hoogwegt

# Horizons.

Our insights on Today's Global Dairy Business

May 2023

#05

# Editorial Note.

Salutations!

Join us in this exciting issue as we explore more about global milk supply and discuss in greater detail if the prices are starting to turn the corner.

We also discuss about South East Asian demand and the lackluster demand impacting Whole Milk more than the Skimmed.

All this analysis is also being discussed on our latest Hoogwegt Dairy Spew Podcast Episode 14 – Bottoms Up!

On Whey, we discuss greater detail the relationship between WPC80 and Sweet Whey Powder. And we also talk about the technical of EEX futures during the flush in Europe.

Guest contributor Herman Dister, Managing Director of Seabird International Shipping writes about the his thoughts on the container freight market.

We also put the spotlight on our MyHoogwegt Portal and the upcoming new features. Information on how to sign up for this service can be found on the "Hoogwegt Happenings" section.

We hope you enjoy this issue of Hoogwegt Horizons!

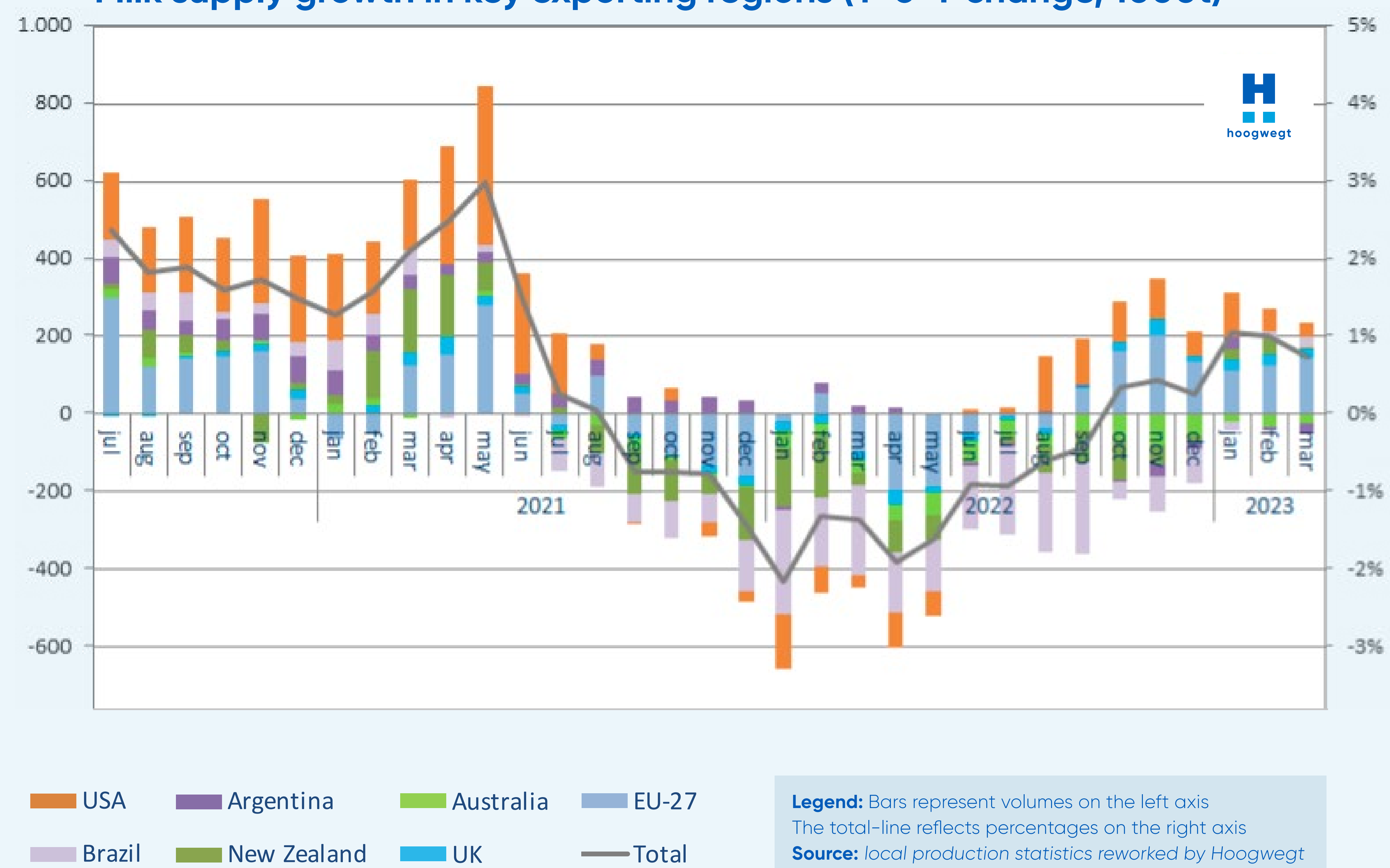
As always,
Hoogwegt Horizons Editorial Team

## Market Direction

# Global milk supply barely compensates for last year's decline.

The chances that global milk production is able to do more than just compensate for last year's decline are getting small. Recent weekly data in the EU as well as worrisome comments out of the Americas suggest that a growth rate of 1% on average over the next couple of months is the best scenario possible. The EU contributes the biggest volume, but milk prices paid by most processors have come down to a level where culling cows and cost reductions at the farm level are likely. In the US, culling rates are also going up and its main source of export supply – California – is hit by the cold spring and follow-on consequences for cow productivity in Q2 and Q3. The comments about the impact of the ongoing drought in the South of Brazil and Argentina provide little hope of production recovery in these essential regions of milk production in South America either. The limited feed stock that has been built up over the last quarters will affect milk output in Q3 as well as Q4. With Oceania at zero % growth at best, global export supply is losing steam rapidly.

