



Horizons.

Our insights
on Today's Global
Dairy Business

March 2023

#03



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Well well well ...

February came, saw and conquered.

For a month with merely 28 days, February saw many pretty spectacular events, to name a few: Lunar New Year festive cheer, Valentine's, Gulfood, a sudden uptrend in Dairy Prices and in different regions of the Netherlands we were able to spot the beautiful Northern Lights up in the sky.*

Whilst fundamentally, many of us were not expecting spikes in prices, market sentiments did bring about some passionate rallies in the futures and physical markets.

Join us in this issue as we try to unpack fundamentals and deep dive into specific dairy products' price movements.

We also have guest contributor Nicolas Prince, Managing Director of Hoogwegt Latinoamérica write about his 15 years at Hoogwegt and what the Latin American origin is hoping to bring to the table in 2023.

As always,
Hoogwegt Horizons Editorial Team

N.B. *We also saw the dramatic events in Turkey and Syria. Our thoughts are with the victims and all the people who lost their loved ones.

Market Direction

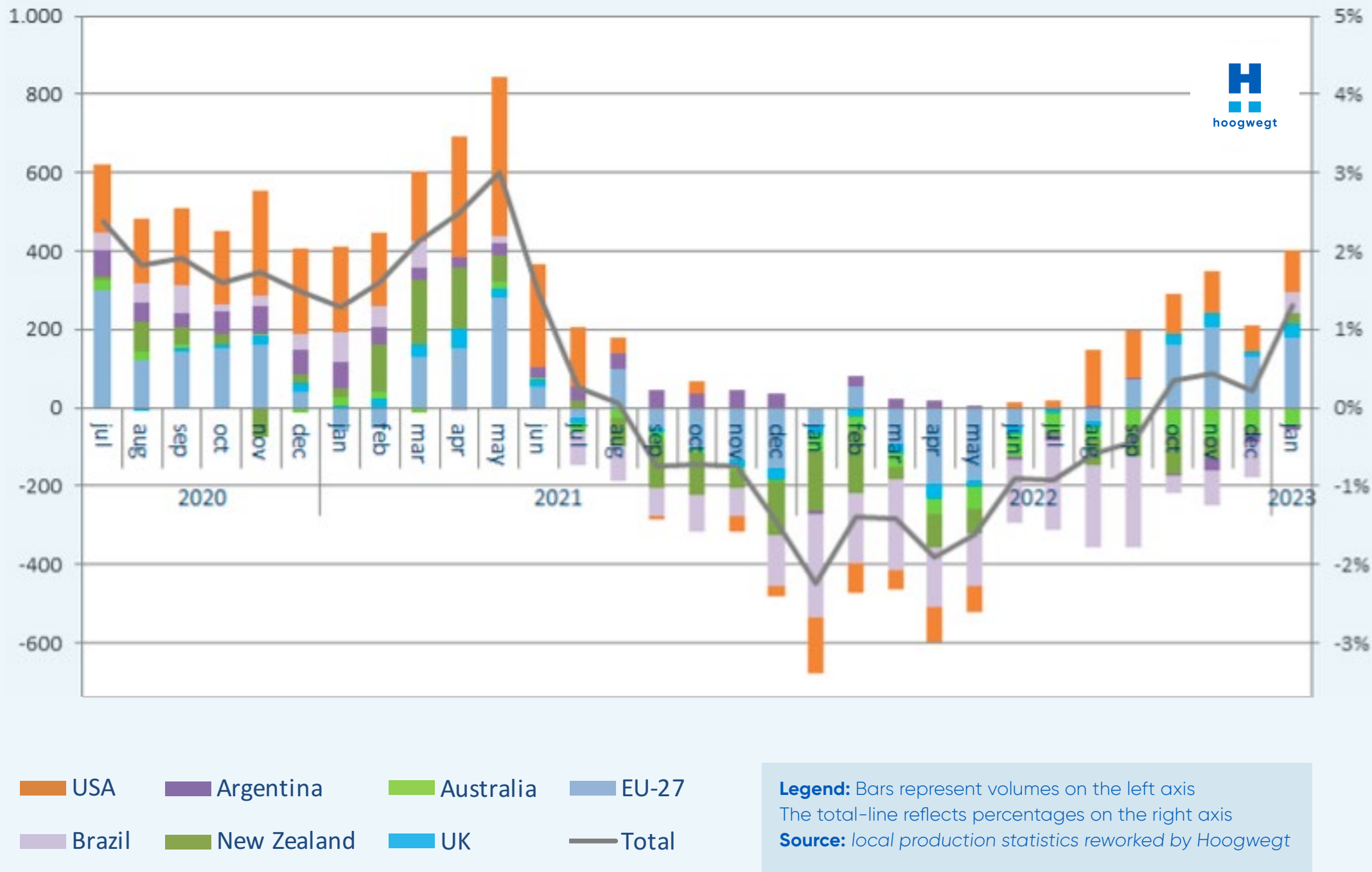
Global milk supply takes it up a notch.

