



# Horizons.

Our insights  
on Today's Global  
Dairy Business

January 2024

# #01

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Market Direction

## It's all Milk! And Production is Struggling.

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# Editorial Note.

## 2024

As we usher in a brand new year, we wonder how 2024 would be different from 2023 (with heightened geopolitical tensions), and how much of it would stay the same.

In this issue, our 'Market Direction' section will discuss the struggling milk production and the lackluster demand for powders.

Plunging into our 'Deep Dive' section, we will talk more about SMP / NFDM.

We then delve into a bit of Whey and CME Futures (written by Guest Contributor Neil Hunt).

Finally, in our 'Hoogwegt Happenings' section, we reflect on the bountiful year of 2023.

As always,

Hoogwegt Horizons Editorial Team

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## Market Direction

# It's all Milk! And Production is Struggling.

**Milk production by exporters have been struggling during the entire second half of 2023 and that hasn't changed.**

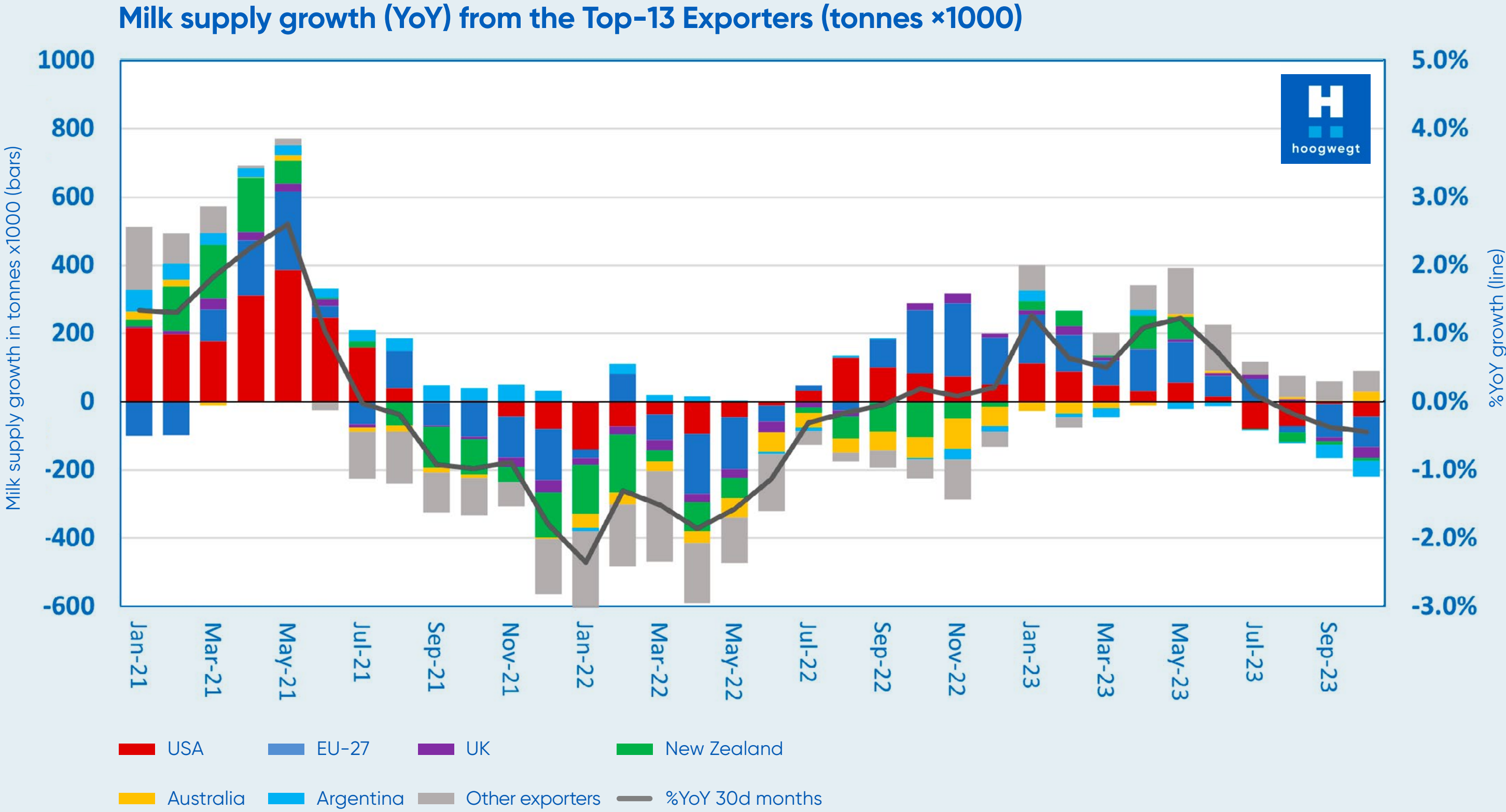
Most exporters have now published their October milk production figures, and milk production has reportedly worsened from the already negative numbers in Q3 2023.

In the US, margins did improve compared to the lows during the summer of '23 and cow slaughter eased significantly. One could expect that the dairy cow herd would return to positive numbers and the milk production should increase as compared to last year's numbers by now. But last year, the numbers to beat were strong. However, the improved margin didn't incentivize expansion. So investing in replenishment cows doesn't seem to make a great business case.

[more →](#)







→ continuation

In Europe, margins improved as well, before some cooperations lowered them again, correcting their (perhaps too enthusiastic) increases of the farm gate milk price. Margins were low in Europe during the summer and they are now pass their bottom. But a low 40 cents is still nowhere near the levels that we saw 12-16 months ago when the farm gate payout was 60 cents. Herd sizes are still struggling in Europe as well, especially in France.