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




**Legend:** Bars represent volumes on the left axis
The total-line reflects percentages on the right axis
**Source:** *local production statistics reworked by Hoogwegt*

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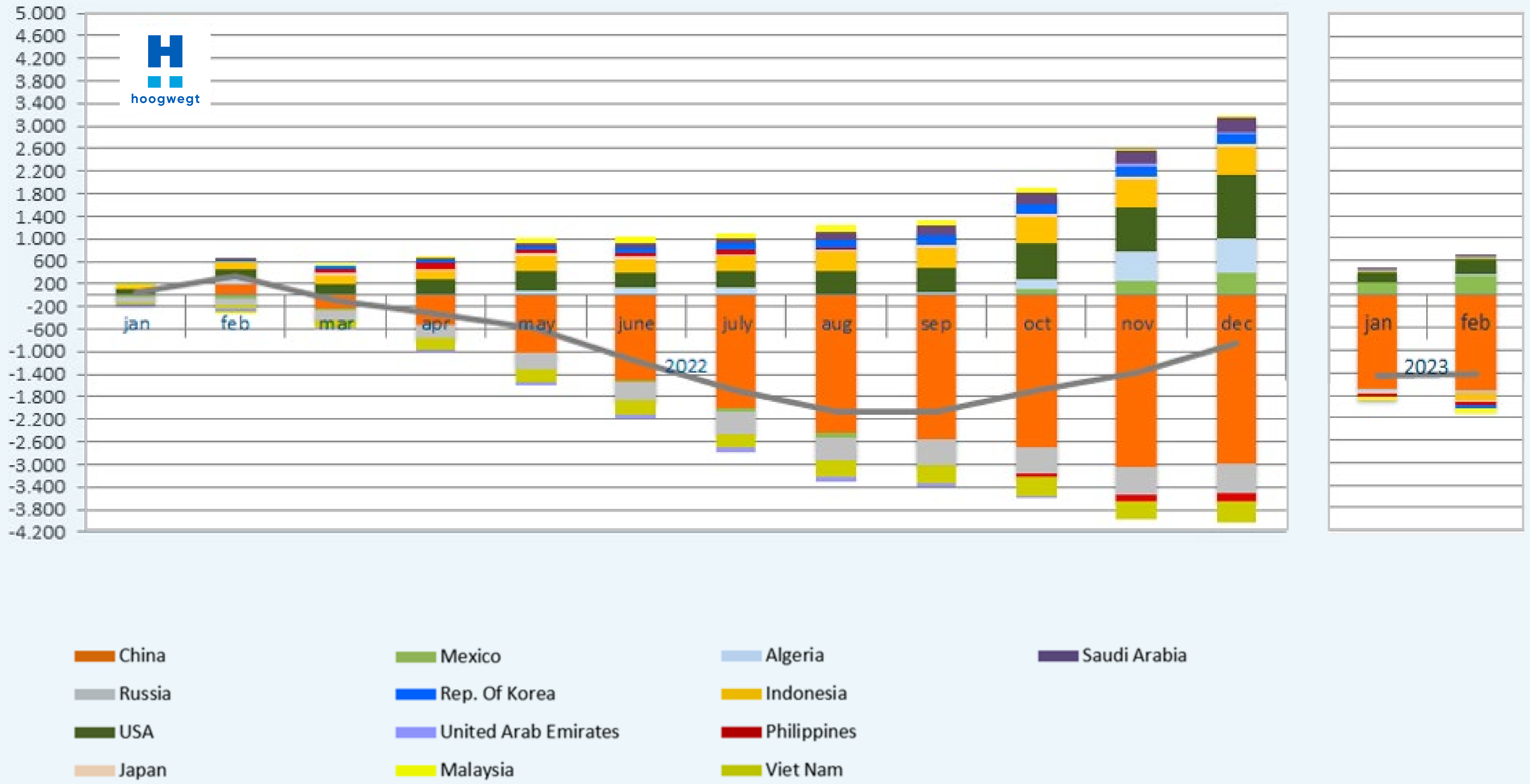
## Imports by the big-13 importing countries
## (cumulative change compared to previous year, total imports in 1000t of MEQ)




