



Horizons.

Our insights
on Today's Global
Dairy Business

December 2023

#12

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Market Direction

**Weak EU milk
production
pulls export
supply firmly
below zero**

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Editorial Note.

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Season's Greetings!

As we move into the last month of 2023, we hope you enjoy the last Horizons issue of 2023 while sipping your festive drink of choice.

In this issue, our "Market Direction" piece will explain why supply is fundamentally lacking and delve into how and why availability of SMP / NDFM is exceptionally low.

Our "Deep Dive" piece will get into the thick of the action – rather literally, as we explore more about FATS – AMF and Butter.

We also have a quick note on the Whey market.

Guest Contributor Bart Whiteley chime in about the SGX futures market, while our very own Technology Lead, Kim Jonkergouw talks about the exciting possibilities Hoogwegt has in store.

Finally, in our "Hoogwegt Happenings" section, we share our recent participation in a Bakery Workshop in Shanghai, China as well as our successful outing to FI Europe!

Here's wishing everyone a Jolly, Holly, Festive Holiday!

As always,

Hoogwegt Horizons Editorial Team

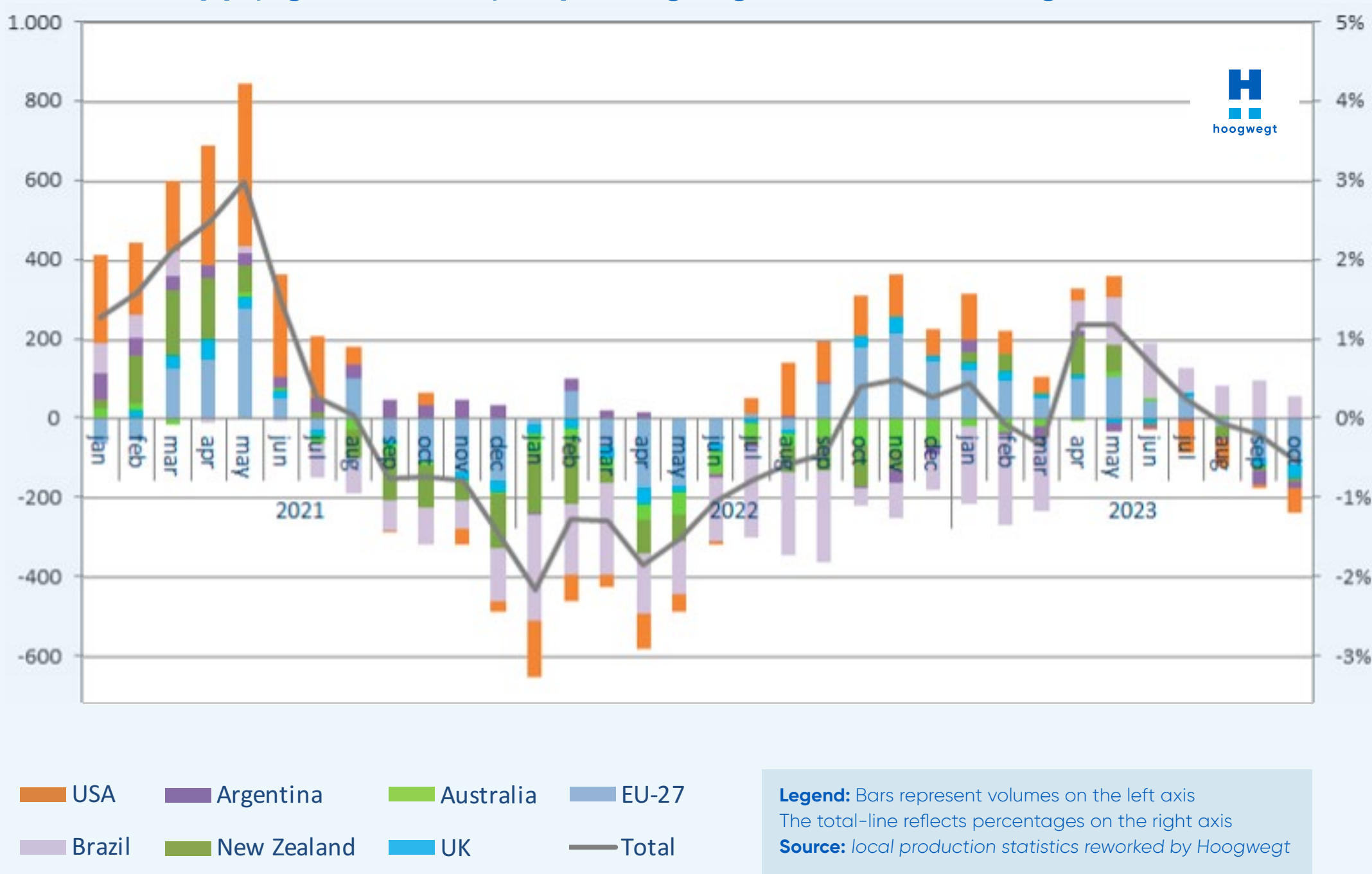