New Zealand shows lower milk production volumes too, although on a solids basis, recent reported months were still positive. While milk production per cow increased, the trend of declining cow numbers continued with a 3.46% decrease to 4.67 million cows. H1 2024 probably shows negative milk production figures as the year prior is very hard to beat, pasture growth indicators dropped and there is the fear of El Nino-affected weather compared to the excellent conditions NZ saw in H1 2023.

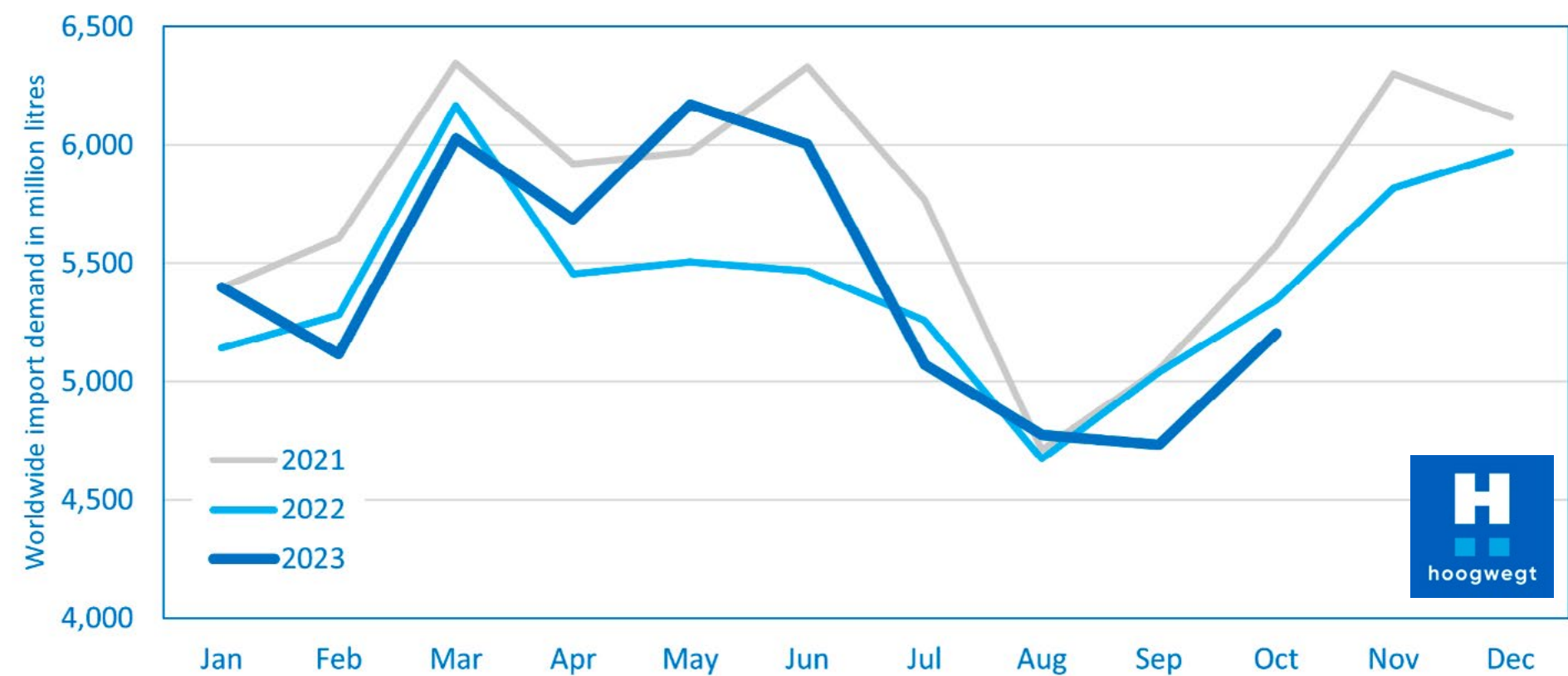
Argentina recorded a year-over-year negative October, and November was a strong negative as well, weather looks a bit better and margins may improve as well though.