Although we are comparing with weak 2022 numbers, January production data point towards strengthening milk supply in the main export regions combined.

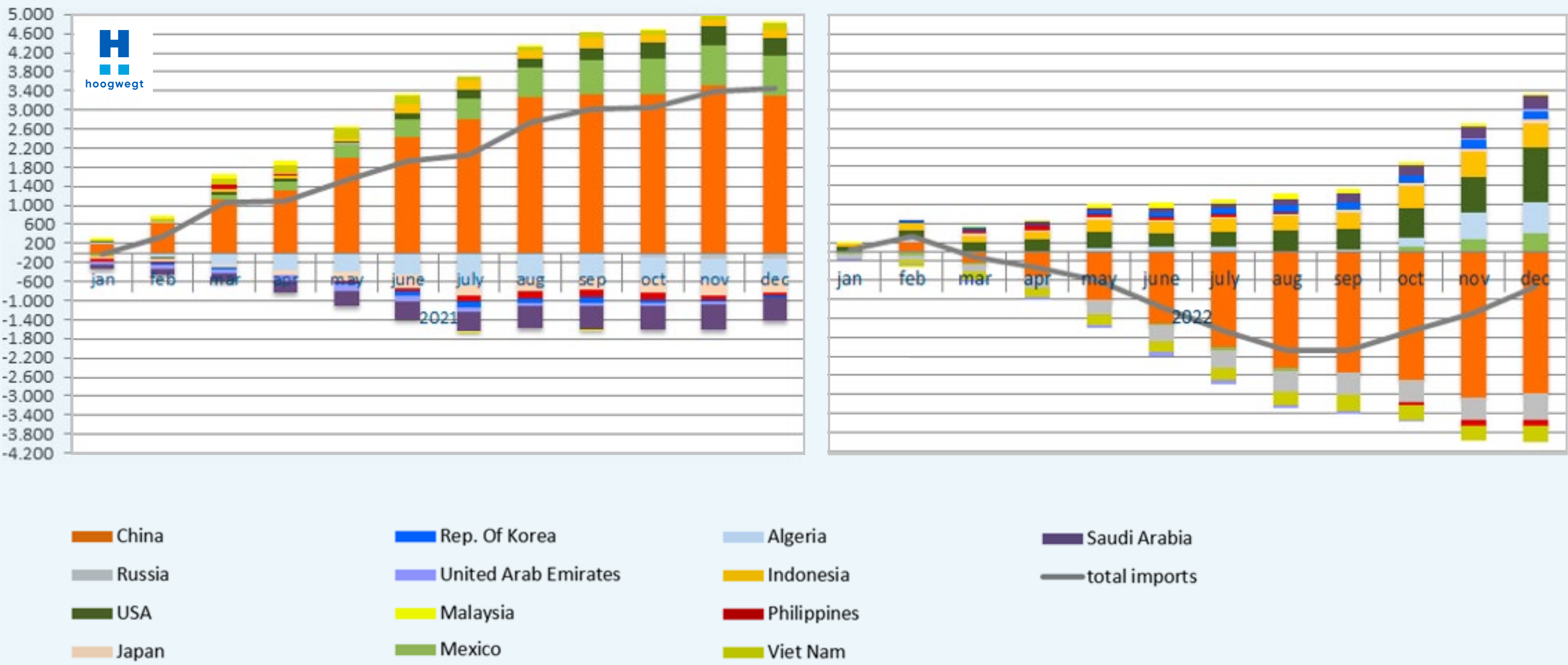
The EU is essential but New Zealand also went from decline to growth in January and the weakening of US supply growth proved to be temporary as the January number was above +1% again. Whether global supply growth can sustain a combined growth rate above 1% - which is required to at least erase the decline in H1 of 2022 - depends largely on the EU in Q2 and Q3. The way the fundamentals look at the moment, there is very little that can prevent a strong peak for the EU in Q2, apart from weather. When we get to Q3 however, things may become more challenging for the supply side of the market. EU production growth is to some extent fueled by keeping the older cows on the farm for longer than normal. This is economically viable for as long as milk prices are above €0.45, but milk prices are rapidly falling towards that level at the moment. Given the still elevated production costs, it probably no longer makes sense to keep the less productive cows in production when milk prices drop below that critical level.

