



Horizons.

Our insights
on Today's Global
Dairy Business

September 2022

#04



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Summer Lovin', Had Me a Blast!

Welcome to our September 2022 edition of Hoogwegt Horizons!

While many of us took our Summer Vacations, many parts of the world were (and are still) heating up. We explore the challenges and impact brought about by this extreme weather – not just in Europe, but also in China, where the heatwave has reportedly affected their Autumn Harvest.

We also discuss macro issues like EU/USD parity, cash-flow / liquidity issues and the looming gas costs / shortage which will see a larger impact in the winter months to come. Guest contributor Olaf Willemsen, shares with us his thoughts of 2022 past, and his ambitions for 2023.

On Hoogwegt Happenings, Charles Lesmana represented Hoogwegt as a Panelist at a recent US Dairy Export Council (USDEC) webinar. Also, do come by our booth F40 at the upcoming Fi Indonesia 2022 happening 7th to 9th September in Jakarta, Indonesia.

We hope you enjoy this edition of the Hoogwegt Horizons!

Sincerely,

Hoogwegt Horizons Editorial Team

Market Direction

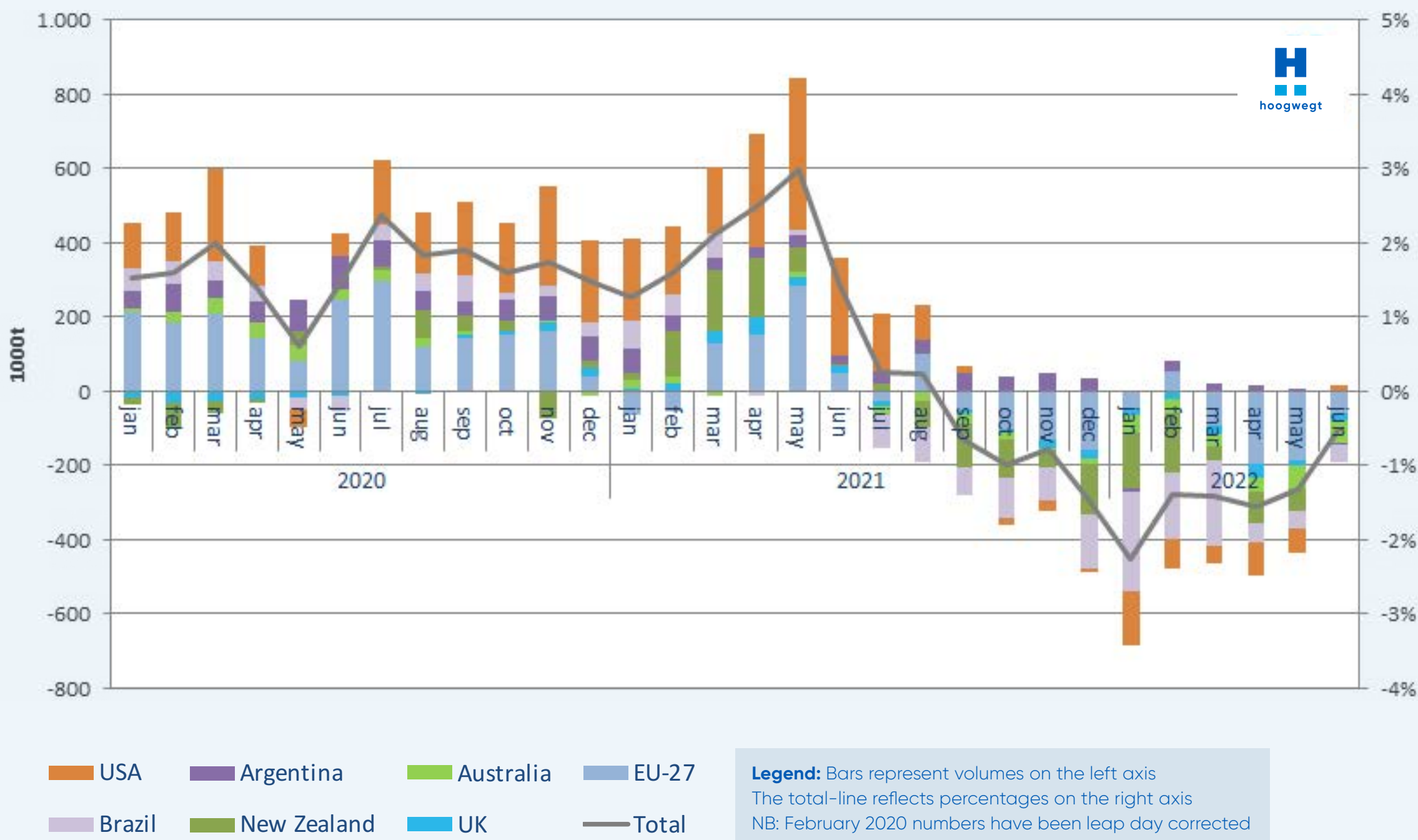
Drought Postpones The EU's Return to Milk Production Growth.

In both the EU and the US manufacturers report that dairy farmers are working towards stronger production growth in months to come. The physical restrictions of this process however imply that things will take time. The extensification of farming systems due to the high cost of virtually all inputs has increased the dependence on on-farm resources, local silage availability and most importantly: weather.