# Global import demand: So so. At best.

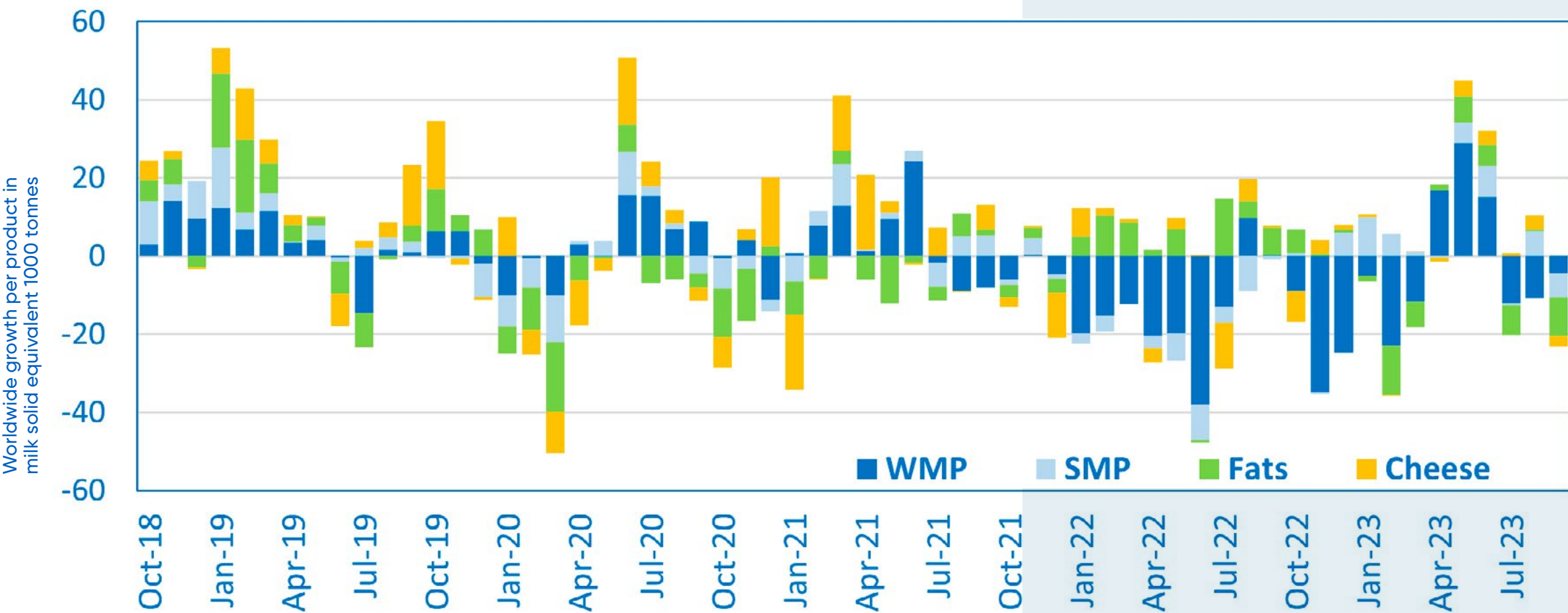
The global import demand race car has the struggling Asian demand for milk powders behind the wheel. In Milk equivalent it means that global import demand for dairy dropped behind previous years. In the chart below, import demand for SMP, WMP and cheese is calculated back to their milk equivalents and it becomes clear that supply may have been struggling, but so was demand. It's the slow demand for powders, in particular

WMP that is lacking. Cheese on the other hand saw stronger demand compared to a year ago. Strong demand for SMP lead to a strong Q2 2023, and while SMP demand still is fair, the comparable volumes that H1 2024 has to beat will be quite strong. Last year Mexico, North-Africa and the Middle East all were strong buyers of SMP.

Cheese + SMP + WMP ME global import demand in million litres



Growth in MSE trade by product (in tonnes x1000)





Dairy Deep Dive

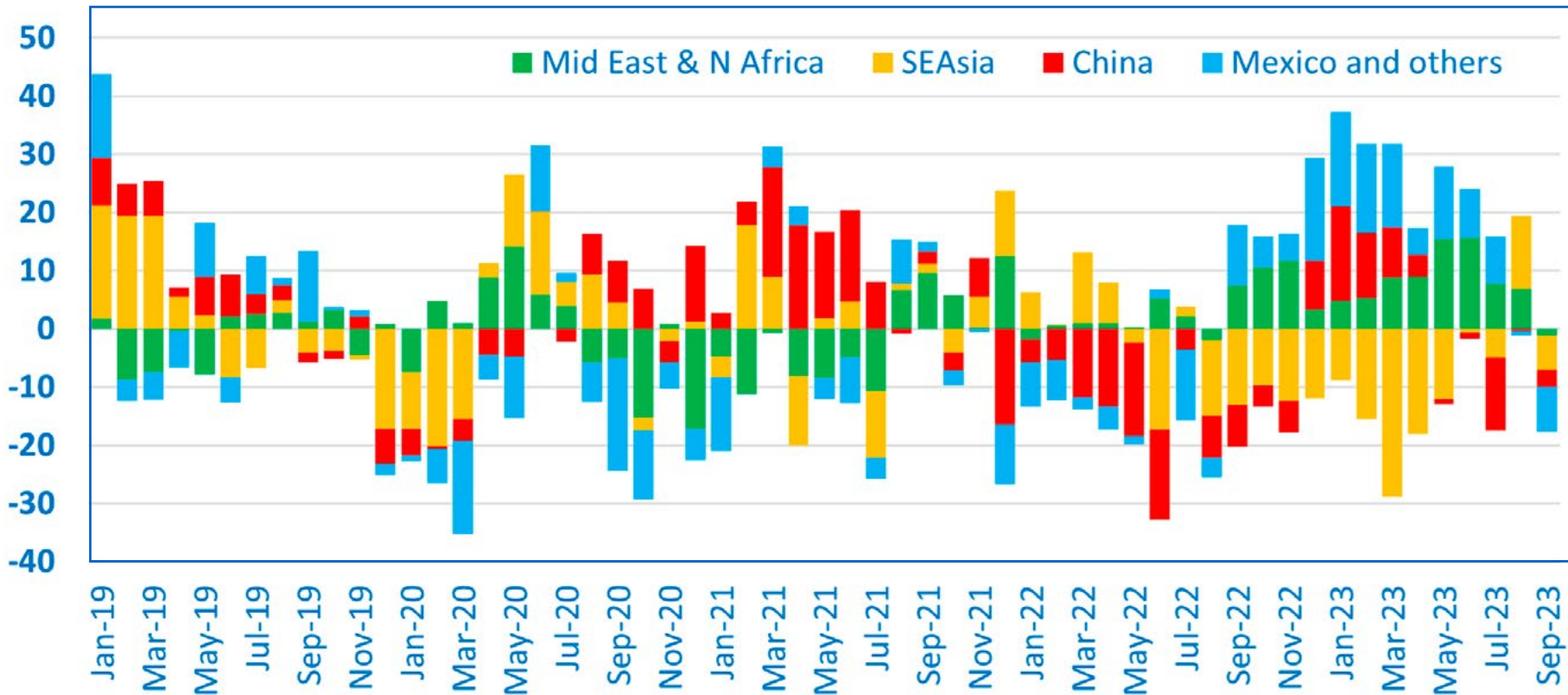
# Skimming the Surface

SMP/NFDM

European production of Skimmed Milk Powder did hit a low point in September, and October didn't look great either. Most European countries are producing less, which is quite normal on negative milk production. Of course, there is less milk available to begin with, but since the Cheese production is quite fair, SMP Production struggles more than just the negative milk production growth. Total European production for October was around 100Kt, which is probably not enough to build stocks. While stocks in Europe are reported to be low already.

