter supplies remain tight.

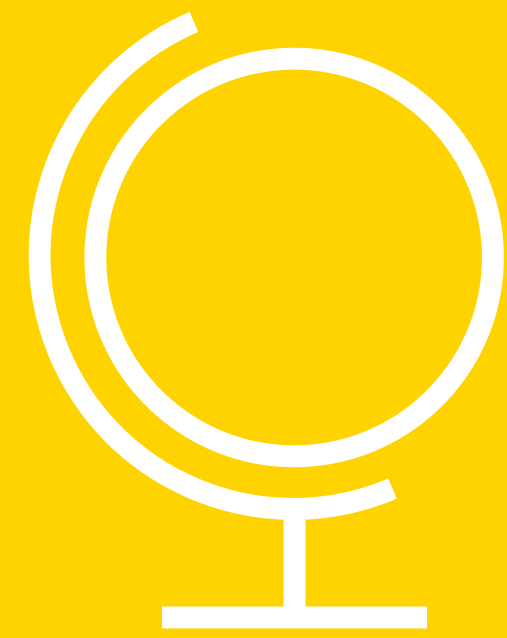
With cream prices above 10,000 EUR per ton, producing butter is currently unprofitable, which has kept the market in steep backwardation (where future prices are lower than current prices). Prices recently bounced back to 7500, breaking through that resistance level.

As long as the market trades above 7500, a retest of 8000 on the third contract seems likely—especially since spot prices are already at that level.

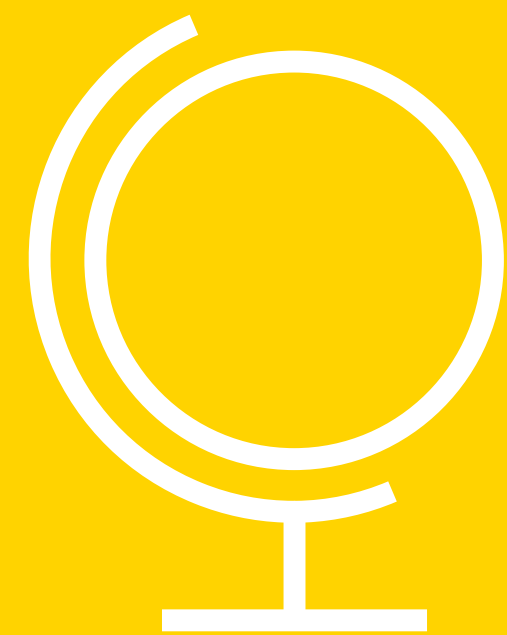
The big question is whether this trend will hold through the Christmas season, traditionally a time of higher cream availability. That could shake things up, and whether prices maintain strength or face pressure will determine the next leg.



World Comment.



Anna Szymańska
Commercial Director
Business Unit Cheese



I believe I am one of the few Hoogwegt employees whom Henk Hoogwegt interviewed in the early fall of 1992 for a job when Hoogwegt opened its office in Poland. My career started with a position in the Logistics Department, but the challenges facing Polish SMP exports showed that my education in Food Technology could be very helpful both in choosing SMP as well as opening the cheese trade within Hoogwegt.

I still remember my numerous trips with Delvotest SP from one dairy supplier to another to check antibiotics and inhibitors in the Polish SMP before export to the Netherlands, when it turned out that the SGS tests did not guarantee success in selecting the powder. On the other hand, it was an excellent opportunity to meet people from the dairy industry, establish relationships, and gain recognition among people from this segment. In June 1999, after 6 years of work at Hoogwegt and over 7,000 tons of cheese sold in the financial year 98/99, in parallel with my logistic duties, I was promoted to the position of Sales Department Manager and became the first official female salesperson in the entire Hoogwegt Group of companies.

My technological background was and still is very helpful in the cheese trade, so I naturally proved myself in the cheese trade long before Hoogwegt Cheese was founded. The main area of my activity remained Eastern Europe, Western Europe, the EU, but also the USA, Russia, and North Africa.

I can proudly admit that thanks to my acts, over 300,000 tons of cheese have been successfully invoiced at a good profit. The outcome was the result of specific work autonomy, business dynamics within the Hoogwegt organization, as well as the milestone that Poland took in 2004 by joining the EU.

The fact that we cover the entire cheese trade segment, from commodity trade through to HoReCa, but also the retail market through distributors in the Czech Republic, Slovakia, Hungary, Ukraine and Israel, gives us knowledge of the rapid changes in this market segment.

I consider changes related to the war in Ukraine, the Green Deal to be implemented in the EU, and soon changes in global trade as a result of Trump's election as challenges for the coming months and years. We cannot ignore new players on the supply map, such as China - in the case of UHT and SMP milk, India in the case of butter, or North Africa with climate change and EU financial support to increase cheese production. What could be the potential impact of Ukraine's agriculture after the war?; Will the EU remain with its doors open, unrestricted by the EU's cheese quota? What will happen to milk consumption in the EU in the face of climate change? And also the much discussed lack of succession for dairy farms? Will this shortage lead us to an increase in the consumption of alternative protein foods and how can we maintain market share with a possible change in food profile?

The answers to the above questions force me to look for solutions. My professional experience should help the Cheese Team find the right flow of goods, well ahead of others. Of course, I'm happy to share my knowledge with new cheese mongers, helping them when needed. I share the cheese group's ambition to grow and develop ways to add value.



Hoogwegt Happenings.

Hoogwegt and Meelunie had a fruitful tradeshow at Gulfood 2024. Thank you all of our partners for the insightful discussions.

We hope to see you all again soon!