**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*

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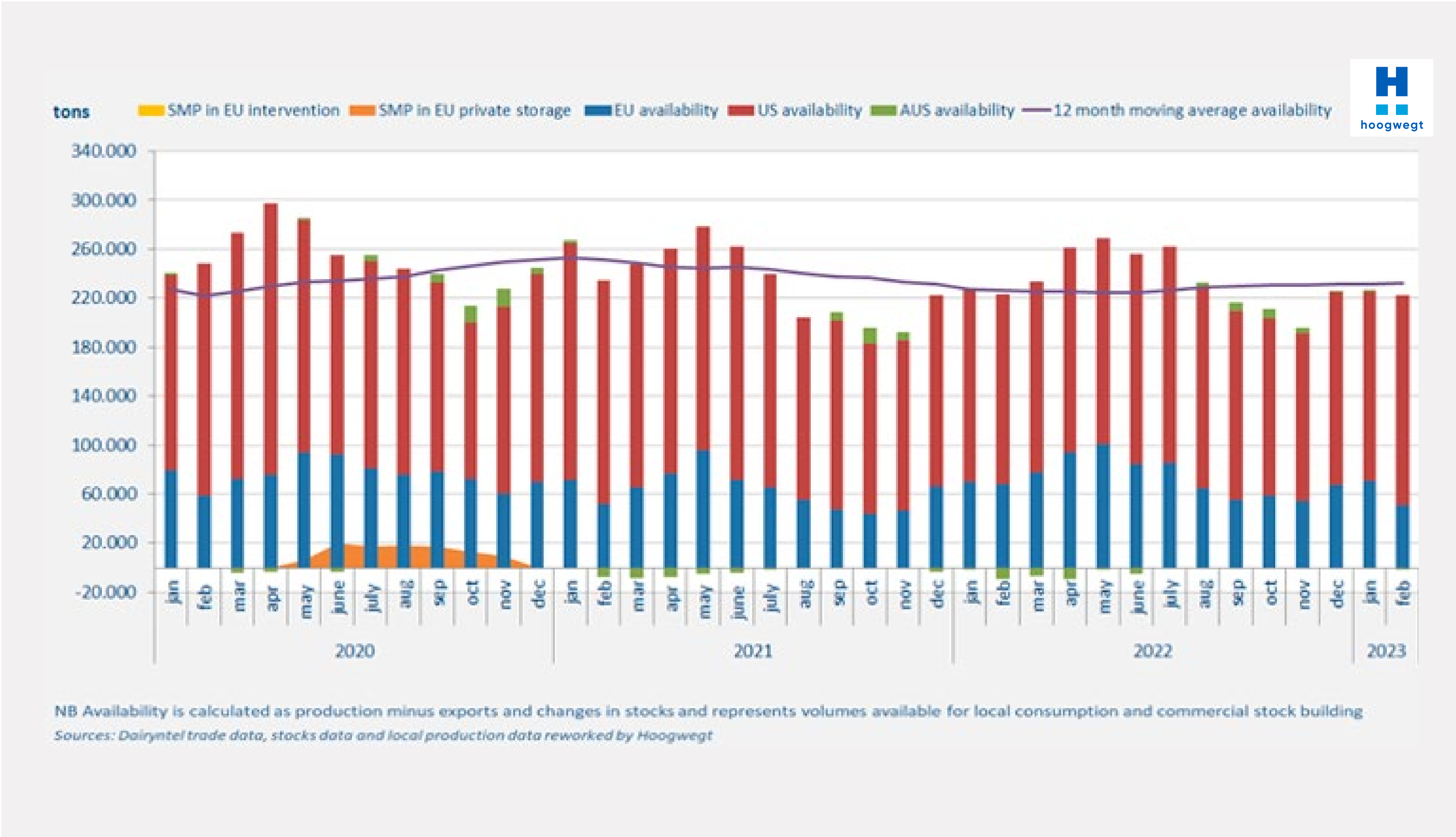
Given the level that most dairy commodity prices have dropped to, we should expect some dynamic import buying in Q2 as the market situation appears to be as good as it gets in the middle of the Northern hemisphere flush. Given the supply outlook above, it may be a stretch to expect even better prices and availability from a buyside perspective. Whether China will join the party remains to be seen since China probably should no longer be considered an opportunistic buyer. In the rest of the key import regions however, we will probably see more buyside activity than in February and March when prices were still falling on a weekly basis. Southeast Asia in particular seems to be behind on their normal volumes after two months in the new year. The US and Mexico on the other hand have purchased quite actively at the start of the year. Algeria, Saudi Arabia and UAE have been more or less neutral in terms of import buying in January and February, but however in the recent GDT we saw improved buyside activity for this region.

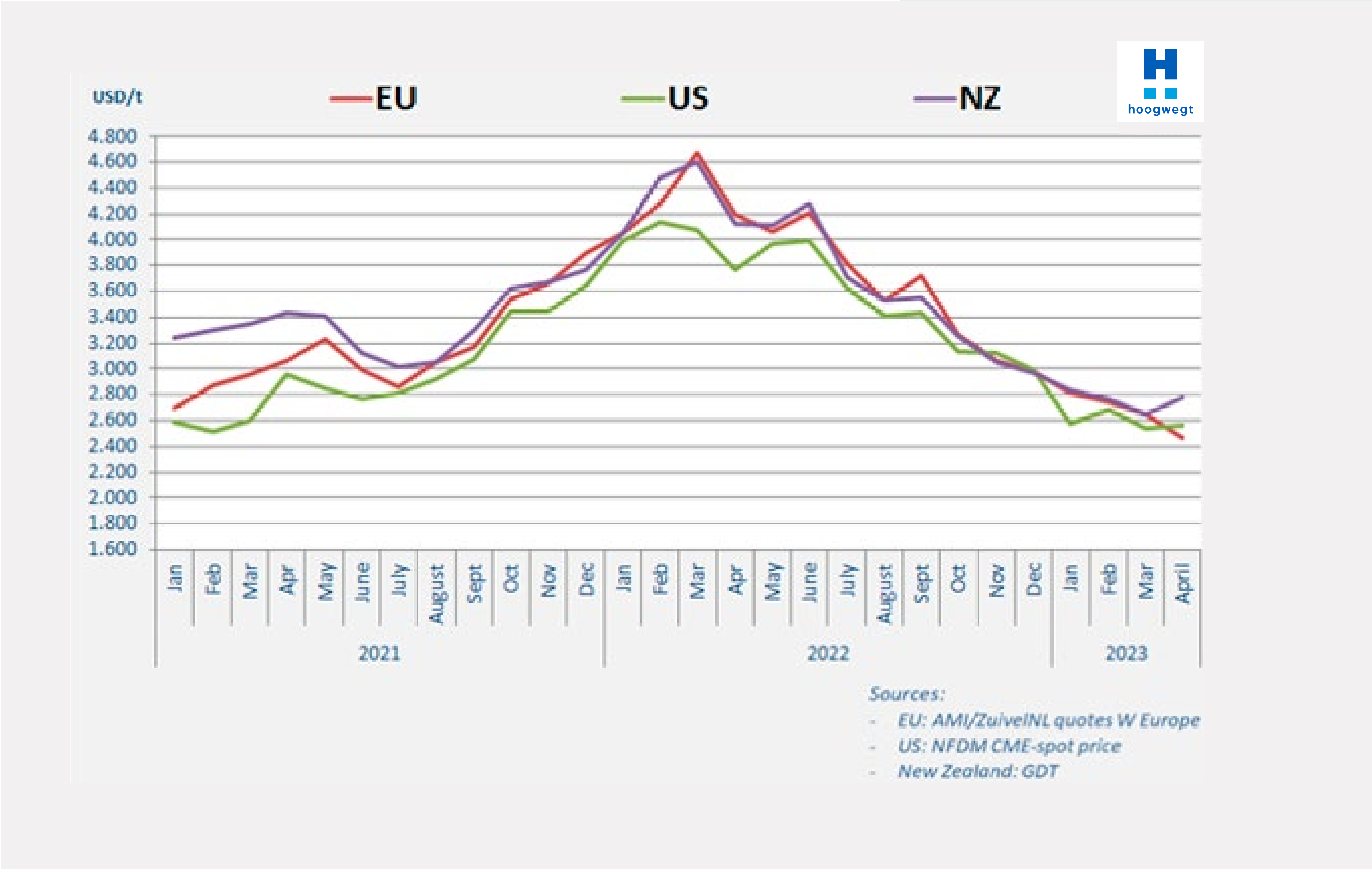
# SMP/NFDM: Prices appear to have turned the corner