The United States saw several months of low SMP+NFDM production as well. While Q1 2023 was still fair, production declined since. In particular, SMP is

Growth in SMP trade by destination region (tonnes x1000)



produced at low volumes. Of course, Californian milk production suffers, and Mexican demand was fair, South-East Asian demand has been struggling a lot so it doesn't make sense to produce it in strong volumes.

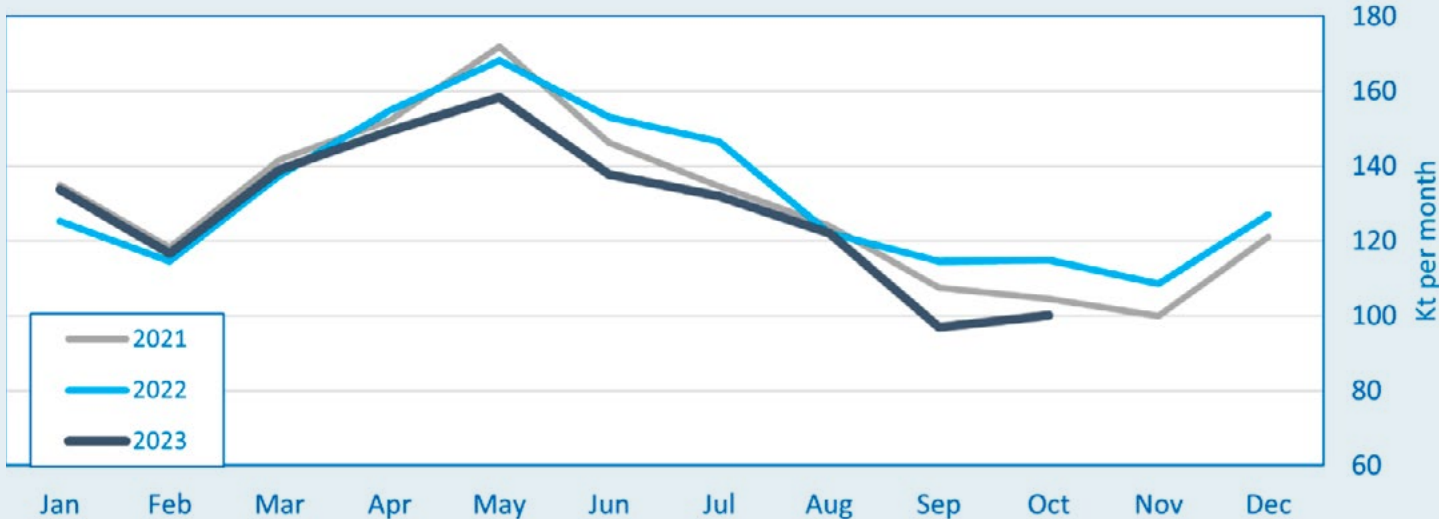
Both EU and US are suffering from a competitive New Zealand. The main dairy exporter increased their SMP production due to weak WMP prices. The latest GDT pulled the SMP+Butter/AMF stream closer to the WMP stream, but as long as it's making the kiwi's more money it is rational to produce more SMP compared to the seasons when WMP saw enough demand to optimize for WMP production.

October 2023 SMP Production

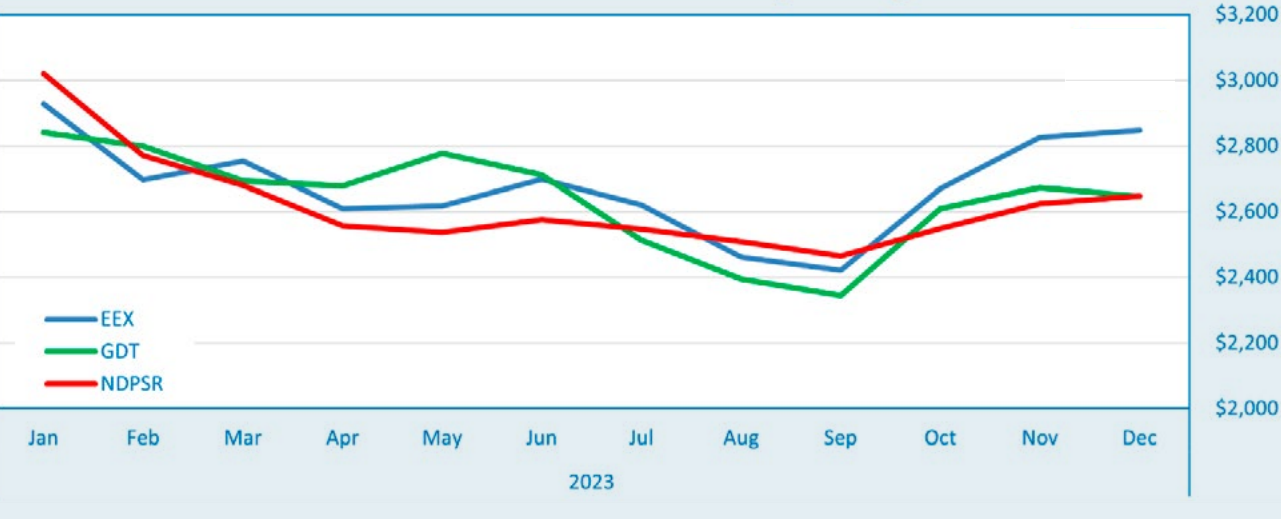
Country	Production (Kt)	Production (mil. Lbs.)	YoY%	YTD Production (Kt)	YTD% vs 2022	YTD vs. last year (kt)
Germany	24.7	54.54	-9.6%	294.8	1.4%	4.1
France	27.1	59.72	-9.2%	292.6	-7.2%	-22.8
Ireland	11.8	26.04		143.4		
Belgium	14.8	32.69	-10.8%	155.8	-5.0%	-8.2
Poland	9.2	20.26	-11.9%	138.1	3.7%	5
Netherlands	3.7	8.16	-56.5%	63.8	-28.5%	-25.4
Sweden	2.9	6.33	-5.3%	30.8	-0.4%	-0.1
Denmark	2.7	5.95	-15.6%	26.2	-18.9%	-6.1
Lithuania	0.9	2.03		15.1		
Portugal	0.9	2.07	64.9%	18.8	23.9%	3.6
Czech Republic	1.1	2.38	1.9%	14.2	-2.5%	-0.4
Spain	0.2	0.44	-23.1%	4.2	-20.7%	-1.1
<b>Total</b>	<b>100</b>	<b>221</b>		<b>1198</b>		<b>-51</b>