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Milk supply growth in key exporting regions (Y-o-Y change, 1000t)



Imports by the big-13 importing countries
(cumulative change compared to previous year, total imports in 1000t of MEQ)



NB: The graph displays monthly cumulative changes in import volumes compared to last year for each single country. The grey line is the total cumulative change compared to last year for all countries combined
Source: Dairyntel trade data, reworked by Hoogwegt

→ continuation

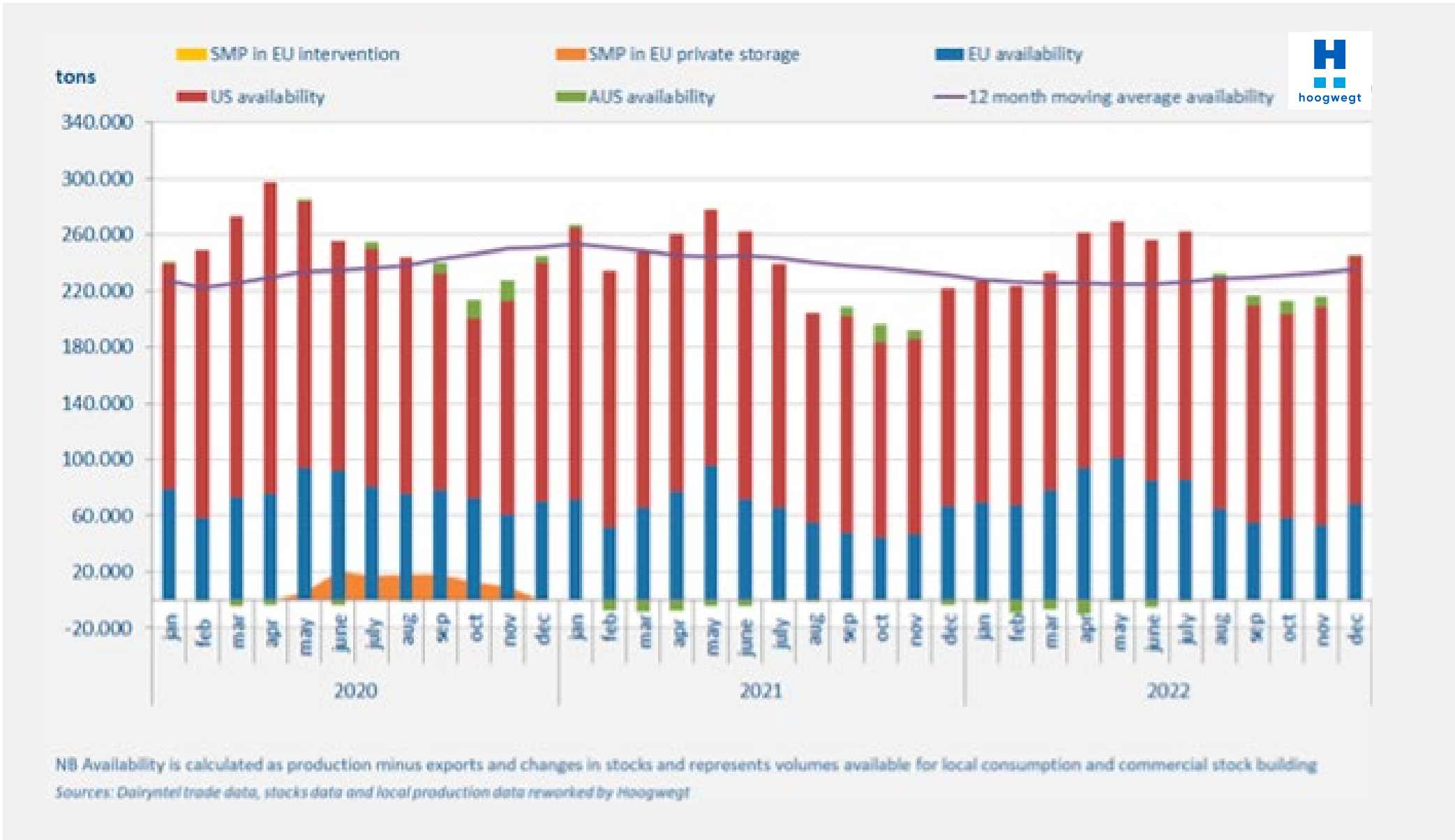
During December imports continued to make up for the losses that were made earlier in the year. Total imports reduced the gap with last year from about 2.2 bn kgs of milk equivalents at the end of Q3 to about 0.7 bn kgs of MEQ at the end of the year. The Middle East, Indonesia, the USA, Algeria and towards the very end of the year also Mexico compensated for the weak import requirements of China and Russia in 2022. The fall in commodity prices towards the end of the year clearly seems to have brought buyers back to the table. Also probably because the sell side started to open up to exports again. Now that dairy has turned into a buyers' market again it will be interesting to see how price developments affect buy-side behavior. After many months of hand-to-mouth buying the buy-side is starting to become more comfortable about building forward positions. However, few buyers are as yet comfortable enough to already start purchasing for the second half of the year.