Export availability by the three origins monitored for this report – EU, US and Australia – has not been very impressive over the last 4 months. It's only the US that keeps supply out of the three regions steady. However, the buyside still has plenty of reason to feel comfortable about the protein side of the dairy business since New Zealand added 63.000 tons of exports compared to last year over the November to February period, which is about 16.000 tons on a monthly basis. Despite the additional export supply of SMP out of New Zealand, prices seemed to have turned the corner. Northern hemisphere prices are slow to follow upward so it seems, but US prices also started to creep up in the third week of April. In terms of the supply side fundamentals, seller inventories and overall availability there is as yet very little to worry about from a buyer point of view, but in terms of prices, signals are getting stronger that the price levels that were reached in early April may have been as low as we go this time of the year.

## Production, exports and availability of SMP in EU, US and Australia[1])



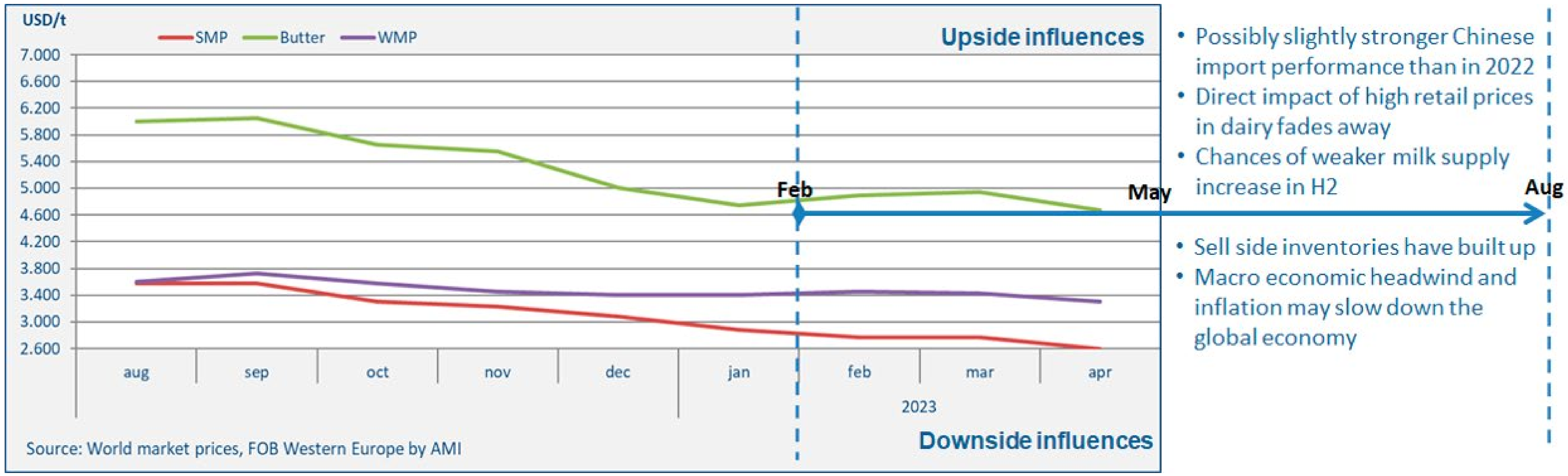

## Monthly SMP prices in the main export markets



# Looking forward

The outlook for milk production in the export regions monitored for this report appears anything but strong. In the past, a 1% growth rate was barely sufficient to keep up with global demand growth. However, what this means for the direction of dairy commodity prices depends largely on dairy demand as it unfolds in the remainder of the year. In the Western world, it will be important to monitor how consumption reacts to lower prices for dairy products at the retail level. We may expect that some of the massive decline of dairy commodity prices will also reach the consumer level as the year progresses. The other key component of the dairy demand cocktail is obviously China. If both demand components develop favorably going forward then the commodity prices that we have seen at the start of Q2 may possibly turn out to be the low point for this year. ■