\*Reporting Countries      Source: Eurostat, AHDB

EU27+UK SMP Production in Kt/m



NFDM/SMP in US\$/t monthly average



# Bulls vs Bears...

## On the bullish side:

- Strong negative milk production in the entire Q4 in Europe, while the US herd is rebounding as fast as people were thinking and NZ faces the very hard to beat figures from 12 months ago.
- SMP production and stock levels in Europe are reported to be low with a few months of stock eating ahead. US SMP+NFDm production and stocks aren't great either.
- While they may not beat their records; Mexican demand is fair, although they do have some border struggles. MENA demand seems fair too.
- Prices dropped; this should attract some buyers. SE Asia is probably on low stock levels for powders.

## On the bearish side:

- Domestic consumption is still struggling (EU+US).
- Recessions, inflation, leading to drops in demand.
- SE Asian demand still seems to be low. While others who bought might have enough for now.
- Butter stocks in Europe are relatively high, also compared to SMP stocks.
- NZ's current product mix continues to be a bearish argument for SMP.

## Things we watch:

- Logistics disruptions (Red Sea etc).
- Geopolitical turmoil and governmental policies.
- NZ milk production, El Nino and product mixes.
- SMP and Butter correlation, given their different stock levels.
- High cocoa and sugar prices giving issues for multinationals to sell volume, that affects their need for SMP.
- Volatile currency rates and foreign exchanges.