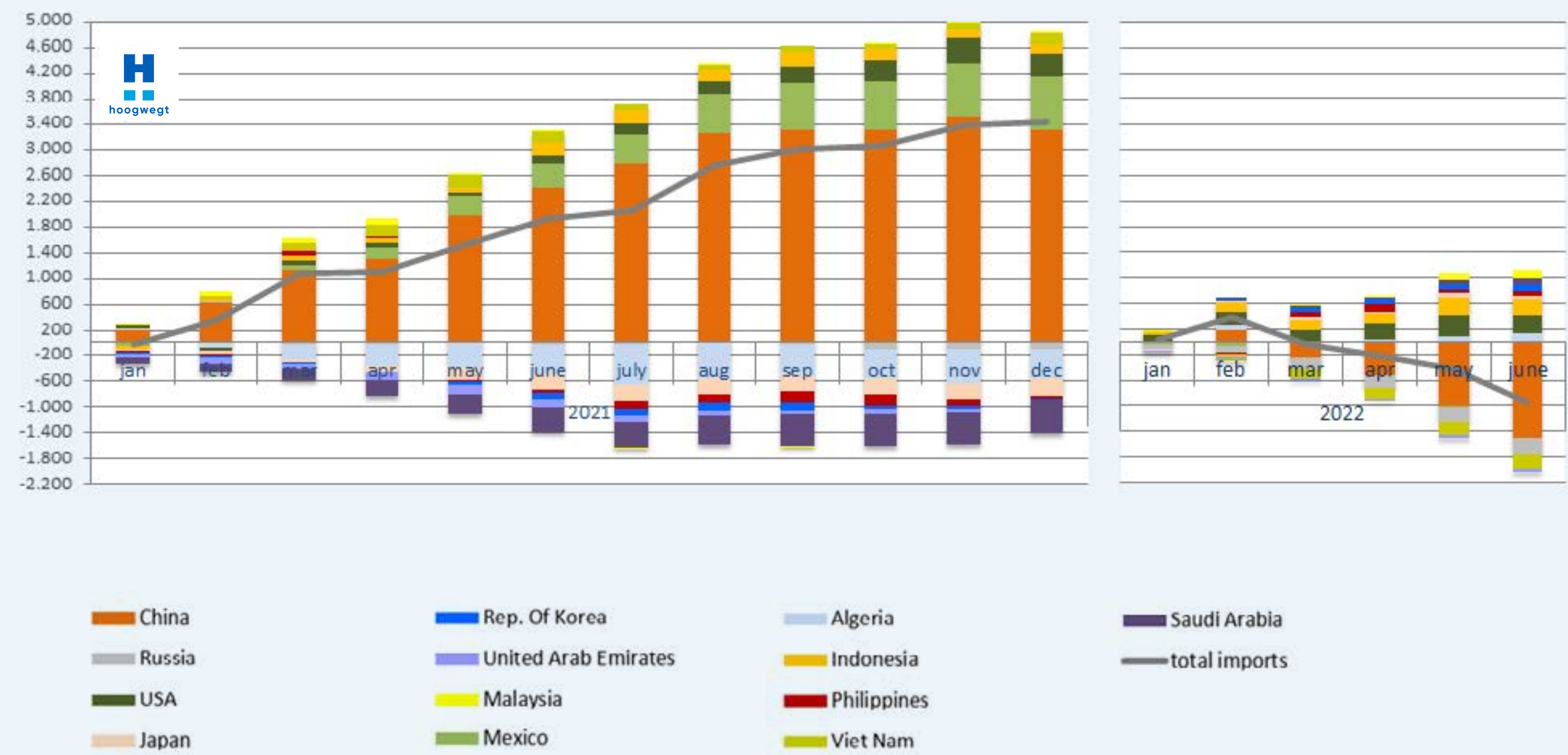
The mindset and ambition may be a given but in Europe it currently is the dry and hot weather for instance that is hampering the ambitions. Meaningful EU supply growth will therefore be postponed until Q4. US milk production seems to grow again since June but the current growth rates are still minimal. In the near term it will be the start of the new season in Oceania and Latin America that will capture the attention of market participants. It remains to be seen if Oceania's milk output scenario will make the difference in the market balance though. It will rather be what happens on the receiving end of that milk in China.

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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 13 countries combined
Source: Dairyntel trade data, reworked by Hoogwegt