SMP: Export availability out of all regions improves

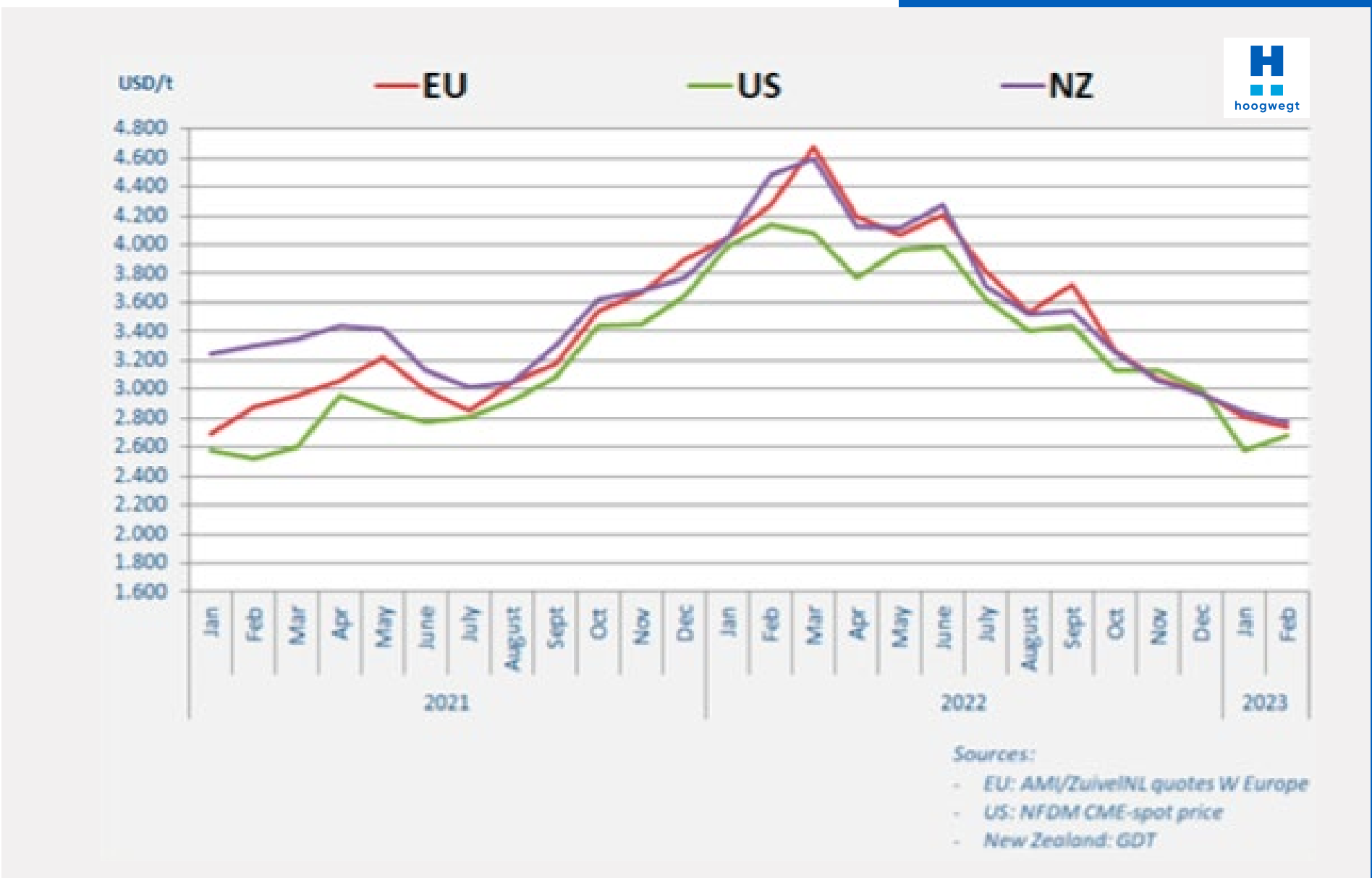
Global availability of SMP and NFDM improved in December, as it normally does right after the Southern hemisphere peak months. Availability out of Oceania is relatively strong due to NZ milk supply regaining strength after November and Chinese import demand still not being strong enough to absorb all post peak surpluses. US export supply appears to be targeted at Mexico mainly but overall availability and stock positions are solid. With a strong supply peak in the EU coming up the market

balance looks comfortable for the buy-side. It is therefore not a surprise that prices remain closely aligned. EU origins are currently competitively priced due to the recent weakening of the Euro but price differences can evaporate within weeks as long as prices remain this close together. Overall it is difficult to identify material upward price potential from this point onwards but fundamental arguments for additional downward momentum also seem to be absent.