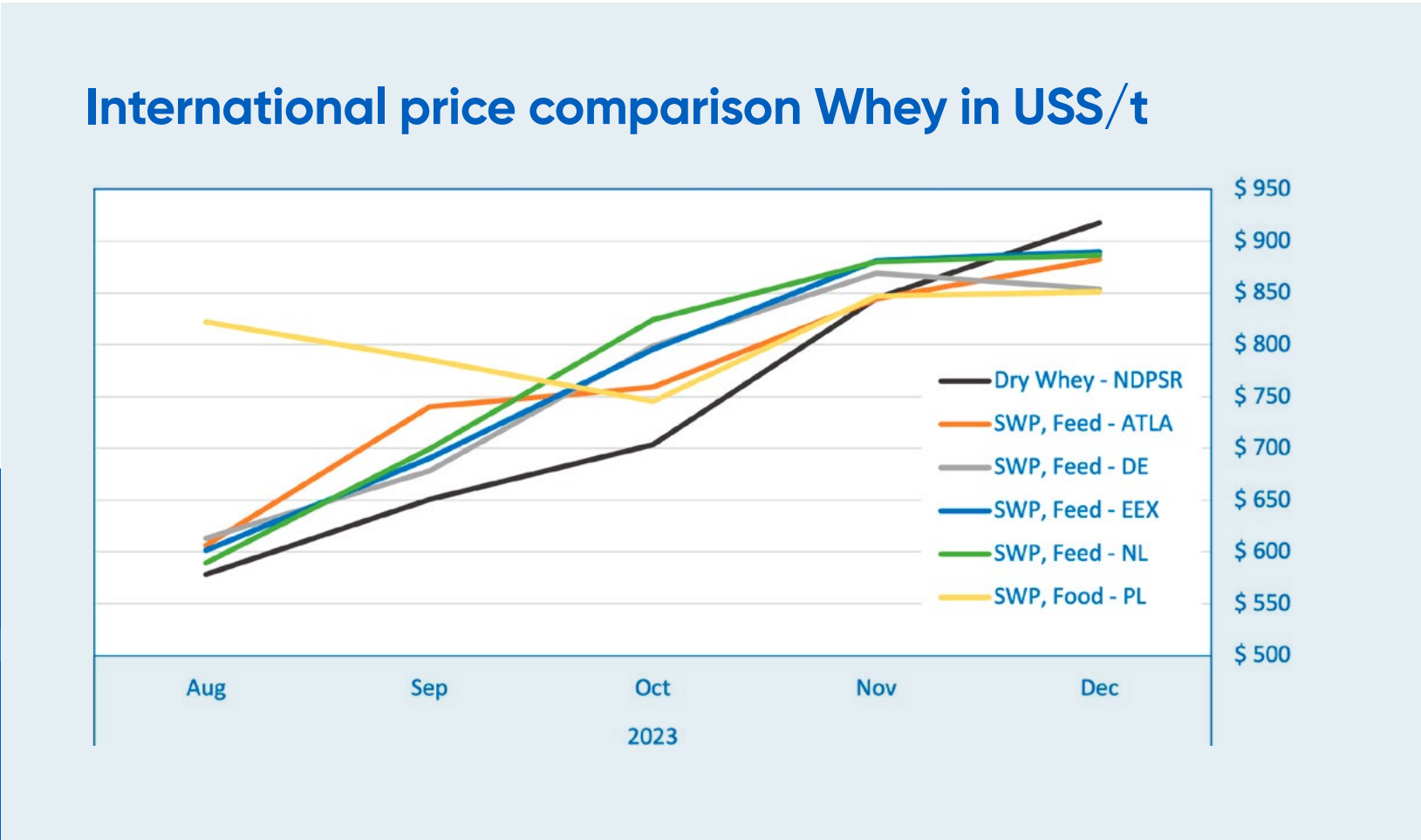


# A Quick Note on...

## A Little Bit of Whey

### Global supply

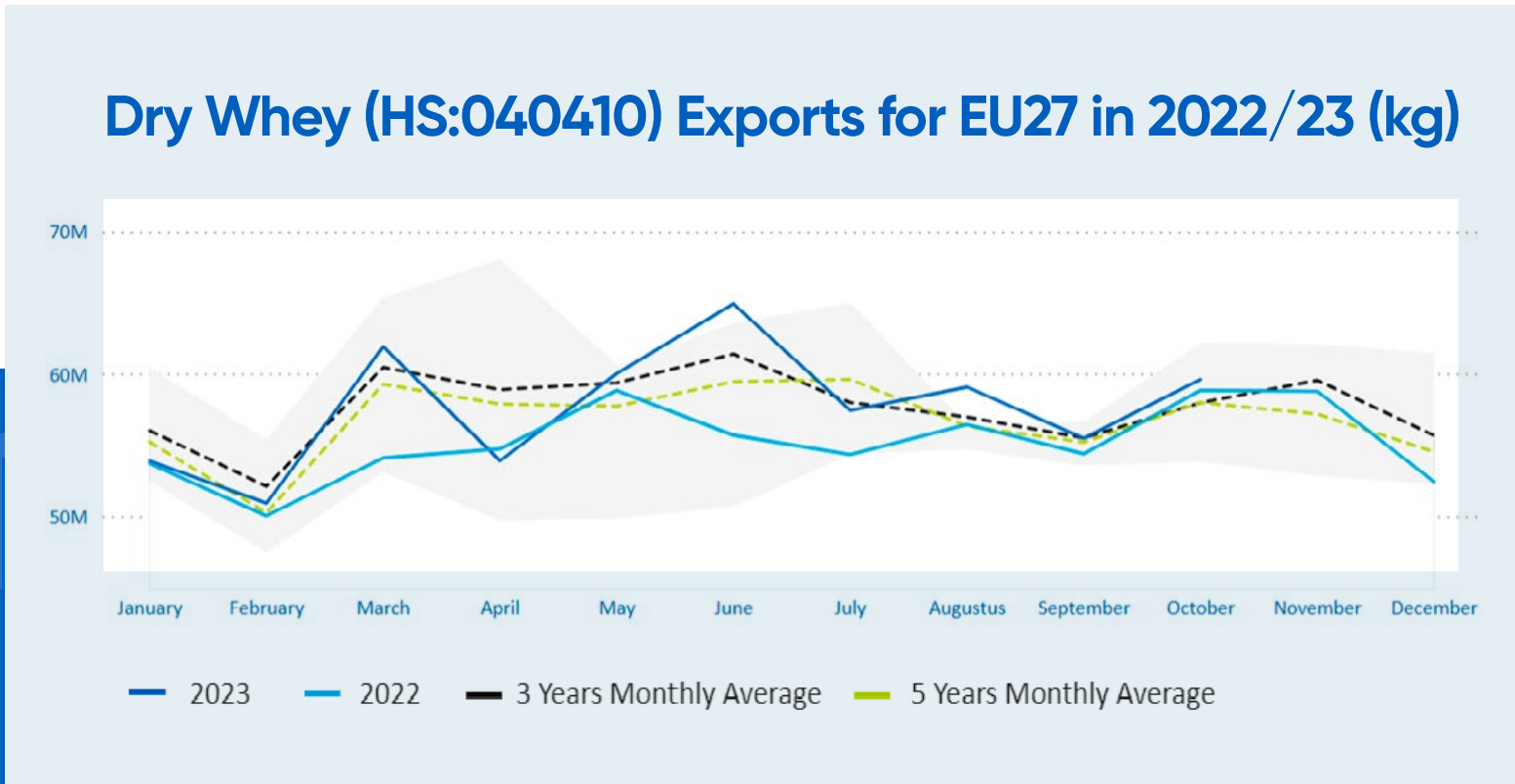
- In Europe, the latest official milk production figures reported a -1.8% YoY for October. France is still struggling and Germany remained neutral. Germany, France and the UK continued to be negative in their weeklies since. But since the start of this calendar year 2023, comparables were a bit easier to beat and Europe should grow closer to a neutral milk production compared to the year prior. After some improvements, the farmgate milk price hasn't got much room for improvements as dairy commodities slipped a bit and the farmers' pay-out usually follow the commodity value with a lag of a few months. Cheese production in Europe continues to be relatively strong and stronger than 2022.
- US Milk production saw another negative number for its milk production in November (-0.6% YoY). Yield per cow was negative compared to November 2022, and while slaughter has eased significantly in the past months, and margins improved, the herd still hasn't recovered the losses that were registered across the summer as heifer numbers still seem to be low.
- NZ Milk production wrote some positive milk solid months before the very hard to beat second half of their season starts. Pasture has worsened, also when compared to the years prior due to the El Nino-impacted weather.