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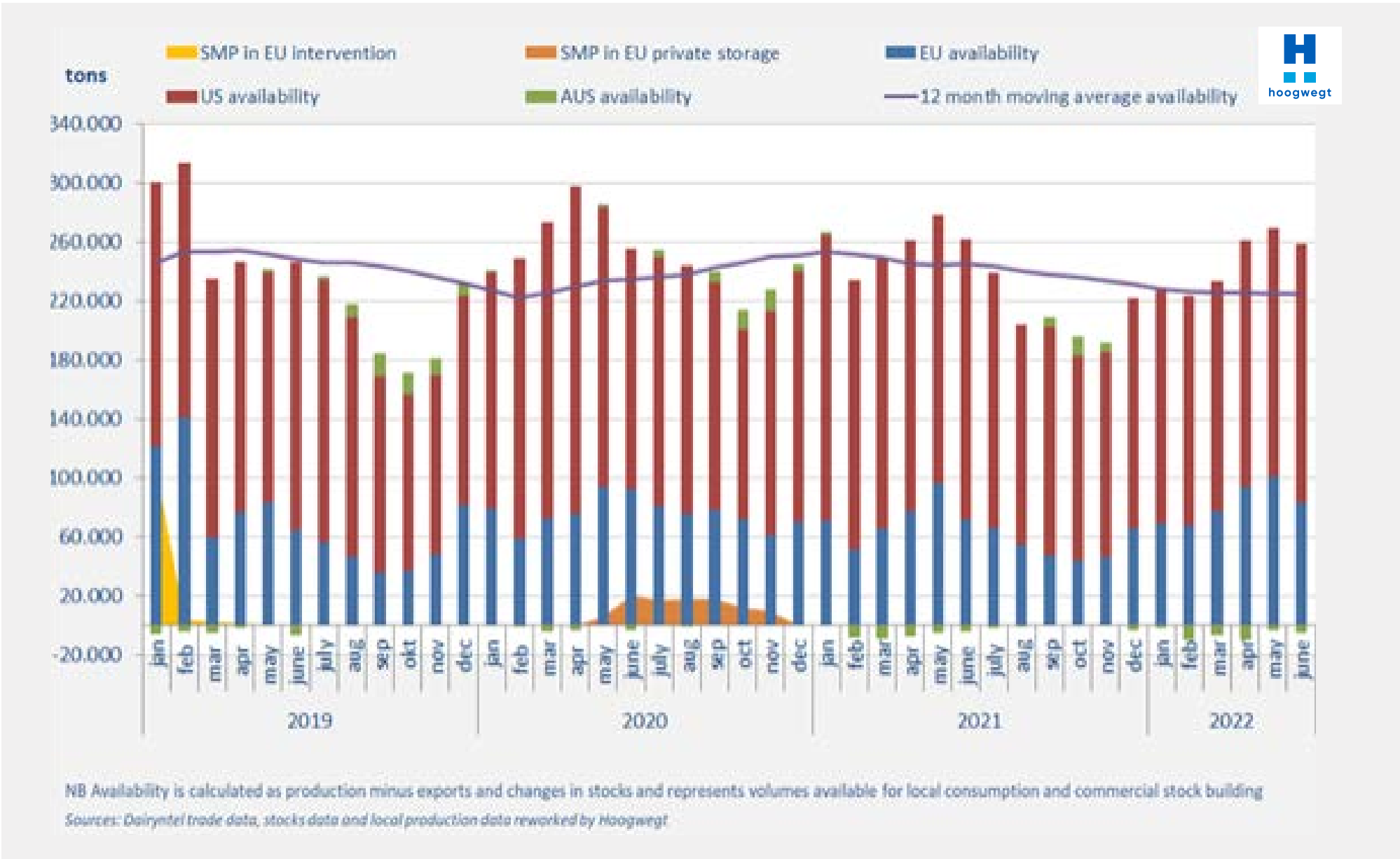
Total imports in the first half of 2022 remains below last year's H1 total. China was instrumental as imports by the US and SEA actually improved. The opening up of the second ONIL tender last week suggests that Algeria is also catching up. So, all together global trade has not been affected too much by the very high import prices, at least if we take out the China factor. For the near term price direction Chinese import demand will obviously be the variable to focus on. July import data were once again 40-50% down in the crucial powder categories, but cheese, AMF, lactose, butter and Infant Nutrition did better. It seems unrealistic to assume that last year's total of 18.6 bn kg of MEQ can be reached now that we have 7 months behind us. However, some degree of recovery in the remaining months of 2022 may be possible now that local Chinese milk production reportedly starts to get affected by water shortages.