Production, exports and availability of SMP in EU, US and Australia¹⁾



Monthly SMP prices in the main export markets



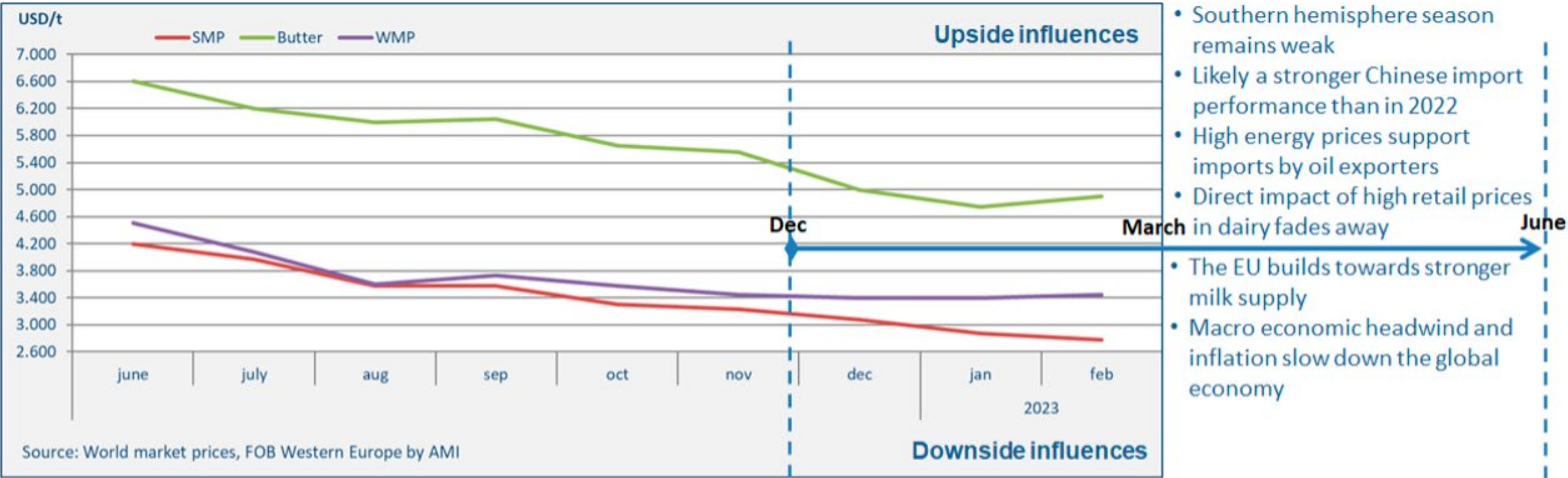


Looking forward

It is difficult to find arguments why prices should leave the current trading range in the next couple of months. Prices of most products have recovered somewhat after overshooting in early January. This trend may continue for a few more weeks depending on the willingness of buyers to build further inventories. Additional price recovery will likely slow down when the - what seems to become a strong - EU flush arrives. Still, within the current trading

range significant volatility from week to week may occur. For two reasons, firstly because China’s import requirements as they will be distributed over the year is still a major unknown. Secondly because due to the turbulence of the last 3 years, both buyers and sellers have lost track of what a normal equilibrium price actually should be for dairy. ■

Market Outlook for March - May 2023



Dairy Deep Dive

European SMP

As SMP prices came off even harder than they should we saw a valid price correction enticed by sentiments and short coverings. But with cows lined up for the European flush, and upcoming production still outweighing both domestic and global demand the environment from the fundamental perspective still looks bearish for H1 on EU SMP, affecting the US as well. US NFDM+SMP Production saw a trend break from the streak of low production months, it's on the watchlist to see how that develops.

SMP: H1 2023 Exports out of Europe and EU's trade share should be higher compared to 2022, but so should the European SMP Production.

Current milk production growth over 2022, 2021 and 2020, less 'fluid' consumption, current valorisation should lead to higher than H1 2022 SMP production. Be aware that the outlier was H2 2021, we bounced back to 'normal' in 2022. H2 could see lower production on the estimation of struggling milk growth. SMP+Butter valorises better than cheeses and on par with WMP since the start of February. At current estimations, Europe should see 30-40Kt more SMP in Q1 2023, compared to 2022.