## Market Outlook for May - July 2023



## Dairy Deep Dive

# A Dive into Lackluster South-East Asian Demand

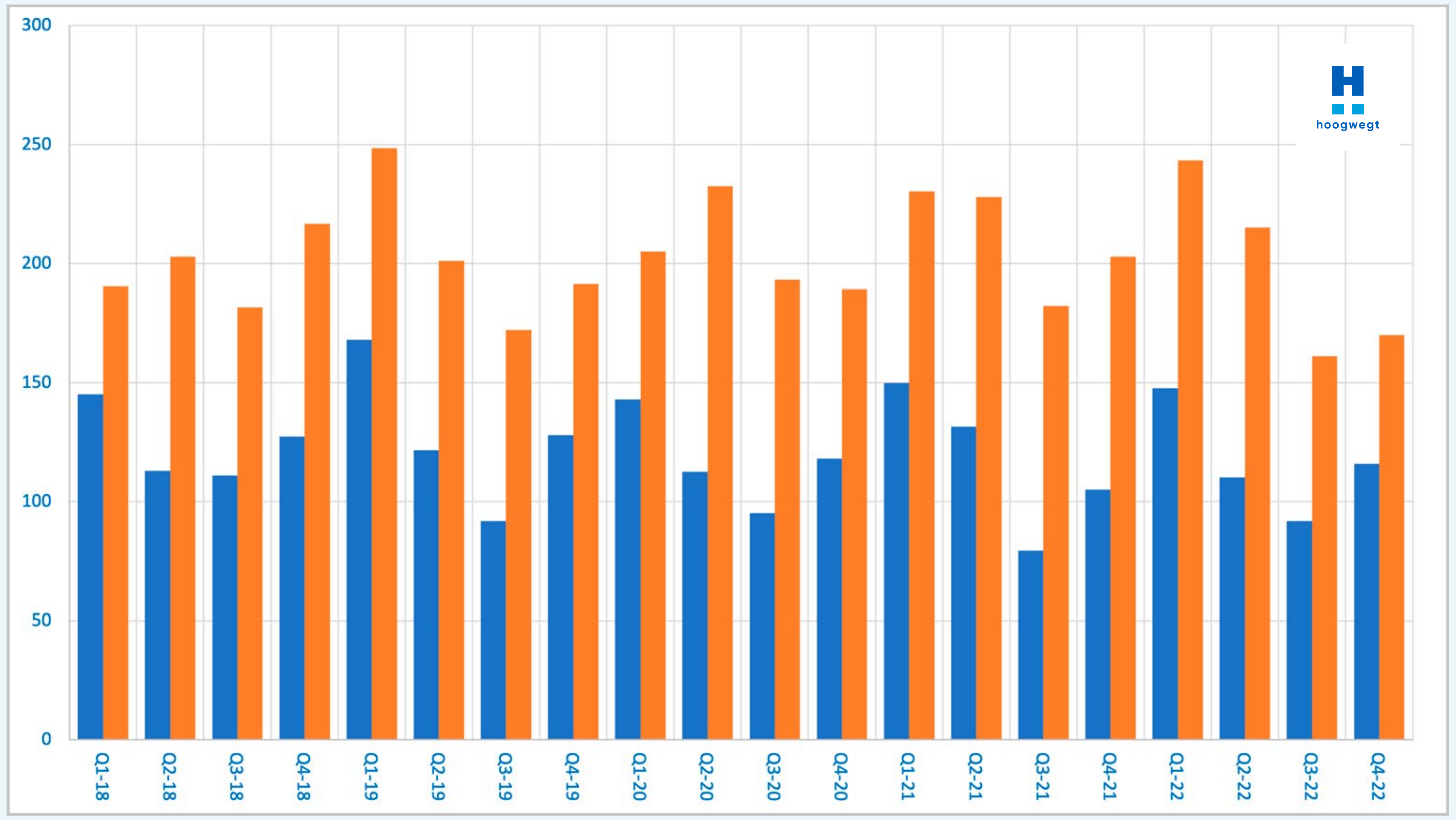
**Current SE Asian demand has been reportedly depressed for a while now. So far that has been a correct qualitative take from our colleagues in the East, and of course we have had some lackluster GDTs from the SE Asian buyers to support this claim.**

However, the GDT is perhaps not completely representative of that SE Asian demand.

There are some nuances though. Changes in NZ product mix possibly give a skewed picture of the NZ SMP game. NZ suppliers produced more SMP and would want to sell it before their financial year end closing to increase their market shares.

Looking at the WMP exports, I'm on the assumption that NZ still has ample supply, and it could paint a clearer picture. Using quarterly data from the past 5 years the r2 (coefficient of determination) is close to 0.5. This means that correlation exists between SMP and WMP import demand from SE Asia.

South-East Asian quarterly SMP vs. WMP import demand in Kt/Q

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## NZ Exports into SE Asia

The NZ Exports came out earlier this season (due to their earlier flush). Their market share and exports have been very good **for SMP**, but note the above nuance: NZ shipped 28.8Kt skimmed in February, compared to 19.6Kt 12 months prior. A significant YoY increase. Exports were up 72% YoY. China contributed the most for this growth, increased by 11.7kt, followed by Vietnam (+6.1 kt) and Indonesia (+3.5 kt).

We saw similar growth in January. American NFDM/SMP shipments were overall decent, but that was due to fair and year-over-year (+10.6Kt ) increased demand from Mexico. Exports to the Philippines declined with around 3Kt or 28% YoY. Malaysia -2.5Kt (-56%) and Thailand -1Kt (-64%). The largest decrease was seen to Vietnam, -3Kt (-74%) versus the prior year.

When comparing the known SMP/NFDM demand to the **WMP import demand in SE Asia, the decrease in Kiwi full cream is bigger**. 28Kt compared to 47Kt twelve months earlier is a notable drop. New Zealand is obviously the main seller of WMP per below chart.

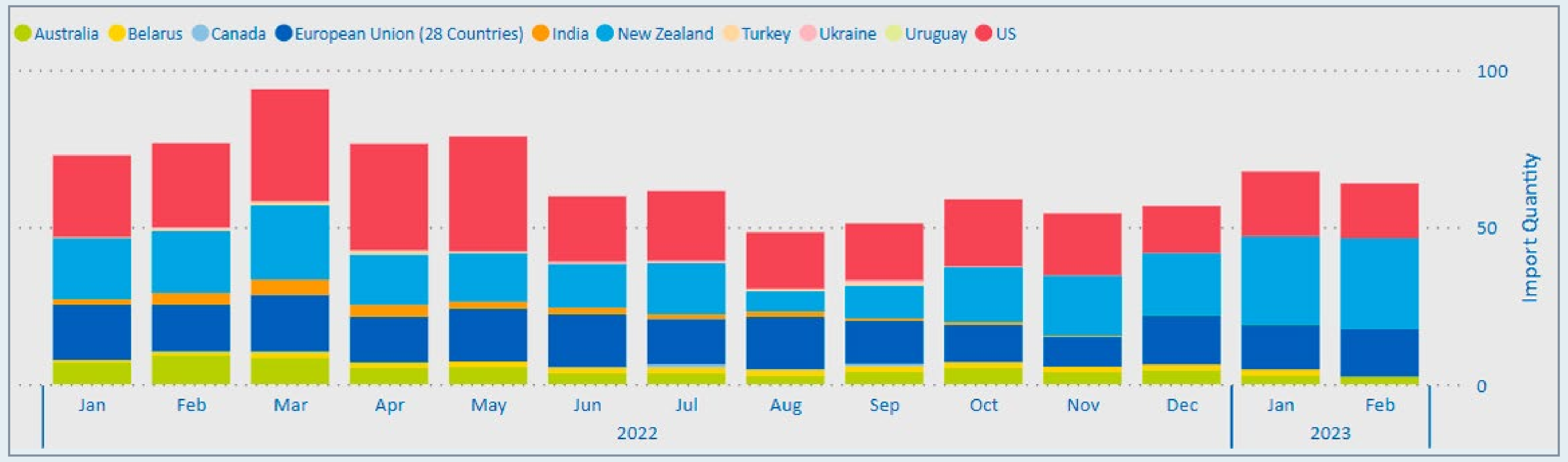
WMP exports saw the lowest February since 2013 after an almost flat January, down 24% from last year. And note that 2022 wasn't the strongest year ever. YTD exports volume out of NZ were 12% behind last year's first two months. Exports to China took a hit with a decline by almost 17 kt, but the same could be seen in SE Asia. Indonesia lost 7Kt YoY, Bangladesh almost 6Kt and Thailand a rounded 5Kt. So those are pretty big hits from both China and developing SE Asia. Singapore demand grew with 2.5Kt.