SMP: Prices continue to fall and are closely aligned

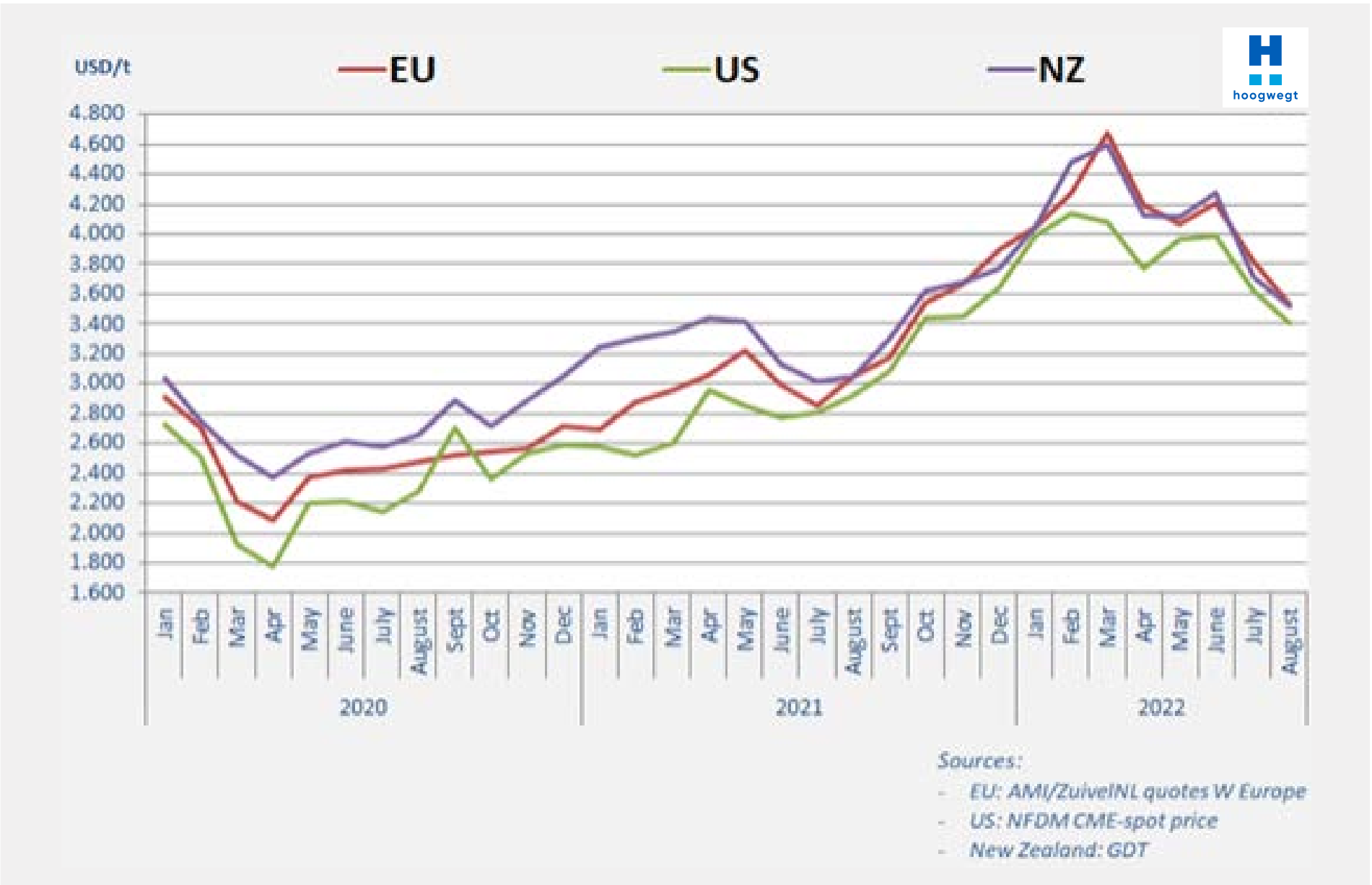
SMP/NFDM availability in the Northern hemisphere peaked as always in May but is now expected to remain at lower levels until we reach the next peak of the Southern hemisphere season in October/November. The market is heading for a very interesting couple of months, especially in a scenario that China's WMP buying remains weak until the end of the year. In that scenario NZ needs to reshuffle part of its export priorities as far as capacity limitations wil allow. The strong relative cheese and whey valorization appears

unsustainable at the moment, but a sensible milk allocation strategy across the different powder and fat formats for the next couple of months may prove to be quite a challenge for multi-product processors. Regional product availability and prices of SMP and NFDM – be it medium or low heat – will therefore turn out to be quite unpredictable at times in the run up to the end of the year.

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



Monthly SMP prices in the main export markets



Looking forward

Currently the differences between the individual geographical markets in terms of current price levels as well as the market balance have become quite considerable in virtually all product categories except for SMP. These differences make a certain degree of regional differentiation in terms of the “looking forward” paragraph unavoidable. The next couple of weeks and months may shape up as largely “range bound” in terms of prices but within that range price developments and commercial opportunities could turn out