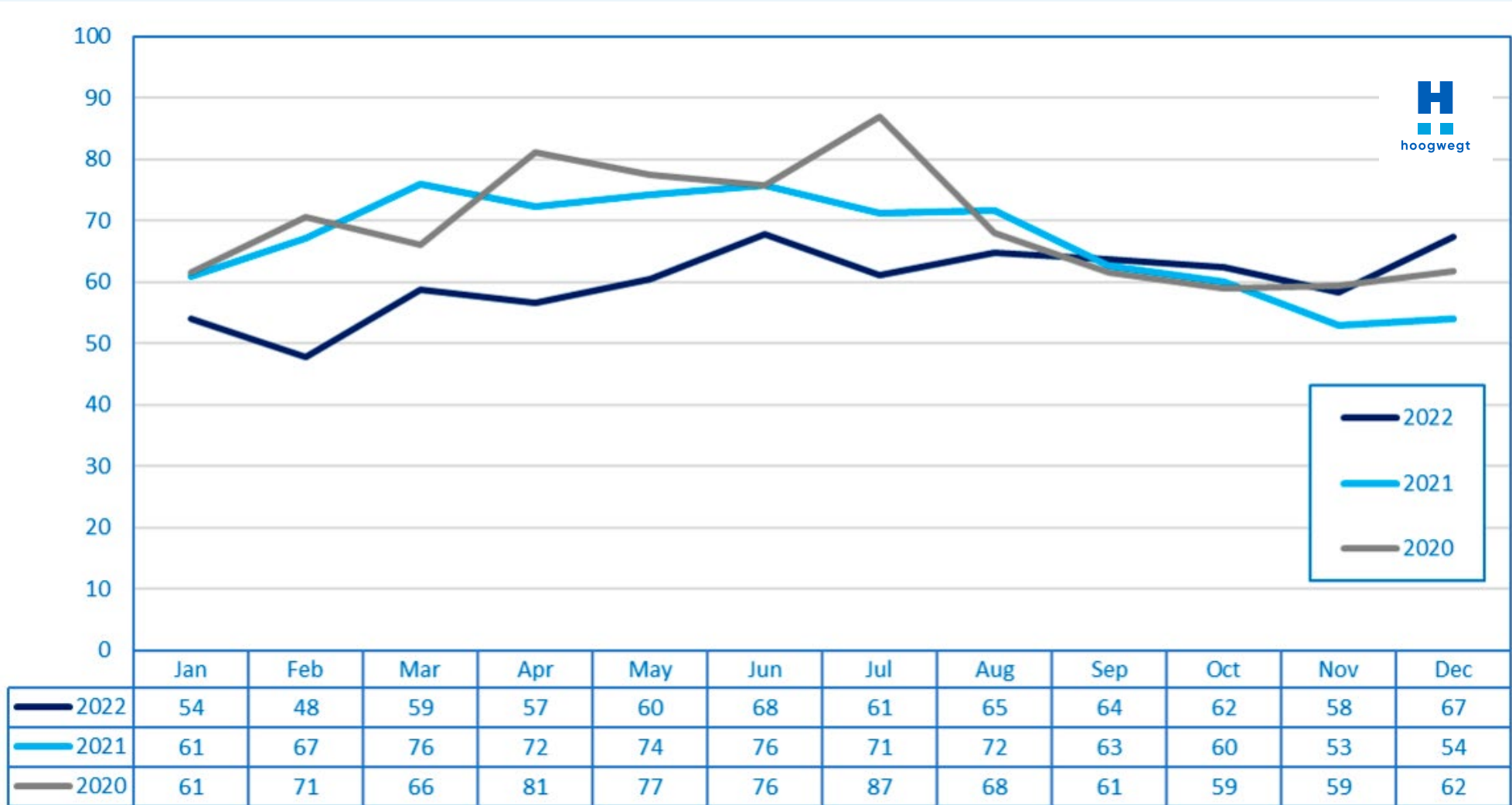
EU SMP Exports on the increase.

- Turkey and India are not competing. They (combined) sold 10Kt/m on average in 2021, and in H1 2022.
- Increased global demand over struggling demand last year.
- Twelve months ago the European export availability for SMP was lacking.

Europe sees NZ wanting to export more, as we expect an increased SMP export availability from NZ, indicated by ONIL. December SMP Exports out of the EU-27+UK were quite strong on strong N-African demand. Overall the year as a whole was weak, we lost almost 10% in exports, 75Kt.

more →

EU SMP Exports 2020-2022 in Kt/m



→ continuation

Bulls vs Bears...

On the bullish side:

- A struggling Southern hemisphere in general.
- Turkey and India aren't competitive.
- China's change in paradigm and easing restrictions, low demand on the short term but everybody is eyeballing when China's back and through the Covid-peak.
- Prices dropped, this should attract some buyers Low stocks on buyers' side and short coverings.
- Low stocks on buyers' side and short coverings.

On the bearish side:

- US, EU growing milk production. EU SMP on increased production over last years low.
- SE Asian demand seems to be low.
- Recessions, inflation leading to drops in demand.
- Better availability in terms of stock level compared to 2021 at producers.
- Fresh consumption closer to pre pandemic levels.