Market Direction

Weak EU milk production pulls export supply firmly below zero

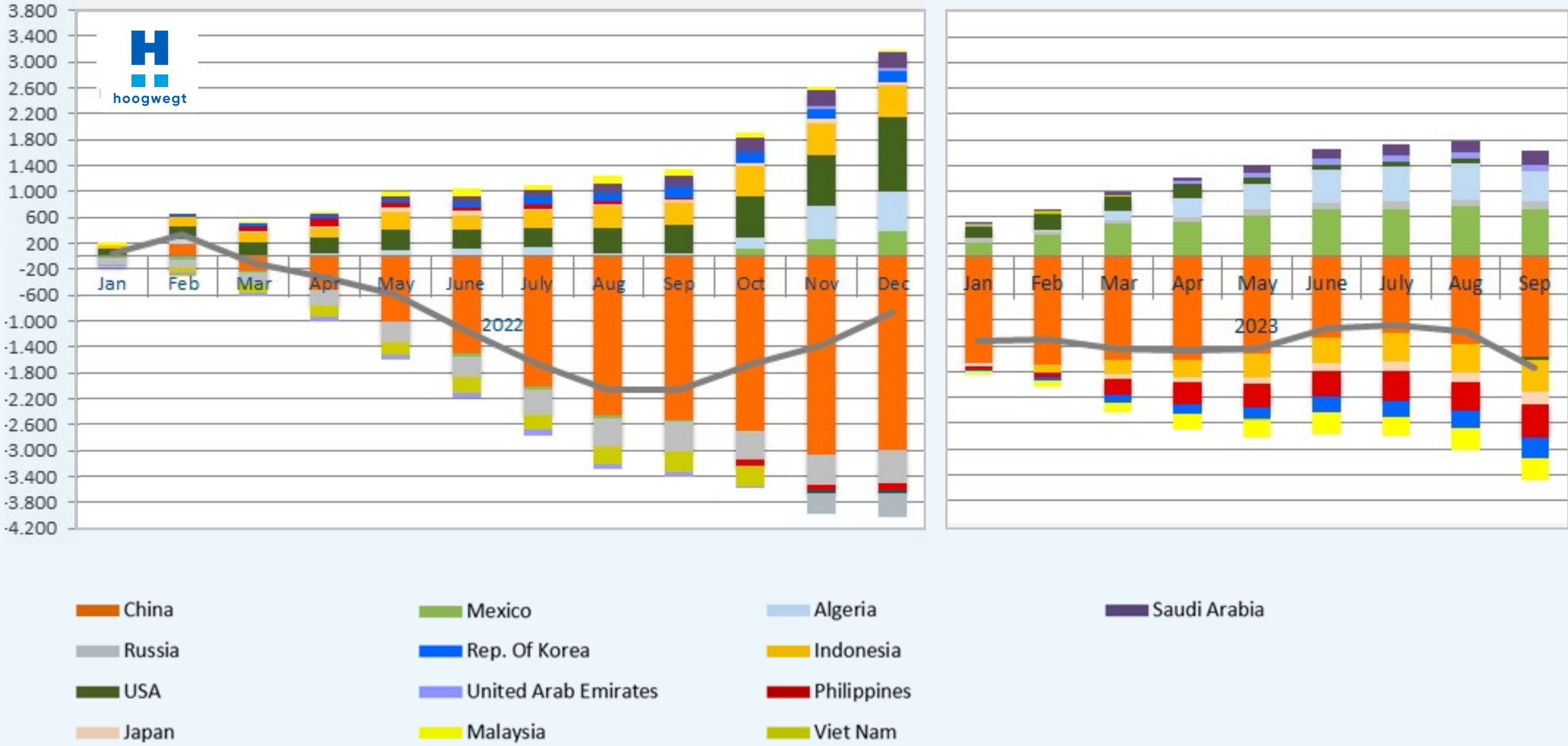
Oceania milk supply is more or less flatlining during the important flush of the season, but at the moment, it is the EU that is putting the most weight on the negative side of the supply situation.

Most heavy weights like Germany, the Netherlands and Ireland are down by 2% and France is even dropping below minus 5% in November. Combined with the modest decline in the US and the deteriorating production circumstances in Latin America, global milk production is heading for a final quarter that will be at least 1% below last year. As long as weak export supply meets equally weak global import demand, markets remain relatively calm. The real test for the production side of the market comes when demand recovers and production in exporting regions needs to show its true colors while agricultural policies are putting more and more sustainability limitations in place. Global milk production in the three main export regions of the EU, the US and Oceania has effectively been put on hold since 2020, whether milk prices were as high as €0.60 or as low as €0.30. This creates an interesting question mark about the capacity to still expand export supply in the traditional export regions.