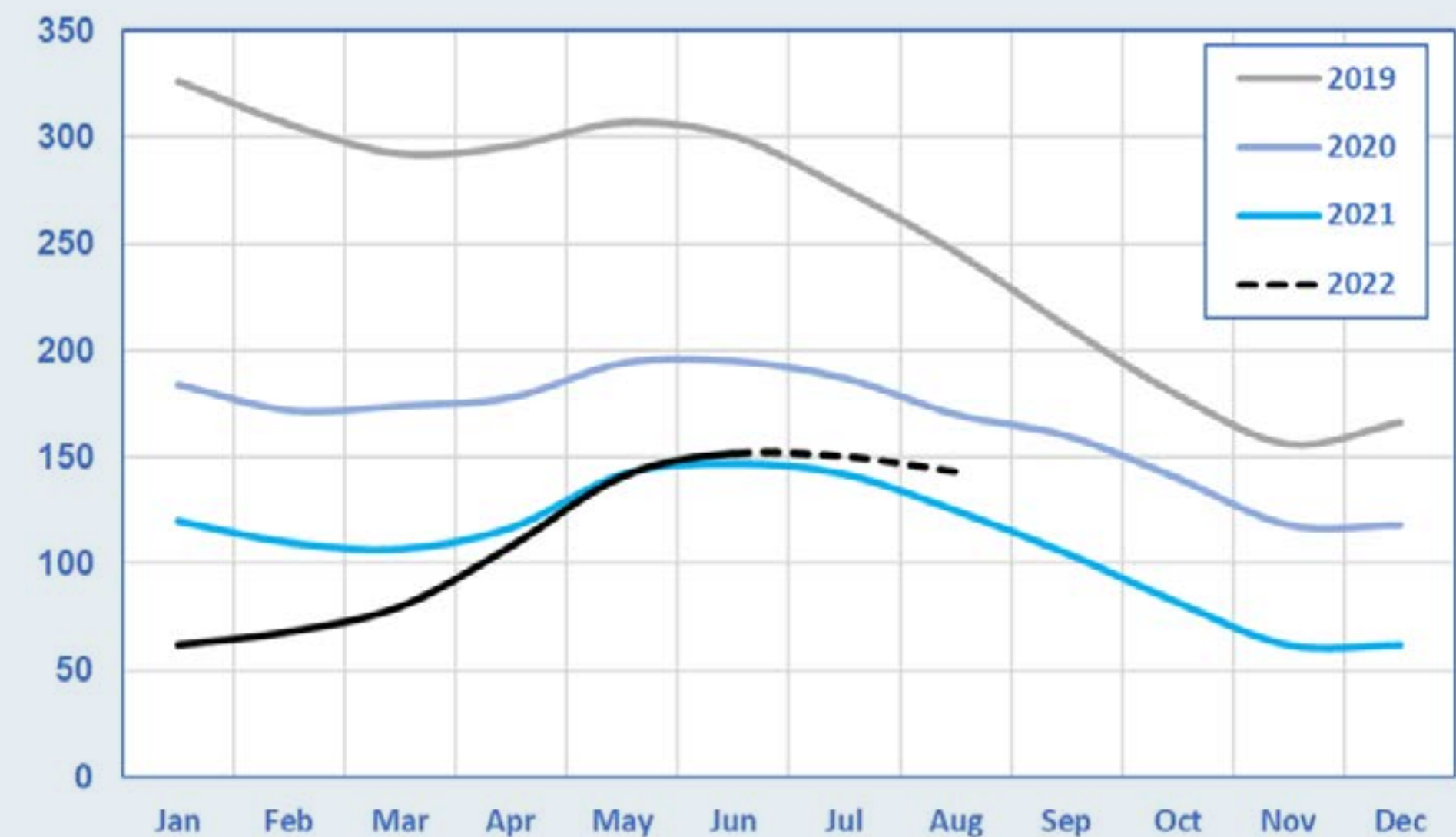
to be quite dynamic and interesting. Product valorization and milk allocation strategies will be quite complex for manufacturers due to looming gas shortages, logistic challenges, potentially growing milk volumes and changing trade flows when NZ needs to reshuffle part of its export priorities. Interesting market dynamics therefore and the price outlook may be up as well as down, depending on the region of origin. ■

Market Outlook for September – November 2022



Dairy Deep Dive Weak Supplies, Weak Demand.

EU-27 SMP stocks (unadjusted, Kt/m)



Europe

Worries about European recession and worries about European gas supplies and energy costs dropped the Euro against the US Dollar and below parity levels, all while it remains warm and pretty dry in Europe's most important dairy regions with temperatures above average reducing pasture and crop yields, negative for milk production. European Farmgate milk prices are still on a high note, and on average close to 50 eurocents per kilogram. Dutch farmers, although debating structural environmental restrictions, should see quite the incentive at 60 eurocents. That led to positive milk production from the Netherlands after months of red, while Europe recorded -0.4%. Note though, that the H2 months of last year should be easier to beat August excepted. The EC has published a pretty negative outlook for European Milk production in 2022.

Europe's SMP production is slightly up from last year, while exports are low. Currently, European SMP stock levels are up from last years low levels, they should be around 125Kt (against 105Kt for Sep '21). From now on it's stock eating until Feb. '23 and although current production is still good the question mark about Q4/Q1 production of everything that needs gas to produce remains. Products that have the least valorization should suffer first if gas really becomes a problem, for example in a really cold winter. Cheese production for June was pretty much neutral (+0,3% YoY). Whole Milk Powder production has been low for months, lacking valorization but crawling closer and saw a slight increase (+1.6% YoY). Butter production was behind (-0.7%) from June 2022. Also note that unlike SMP both the cheese and butter(-fat) stocklevels are lower compared to last year. cheese production saw another month with YoY decreases in production -0.7% YOY in June, even though the Netherlands and Poland increased production while Germany and France fell. Butter output trends continued to be negative since last year.