Things we watch:

- A lot of unprecedented things: No quatum and reopening China. N-Africa may have overbought, NZ Product mix
- Volatile forex skewing trade shares. Volatile input costs.
- Winter and gas crisis. Current EU Storage level is still at 85% and 10pp above last years level, So far so good.
- UKR/RUS conflict going into a winter and has question marks all over the place.
- Shipping costs have eased further but China's Covid-situation could mess up supply chains.
- Possible stock building by China, although that may be a bit further down the calendar.

A Quick Note on...

Whey

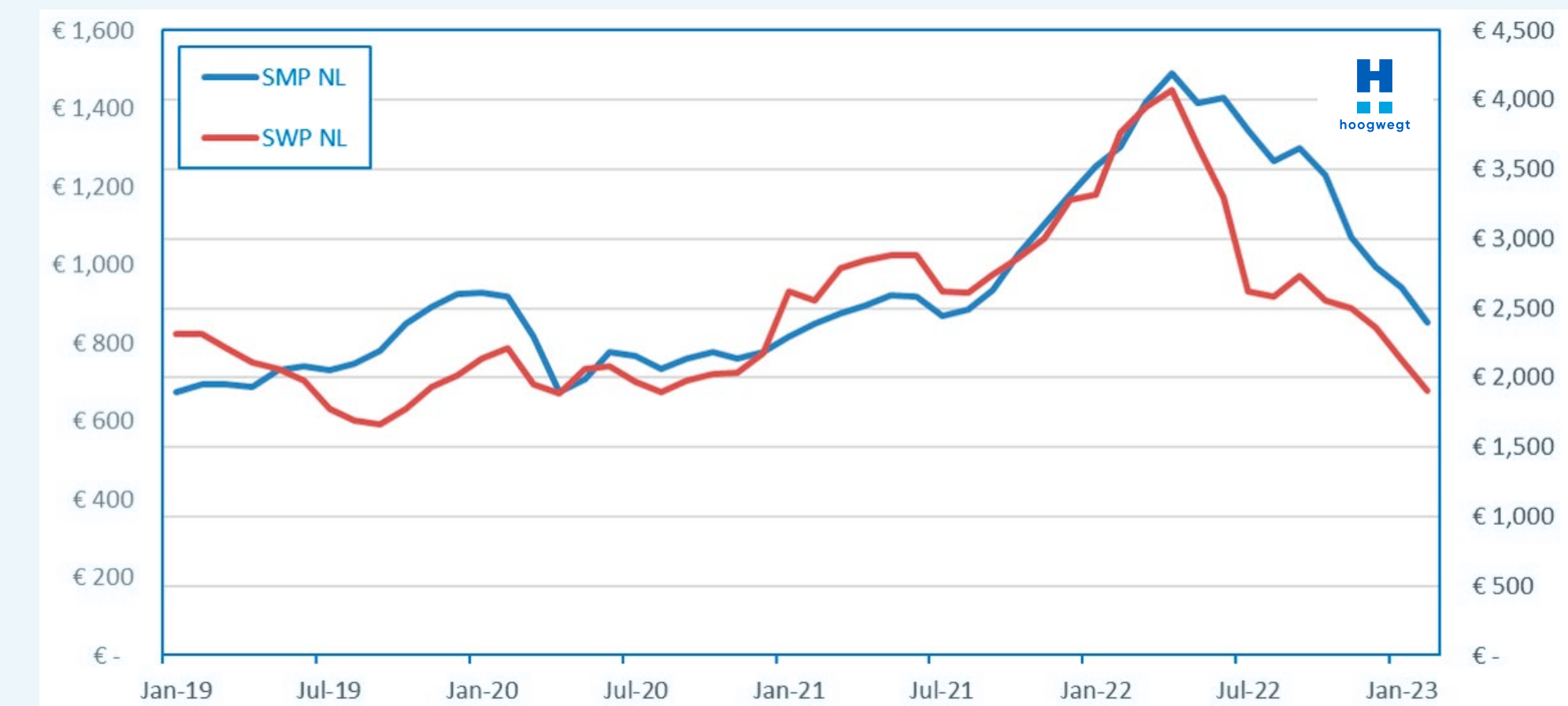
By John Kramer, Global Product Lead - Whey, Lactose & Permeates

- With plenty of attention given to SMP as well as WMP price movements recently, many might overlook a nervous and relatively opaque whey market in the last weeks.
- The dwindling price trend was counteracted in the EU Intraday trading with some market participants (traders) buying up the market via brokers (EU SWP Feed Grade in Silo trucks).
- The €660 level markets reached were pushed up to €790 just within a matter of days.
- Not being able to surpass the €800 level, markets went back down again to current levels just below €700.
- To ponder the reasons behind this short bullish onslaught is a challenge.
- Are market players over-optimistic on the SEA demand recovery and restocking? Do they see a fast and furious shrinking of cow numbers now that milk pay out prices are crumbling? or did they simply want to create an upward momentum before selling short again?
- Perhaps it's a bit of all of the above.
- Fact is that with current pattern of decreasing milk pay out prices, we will approach the cost price level for farmers sooner than previously anticipated.
- Farmers have pushed up milk output since Autumn 2022 not so much through setting up new calves, but rather by keeping older, end-of-career cows longer in production combined with extra compound feed input.
- This postulates farmers will react in coming months when they see their margins coming under pressure and presumes downward milk output.
- On the other hand, we don't see clear and present signals of demand recovery across the globe. It appears that the markets are clinging on to China buying appetite a bit too heavily and the bullish sentiment is built on wishful thinking.