The demand drop gives an explanation on the lacklustre demand on last GDT, where China wasn't the 'problem' of the low demand. But with current available exports, the drop in WMP seems worse than the SMP/NFDM ones and it's mostly the developing SE Asia whose demand is low.

To summarize, even though demand from SE Asia (through import data) is showing a drop, when we drill into the information, it is more of a drop in WMP than it was for SMP.
Let's not forget that WMP play in SE Asia is mostly an Oceania-dominated play, versus SMP, which is multi-origin (US/EU/Oceania).

Will demand continue falling? How much more can SMP demand fall vs how much more can WMP demand fall from this region? Will we see yet another shift in buying patterns? Perhaps buyers are already on standby to wait for the turn in tide...

### SMP (Food) (HS:040210) Imports in Southeast Asia per exporting area in 2022 and 2023 (Ktonnes)




### WMP (HS:040221, HS:040229) Imports in Southeast Asia per exporting area in 2022 and 2023 (Ktonnes)

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# Bulls vs Bears...

### On the bullish side:

- A struggling South America and Australia in terms of milk production.
- Farmgate milk prices coming off in the Northern Hemisphere.
- Turkey and India aren't competitive on the short-term.
- China's change in paradigm and 're-opened', and unprecedented FTA and tariff changes.
- Prices dropped; this should attract some buyers.
- Money isn't free anymore and stricter loans could limit farmers in their investments.farmers in their investments.

### On the bearish side:

- US, EU current growing milk production. EU SMP on increased production over H2 2021 and Q1 2022 low production levels.
- SE Asian demand seems to be low.
- Recessions, inflation, leading to drops in demand.
- Better availability compared to 2021 at producers.
- Fresh consumption closer to pre-pandemic levels.
- NZ Product mix change, bearish for SMP.

### Things we watch:

- Volatile forex skewing trade shares. Volatile input costs.
- Geopolitical turmoil shifting away from free trade.
- Possible stock building by China, although that may be a bit further down the calendar.
- Turkey lifting its exporting ban on dairy products. (Ban exists to 'fight' inflation) Do note that Turkey currently is not competitive also because they're expensive.

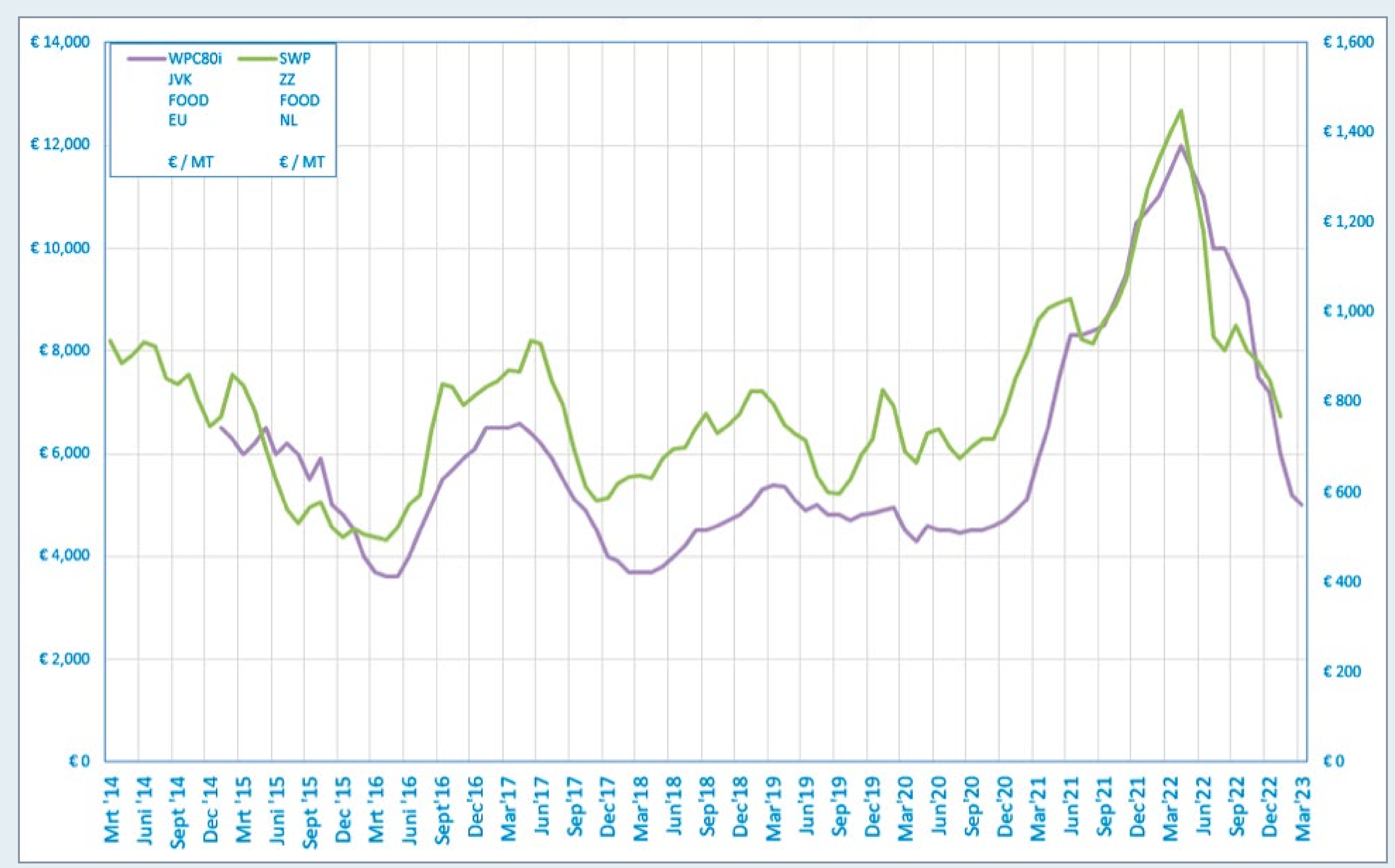
# A Quick Note on...