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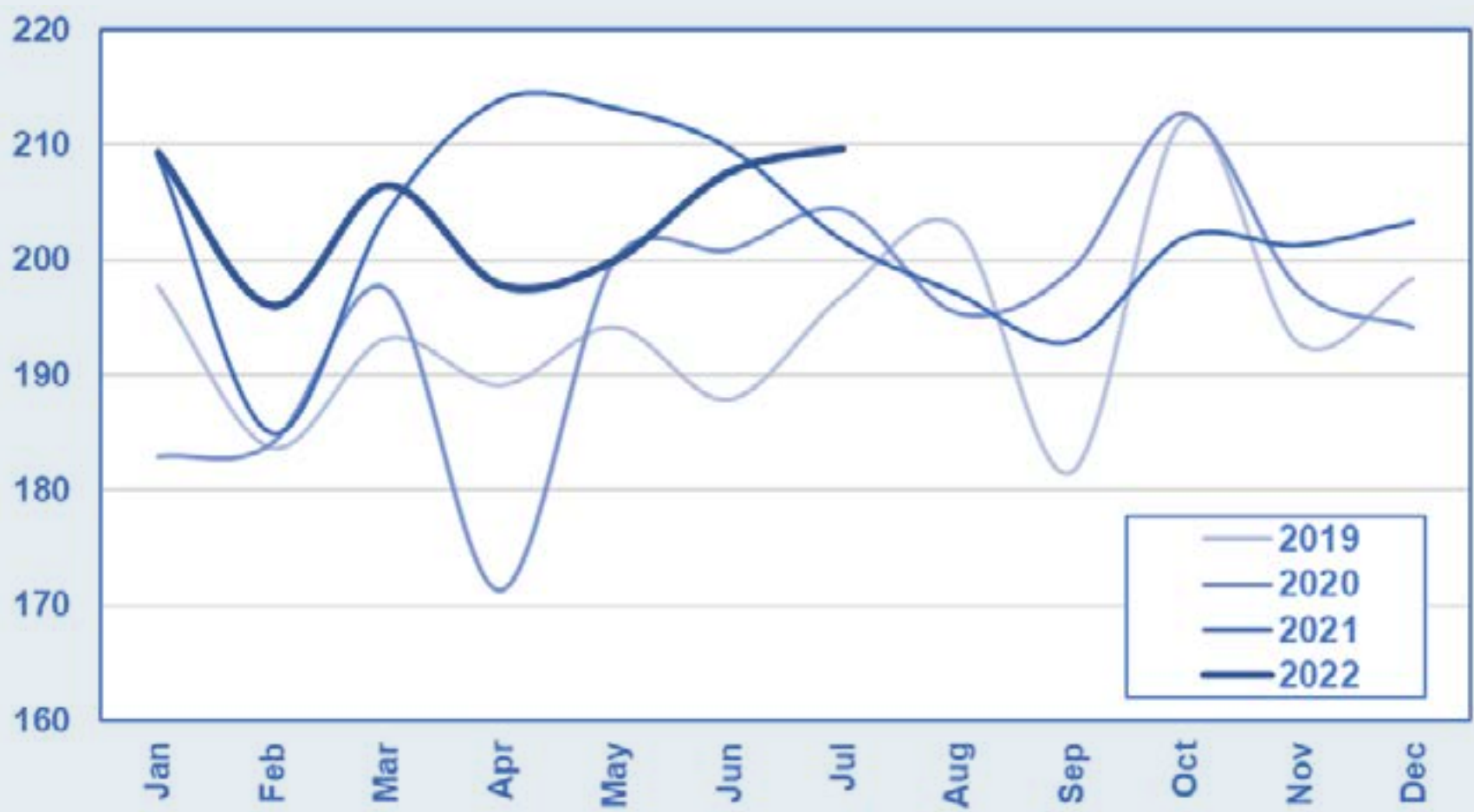
United States

US Milk production for July was up with 0.2% YoY, due to a higher yield per cow. June was revised to -0.2%. YoY. All in all, US Milk production is still sluggish. California, a 'powder state', was up, while cheese state Wisconsin was down. New Mexico stood out with a 8.1% decrease. US NFDM/SMP production should be sub 100Kt for the summer months and stock levels around the same level of last year, at around 130Kt.

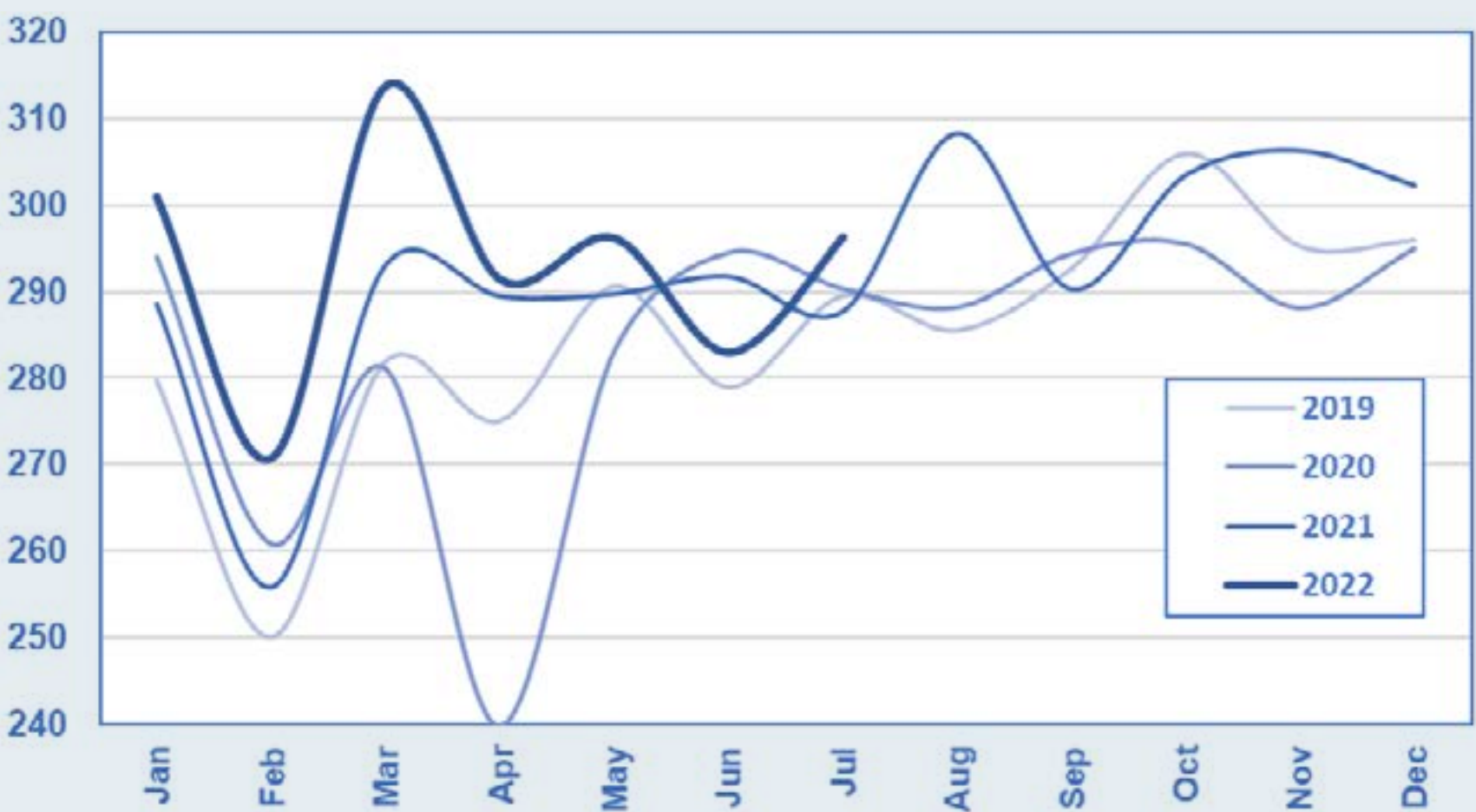
According to USDA's latest Cold Storage report, there was an increase in total cheese inventories in July – up 7,5Kt from June to 690Kt. American cheese inventories also up between June and July and were also higher than a year ago, up 6Kt MoM to 390Kt. Note though, that the Cheese consumption in the US is pretty firm, with the strong consumption in restaurants and food services as a key indicator.