Did You Know?

- When we take a look at European SMP and SWP, it hallmarks parallel patterns in price developments.
- From a historical perspective, SWP has developed as cheaper alternative protein and carbohydrate source in many applications - for both Food and Feed.
- Especially in Milk Replacers, the portions of SMP over time have been cut back tremendously in favor of SWP.
- When SMP Intervention (IV) stocks built up in the 70'ies and 80'ies, Feed markets provided a subsidized outlet for the "powder mountains" and was incorporated massively in the formulations.
- Once SMP output lowered and IV stocks vanished, more and more cheaper whey powders were pushed in to the Milk Replacer, proving to be a highly valuable and cost price effective replacement for SMP.
- So over time, both products move along in same trends. However, the Feed market consumption influences the Whey complex to a much higher degree now than SMP.

SWP (NL) vs SMP (NL) Monthly Averages



→ continuation

Futures: EEX

By Joris Thys, Derivates Trader, HTM

Plenty of volatility over the last month in the Powder markets. After the lows in January powders rallied in February and after as small breather they ended strong last week. Though fundamentals have not changed all that dramatically we see end users buying, while producers remain largely absent in the market.

One constant over the last weeks has been one of increasing contango. For some this might be a bullish sign, as the deferred prices could indicate that the market anticipates higher prices. For others this might be a bearish sign, as an

increasing contango can also be seen as the market paying for storage which is a sign off well supplied markets should mean stock building.

- For the CME NF we see support at 120c/lbs and resistance around 130c/lbs
- For the EEX SMP support is at € 2500, resistance at € 2850 p/t
- For the SGX SMP support is at \$ 2825, resistance at \$ 3100 p/t

Last GDT was slightly weaker then expected but this didn't change the sentiment. Indeed the SGX SMP felt slightly weaker and the WMP is trading sideways between 3000 and 3300.



World Comment.

Nicolas Prince Managing Director Hoogwegt Latinoamérica



As I start to write this brief introduction of myself, I realize I am only a few days away from celebrating 15 years with Hoogwegt (March 1st). Wow!! Time flies when you enjoy what you are doing

and surrounded by great people. I still remember my first business like it was yesterday - 50 tons of Butter we bought from NOAL together with Pieter Kok.

I started in Hoogwegt in 2008 as a Junior Trader at the Argentina office where I had the opportunity to learn from great leaders like Marco and Staszek. Five years ago, I was appointed Managing Director of Hoogwegt Latinoamérica (HOLA).

With the recent changes implemented, we are now part of Dairy Essentials Americas; this now allows us to grow

stronger in the region with our fellas in the USA.

Within HOLA, we oversee sourcing products for all our sister companies in the Mercosur countries and develop business opportunities for our sister companies in the region. This allows

us to be able to work with a wide variety of product categories from WMP to Ingredients going through Butter and Cheese.

We are going through challenging times in the dairy sector in general and South American market is no exception. Climate has been a key factor for many of the challenges we are facing; Brazil suffered a strong drought during 2022 pushing back milk production by 4% and is only getting back on their feet very recently. With the projections we have today, they should make up for this loss during this calendar year 2023.

On the other hand, Uruguay production was held back in 2022 and is very likely for this drop in production to continue even in 2023. Last but not least in Argentina, we are also projecting a decrease in milk production year over year of between 3% and 5%.

I think we will see regional trade be dominant during the first half of 2023, driven mainly by good demand in Brazil and much higher prices than those achieved in the international markets today. This said, I remain confident that the second half of the year will be a different ball game and we will find a much more competitive and active trade from Mercosur countries to North Africa and Middle East. In the longer term, the Latino American region becomes an bigger player in the world of dairy!

Hoogwegt Happenings.

Gulfood Dubai

Hoogwegt was pleased to be present again at the largest food and beverage exhibition in the world, Gulfood Dubai. Covid clearly was not preventing visitors to come, as it was the busiest and largest edition ever. We were pleased to meet many of our business partners, from the Middle East and Africa, but also from many other places in the world. Happy that we were at this successful fair!

We are already looking forward to Gulfood Manufacturing in November.

Hope to see you all there!

Gulfood Manufacturing November 7 – 9

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