## Whey

**By John Kramer, Global Head – Whey, Lactose & Permeates**

- The Whey Complex continued its south-bound pattern and meanwhile, prices seem to have approached levels where some might think that bottom levels are in sight. This would reflect €4000/Mt for the WPC80 complex, €700/Mt for Sweet Whey Powder (SWP) Food grade and €600/t for SWP Feed grade.
- But let's start with the fundamental perspective:
  - Milk pay out prices are decreasing by 5 cents a liter every month.
  - Therewith the cost price levels for farmers to produce milk are reached by May/June.
  - The big question mark is when and how farmers will react to this new environment of margin pressure.
- Since the strong growth in milk output was driven by holding cows longer in production rather than setting up new animals, farmers can react quite swiftly. This is a likely scenario especially when meat prices are relatively attractive.
- Right now, we are in the midst of ongoing strong milk output still outpacing the global demand. Just as an example, The Netherlands has never in history produced so much milk as today (calculated on liters and dry matter contents) even under unfavorable weather conditions. So no signs of pulling the brakes at this stage on supply although at the same time, there are little or no signs of strong demand recovery at the horizon either.
- In the Whey Complex, this is translated to prices going down further.
- This month, we take a closer look to the relation between SWP and WPC80. It's a given that 2 markets tend to move in the same direction and are strongly correlated. By now WPC80 is the product absorbing most of the available liquid whey streams needing about 7 times as much volume compared to SWP. Given the fact that almost all investments in the recent 15 years were in ultrafiltration, one can imagine that by now, WPC80 markets are dominant in supply and demand for the whole complex.
- A main difference between WPC80 and SWP is the fact that SWP has a long term Intraday market place via brokers, platforms and futures. This creates an environment that price discovery can be done on a daily basis. WPC80 is a product that tends to be priced more on a quarterly basis (for example in the leading sport nutrition application). Therewith, there are periods (when a quarter has been negotiated and covered) that no real pricing is available.
- That makes the market more dependent on peak moments when the deals are done and often more unpredictable at the same time. It's also reflected in the big steps up and down that this market usually takes. (€500/Mt change in a week not uncommon).
- Another big difference is that contrary to WPC80, we still see a lot of volumes of SWP ending in Feed applications (mainly for calf milk replacers for fattening and rearing). The influence of the Feed volumes is still heavy since the broker markets and also the EEX is based on the Feed prices.
- Furthermore, on the Food side, SWP remains an important component of many products. Having whey protein concentrated in the WPC80 (suitable for muscle recovery after exercise as an example), SWP provides a nice balance of proteins and carbohydrates (lactose) that many formulations still like.

**WPC-80 (L-Axis) vs SWP (R-Axis), in Euro/t**

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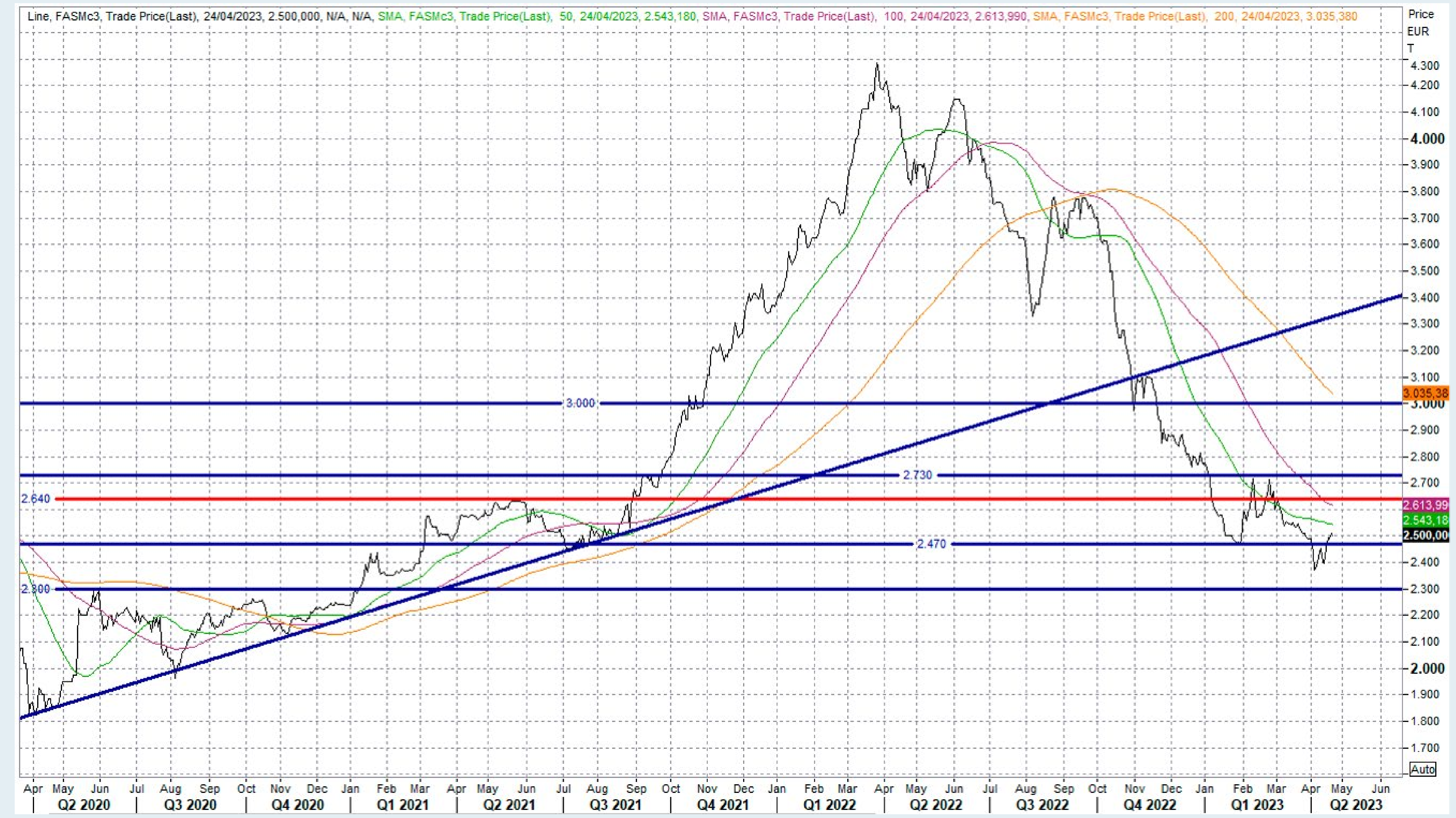
## Futures: EEX