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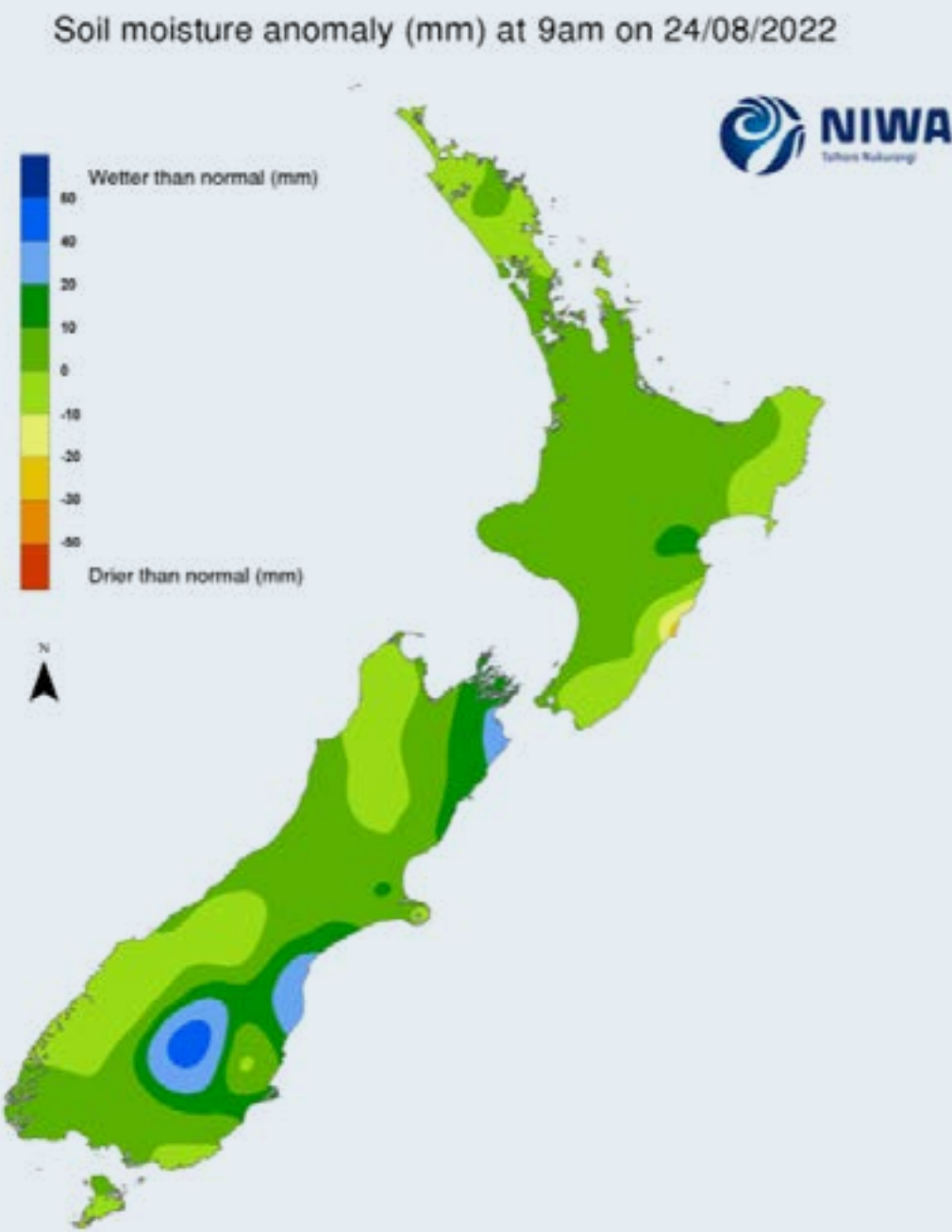
American cheese Domestic consumption (US)