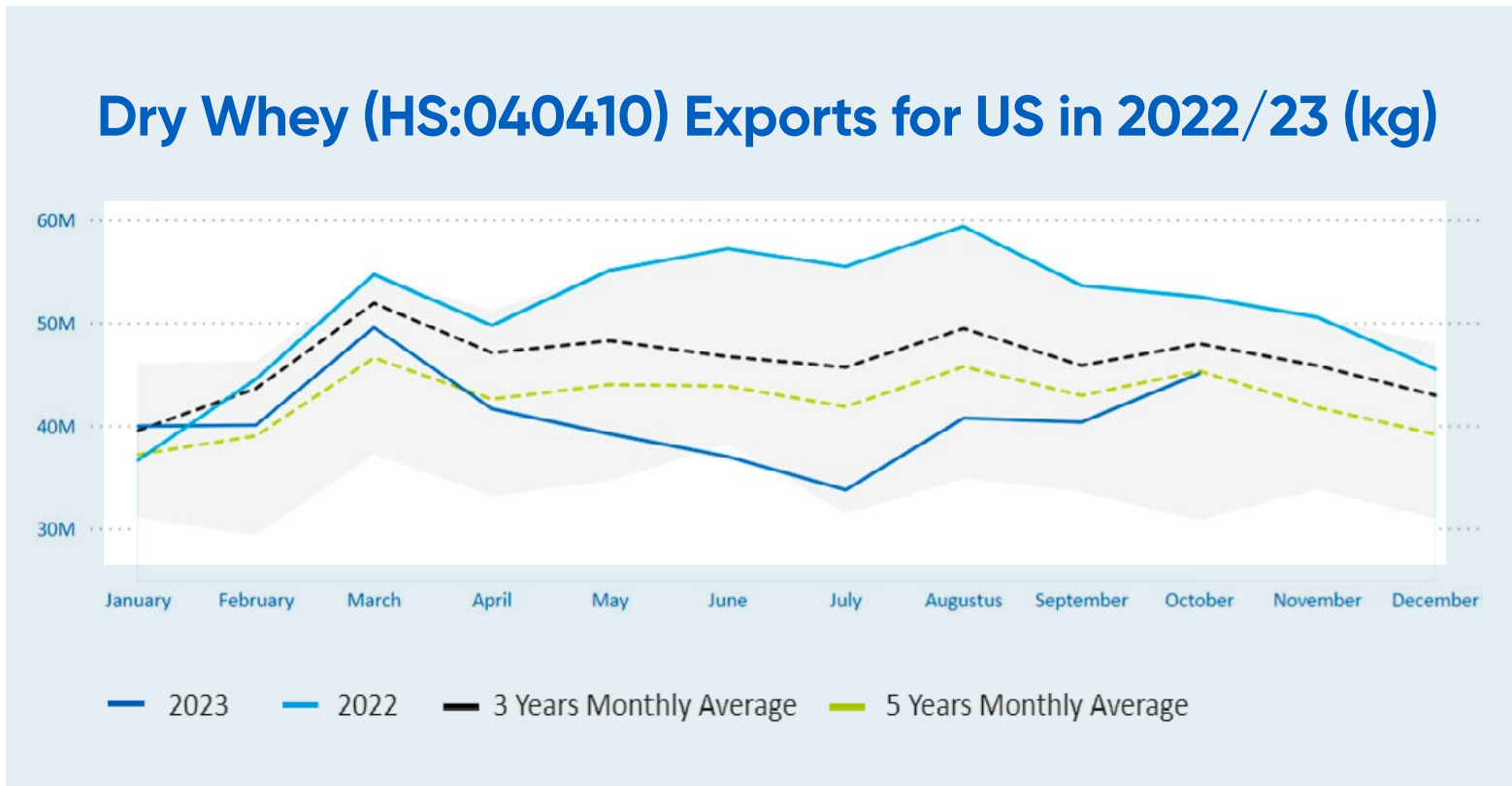
- November 2023 Whey production in the US: Volumes of dry whey experienced significant declines both year-over-year and month-on-month. Manufacturers have unmistakably interpreted the strong demand for high-protein whey, and in response, have shifted focus away from sweet dry whey powder toward the production of higher-value products. November witnessed the smallest sweet dry whey volumes since November 1986 (30-day adjusted).

### Global trade

- October EU-27 Exports of whey products (HS040410) out of Europe came out stronger compared to October 2022, calculating +0.8Kt. Whey Products (HS Code: 0404): Although whey exports remained relatively unchanged compared to the previous year, there were declines in shipments to China (-2,812MT or -14% YoY), the leading market share holder at 27%, and Indonesia (-1,189MT or -17% YoY), the third-highest market share at 9%.
- Conversely, volumes sent to Malaysia increased by 3,375MT (+95% YoY), positioning it as the second-highest market share contributor after China, accounting for 11%.
- Morocco fell to the 16th position in market share, experiencing a significant drop in shipments by 1,419MT (-68% YoY).