**By: Joris Thys, Derivatives Trader, HTM**

- It's all about the curve. EEX future markets have been reluctant to move lower over the past weeks. With the flush around the corner, low prices in the liquids markets, producers are still proud on their prices and not lowering unless they have to. At the same time, end users trying to lock in their allocation contracts push the contango to about 150 EUR/ quarter. Q2 is about 2450, Q3 2600 and Q4 2725 at the moment of writing.
- More expensive deferred prices are in-line with the general market sentiment that while overall milk supply is good for the short term, there is a substantial risk for higher prices once the flush is over or by the end of Q3. The bulls were further encouraged by the unexpected jump on the recent GDT, and especially the SGX SMP curve was lifted. One point of caution to the bulls is that current future prices are below last GDT's
- Looking at the technicals, the downtrend remains intact but the moving averages are flattening out, showing a slower momentum of the trend.
- We also see pretty much the same on the Whole Milk where prices rebounded post GDT while the longer term trend lower remains intact.



# World Comment.

## Herman Dister
## Managing Director
## Seabird International Shipping

My journey with Hoogwegt began in January 1991 as a Logistics Assistant. I started directly after University and Military Service which was still obligatory at that time. As we were a small team, I quickly learnt all the specialties of the dairy logistical business, and fast forward to 2004, I became MD of Seabird. It has never been, and is still not a dull job thanks to the dynamism and changes of the trade.

In 1991, Seabird was only 50% owned by Hoogwegt. The remaining 50% was owned by a French trader. In 1994, we became a 100% part of the Hoogwegt Group. During the following years, the way of working professionalized rapidly.

At the beginning, we worked mostly via fax and we had a lot of telephone conversations. This soon evolved into full digitization which proved to have served us well during the last three years Covid-19 struck. Working from home offices became a new necessity, which we fortunately managed well.

The organization of the shipping world experienced enormous change as well. There used to be many different shipping liner companies, each with their own services and specific destinations. This has now shifted to only approx. 10 players who now work together on joined vessels and to destinations all over the world.

You might not have expected, but shipping liner companies did not make a lot of money until 2020. This changed rapidly during the Covid-19 crisis. Disruptions in the schemes due to delays in ports as a result of measures taken by the governments and abnormal demand led to vessels on full capacity on nearly all trades. This resulted in rates rising up to 10 times higher than before, yielding mega benefits for the shipping liner companies.

Since mid-2022 , as most of the restrictions for the crisis started to be waived and the demand is slowing down considerably, shipping rates started to drop again. For the near future, we don't expect that the shipping liner companies will find a solution to stop the dropping of the rates. They will try to put aside as many ships as possible to reduce the container capacity, but it won't be enough. Furthermore, they have ordered a lot of new bigger ships which will join the fleet during the next 2 years, and which will enlarge the capacity enormously.

Unless the world economy will pick up substantially or unexpected incidents occur (war, epidemics, bankruptcies etc...), we don't expect that vessels will get full soon, and therefore rates will remain on a low level for the time being.

Despite what will happen next, we at Seabird are ready and looking forward to tackle all new challenges head-on as a team and take full advantage of new opportunities to create value for all our stakeholders.

Seabird International Shipping is an international shipping and forwarding company which is part of Hoogwegt Group specializing in dairy product transportation, Seabird provides excellence for the food industry across the board, in terms of dairy and food logistics, warehousing solutions and customs services.

# Hoogwegt Happenings.

Some exciting updates on MyHoogwegt Portal!

Currently this service is available to most of our export customers only.
But soon, MyHoogwegt will be available to all of our customers!

Coming soon, we will be rolling our new features. Stay tuned!

You can find out more here.

### What does MyHoogwegt Portal Offer?

**My Contracts**

**My Shipments**

**Market Insights**

## Coming Soon!

### Access to:

→ Documentations
→ Payment Status
→ Online Ordering

**Register Here:**
Interested in obtaining a free MyHoogwegt account for your company? Scan the QR-code and we will be in touch!

# Bottoms Up!

On our 2nd Anniversary of The Hoogwegt Dairy Spew, we bring the focus back to the Far East. Tune in to Episode 14 as we discuss the question in everyone's minds – **Where Is The Bottom?**

In this episode, we discuss the production outlook at origins, explore valorization and make a dive into whether Intervention will happen again (or not).

Looking into the Demand factors and buying behaviour, we then conclude with a round of discussions on When we think the Bottom will happen.

Listen in as we talk about our spiffy new customer portal – **MyHoogwegt** and our monthly newsletter **Hoogwegt Horizons**.

By popular demand, we have also added in Transcripts of this episode on our Buzzsprout website. You can find it here.

Listen in to find out more!

Note:
Podcast was recorded on 12/April/2023
Transcript was generated automatically. Its accuracy may vary.

Subscribe today!!

Comments / suggestions / collaborations are welcome! Do let us know if you would like to be a guest speaker on our upcoming Episodes!

--- Hoogwegt Dairy Spew Team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## Episode Guide:

| | |
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