Other cheese Domestic consumption (US)



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New-Zealand

The Kiwis are looking at their bad season of 2021-22 through the rear view mirror. Although the entire globe is facing expensive costs in terms of labor, feed water and electricity, the NZ farmgate milk prices have decreased making it a bit harder for NZ farmers to see the incentive. It's too soon to call the NZ Season but most people are expecting a small increase over the red numbers last year all while weather remains a question mark. Rumor still has it that NZ will decrease their WMP production and will send more of their available milk to for example SMP. Watch the GDT volumes for an indication. Compared to the EU-27 NZ's export have been ok, especially given the sluggish Chinese demand for powders compared to last year and expect NZ to continue to be competitive. The availability is there.

Demand

In terms of global import demand, the demand was fairly weak. The most recent available number (June) indicated that the global milk solids equivalent global trade decreased with 6.4% YoY. Cheese demand and demand for butter(-fat) was fair, but the decreasing interest for milk powders was stronger. Milk powder trade was down with 29% YoY for WMP and 10% YoY for SMP, especially due to lackluster Chinese import demand for powders compared to last year. Watch Chinese policies on quota's, dynamic zero-covid and their need for energy as key indicators for demand from China, and in the end the global demand. ■



→ continuation

Our Bulls vs Bears Remain Unchanged

On the bearish side:

- We've already seen big double digit drops in demand in the first half of the year from China as they're struggling with lockdowns and restrictions. With spill-overs to SE Asia. All while other regions might still buy hand to mouth. Summer months usually are calmer in terms of demand.
- Some regions where dairy is luxurious and optional will face drops in demand, retail producers are expecting drops in domestic consumption. On top of that there is a risk of recession.
- Exports from Others and NZ are competitive and something to watch, as they could compete with EU and US trade shares more than usual.
- No quatum (China) will spread the usual H2 peak into Q1.
- Cash-flow and liquidity issues.
- Stock corrections in the EU and US.

On the bullish side:

- A global decrease in milk production, that started around last year's summer. Although herd rebuilding seems to have eased a bit in the states, H2 2022 shows a slight increase in milk in the US, but all in all milk production is sluggish and only increases due to bad comparables from H2 2021.
- Producers are struggling with gas, and this will be an issue in the winter months, especially in cold winters. Therefore, Q3 and Q4 will see shortages of SMP if things go forward like they are now, even with drops in demand.

Notable question marks:

- Natural gas costs and shortages limit the EU SMP Production and Q4 has a gas shortage elephant in the room, especially when winters in either Asia or Europe are cold.
- Oceanian flush and production of WMP and SMP.
- China might step back in the market, or not. Again, with spillover effects for SE Asia.

World Comment.

Olaf Willemssen
Director Logistics



It's hard to imagine that the summer period in Western Europe is already coming to an end, with these temperatures including a season of drought.

In this summer period, I had little time to relax, but when the opportunity was there, I took it to the max! I took some time to read and listen to podcasts (including our Hoogwegt Dairy Spew of course!)

In a more relaxed setting, I took a step back and started to think and envision about the upcoming year, especially about current situations that keep us busy today and how things could develop in the coming year 2023.

Scenarios – that is what keeps me busy at the moment.

What could happen in the coming months? How can I, as a person, we, as a team and as a business (re)act on that? And more importantly, how can we prepare ourselves?

At Hoogwegt, we are currently in the end-phase of our Fiscal Year and busy with making our budgets for the upcoming year. This is a rigid procedure and hard to put everything out into euros and dollars.

In my responsibility of heading the Hoogwegt logistics, it's important on one hand, make sure we keep on servicing our clients in an optimal way, and on the other hand, develop our organization and systems to optimize towards future needs.

It's important to keep on investing in future developments to get ourselves in a good shape to handle a certain set of scenarios that could have an impact on our supply chains.

Almost closing our Fiscal Year is also a moment of reflection; the Hoogwegt logistics team including the Seabird shipping team, have shown great resilience in handling the difficulties of shortage of capacity, challenging high price increases and working in dynamic environments.

It makes me feel proud that the teams are together with our clients creating a high availability of our products at a constant quality level. This certainly shows Hoogwegt's maturity in this business.

But market forecasts are also showing dynamic circumstances ahead of us, so for me, it's time to share my insights out of my holiday break with the team and to prepare ourselves for the upcoming Fiscal Year.

We are fully charged and ready to deliver our dairy products wherever they are needed!

Hoogwegt Happenings.



Recently Charles Lesmana, Senior Export Manager of Dairy Essentials APAC was invited by US Dairy Export Council (USDEC) to be a panelist for their webinar.

The webinar, titled "Looking Ahead: Market Situation and Outlook for U.S. Milk Powder and Dairy Ingredients" provided the audience with insights on the role US Milk Powder play in the Global Dairy Marketplace.

It also dwelled into the outlook for US SMP and what opportunities it presents to customers in SE Asia.

Charles tackled questions about EU and Oceania milk production as well as the correlation of Dairy Proteins and Dairy Commodities.

Kudos to Charles for representing Team Hoogwegt, it was definitely an informative session for the audience.