- US Exports: In October, sales of dry whey (040410) registered a third consecutive month over month increase but are still nowhere near the levels we saw in 2022.
- Chinese imports for November: China capitalized on historically low whey prices, opting not to increase volumes from the US or EU. Instead, larger quantities were imported from Belarus, Poland, and Turkey. Whey from Belarus is currently priced at below \$600/MT CFR, and Turkey is offering even more competitive rates for exports to China.





Futures

By: Neil Hunt, Derivates Trader Americas

CME Butter

The below chart shows CME Spot Butter with weekly bars spanning the past 3 years. Since September, Butter had emerged from a 6 month consolidation in the \$2.30-\$2.50 per lb. range breaking out to new all-time highs in the first week of October. This powerful move was driven by uncharacteristic tightness in Spot Cream and Bulk Butter supply in Q3. The futures curve became extremely inverted with Q1 2024 prices maintaining a forward outlook price of \$2.50-\$2.60 per lb. despite spot pricing touching an all-time high of \$3.5025 per lb. We then crashed back lower and are finding an equilibrium price again in the \$2.50-\$2.70 range. Cream remains unusually tight overall as manufacturers move into churning season in December through March, though the forward curve is currently predicting average prices of \$2.60 per lb. in Q3 2024.



CME Non-Fat Dried Milk

The chart on the right shows CME Spot Non-fat Dried Milk with weekly bars spanning the past 3 years. The Non-Fat market has continued to consolidate in the \$1.15-1.20 per lb. range the past few months with low volatility and very limited activity overall. Despite some signs of lower milk supply overall in the US and fairly low inventories being maintained by both manufacturers and suppliers, demand overall and particularly export demand has remained extremely weak. With a bullish catalyst, a sustained breakout higher above \$1.25 per lb. would signal that the market might be ready to trend higher again. The forward curve is currently predicting average prices of \$1.32 per lb. in Q3 2024.

Class III Milk

The chart on the right shows CME Class III Milk Futures on the 3rd continuation contract in weekly bars spanning the past 3 years. In the past few months, spot prices have failed in a breakout attempt above \$19.00 per cwt., and now are testing 3 year lows around \$15.00 per cwt. last seen in early Q3 2023. Fundamentals in the Class III complex have remained bearish with milk supply more quickly finding its way to Class III plants as opposed to Class IV, and increased production capacity coming online with more expected in 2024. Though Class III prices seem “stuck in the mud” for the time being, Cheese prices have become increasingly competitive globally which is gradually leading to increases in exports, and a weakening US dollar versus other currencies provides another possible tailwind for all of US Dairy as we head into 2024. Class III milk prices will have many hurdles to overcome, as there remains solid levels of moving average and technical resistance above at \$17.50, \$18.75, and \$19.25 per cwt.





## World Comment.

### Rafał Bigajski Senior Account Manager, Dairy Essentials Europe



My "Milky Way" started in 2018. It was then that I began to learn thoroughly and explore the fascinating World of Milk. From the very beginning, I knew this was the job for me. Having everything in my hand, Trade, Logistics, Documentation and Finance, I quickly found my way in the Dairy World.

Fast forward to 2022, I joined the Hoogwegt Poland team literally on Saint Valentine's Day, i.e. 14/02.

When I joined the young and dynamic Dairy Essentials Europe team, I became part of the Whey Team.

My main focus and responsibility is for the purchase and sale of whey powders from this part of Europe. My main tasks involve cooperation with producers of milk powders from Eastern Europe. So if you have recently come across whey from Eastern Europe - it is very likely that I was part of that deal.

Right after I got on board Hoogwegt Poland, Russian aggression in Ukraine began. The war changed the face of Europe and, as a result, the entire world, which we thought we knew well. The changes we have witnessed recently have been and are taking place very dynamically.

Hoogwegt's ability to adapt and react regardless of conditions has been put to great test.

Recently, as clearly seen in the example of Poland (the 4th milk producer in the European Union), we have noticed a tendency for smaller dairies to be taken over by larger players. The larger Polish producers with whom we cooperate with are taking over new dairy cooperatives every year. This is directly related not only to the prices of dairy raw materials but also to additional costs, which are directly influenced by the ubiquitous inflation (electricity, gas, water, paper prices, wood prices, etc.).

I wanted to point out that the availability of a wide range of milk powders is becoming flatter. Every year, more smaller production plants disappear from the Polish dairy map. According to the principle of "big can do more" or more precisely, "big can pay more", we note that the shrinking portfolio of suppliers, i.e. centralization, is currently the only chance for continued existence for smaller dairy cooperatives.

Being in constant contact with producers, we see how the dairy market in Poland is changing every day. That's why constant, regular cooperation is so important.

Hoogwegt, as a market leader, is present and always active - regardless of the economic situation. This is how we build our long-term relationships with suppliers/producers and customers.

We add Vision and Value are not just words, we focus on long-term cooperation and constant building of relationships.

Thanks for being on this journey with us.



# Hoogwegt Happenings.

Welcome 2024!

In December, Hoogwegt enjoyed the Festive Holidays. While we reflected on the year that passed, we enthusiastically look forward to what 2024 will bring.

In no particular order, and from a long list of very exciting events and milestones, we've picked 3 notable 2023 events for us:

- Hoogwegt and Meelunie completed global implementation of its GFSI certified food safety system; 1 year earlier than originally planned!
- Participating in Career Talks hosted by STAR Management Week at Erasmus University in Rotterdam. We also hosted Student Visits at our Office.
- Trade Shows were back in full swing globally!

Also, stay tuned to our exciting podcasts - Hoogwegt Dairy Spew & Hoogwegt Market Moo! You can click on logos to access podcasts on Spotify! Subscribe now!



Here's to a wonderful 2024!