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: Dairyintel trade data, reworked by Hoogwegt

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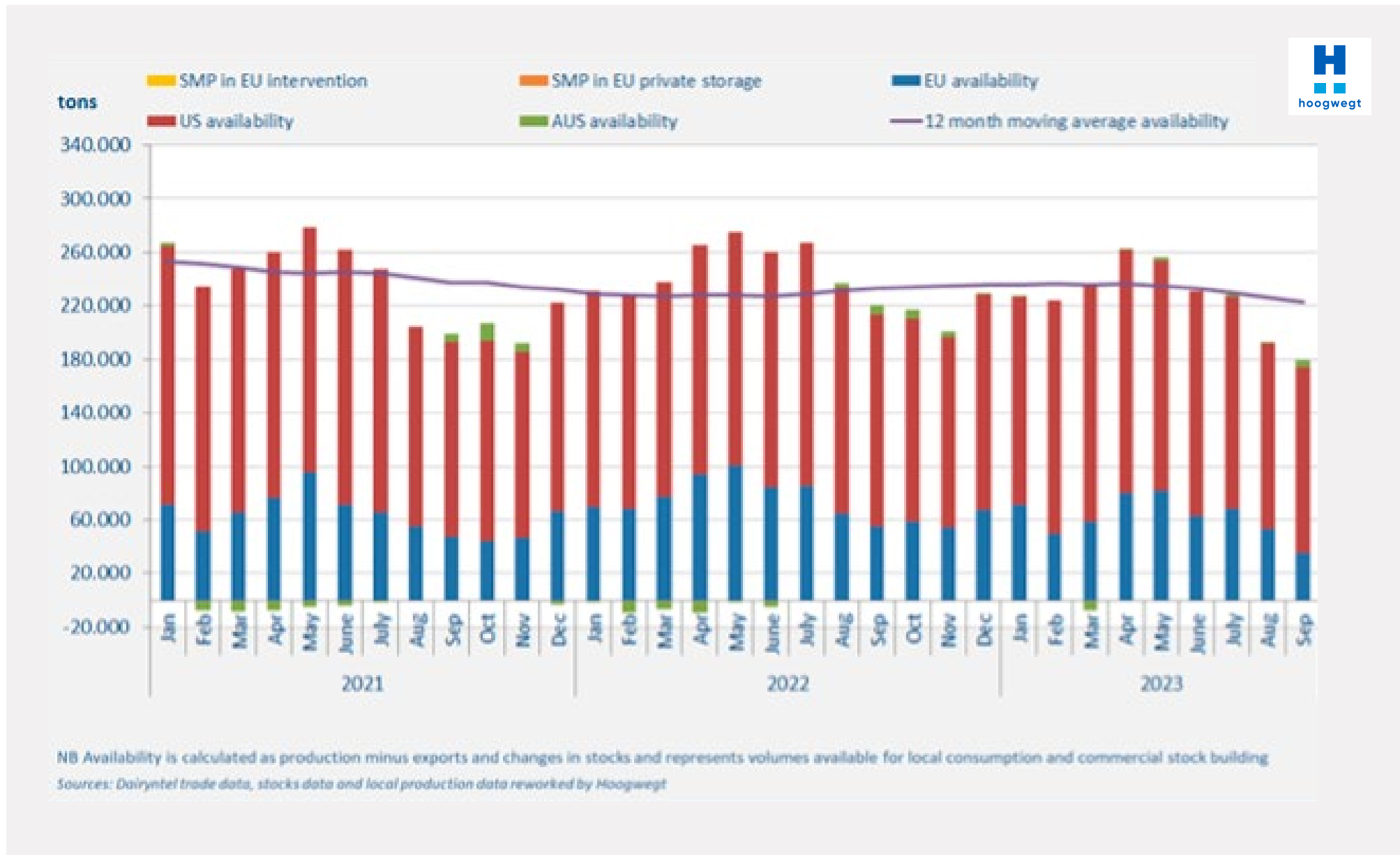
September's weak overall performance by the top-13 global importers increased the chances of another full year of falling imports by these 13 key importers. Especially because China's October imports failed to impress either. Apart from SMP, WPC-80, lactose and a few cheese categories, China's October imports were once again weak compared to hardly impressive 2022 data. WMP was even 32% below the October 2022 import volume. From a market balance perspective, it may not be a bad thing that Asian dairy demand remains subdued because export supply is anything but sufficient to provide for more forceful import demand. Volumes on the positive side of the comparison with last year are also diminishing. In Q4 of last year, importers like the US, Mexico and Algeria performed quite well, so volumes in these months will be difficult to beat.

SMP/NFDM: Availability outside NZ is exceptionally low

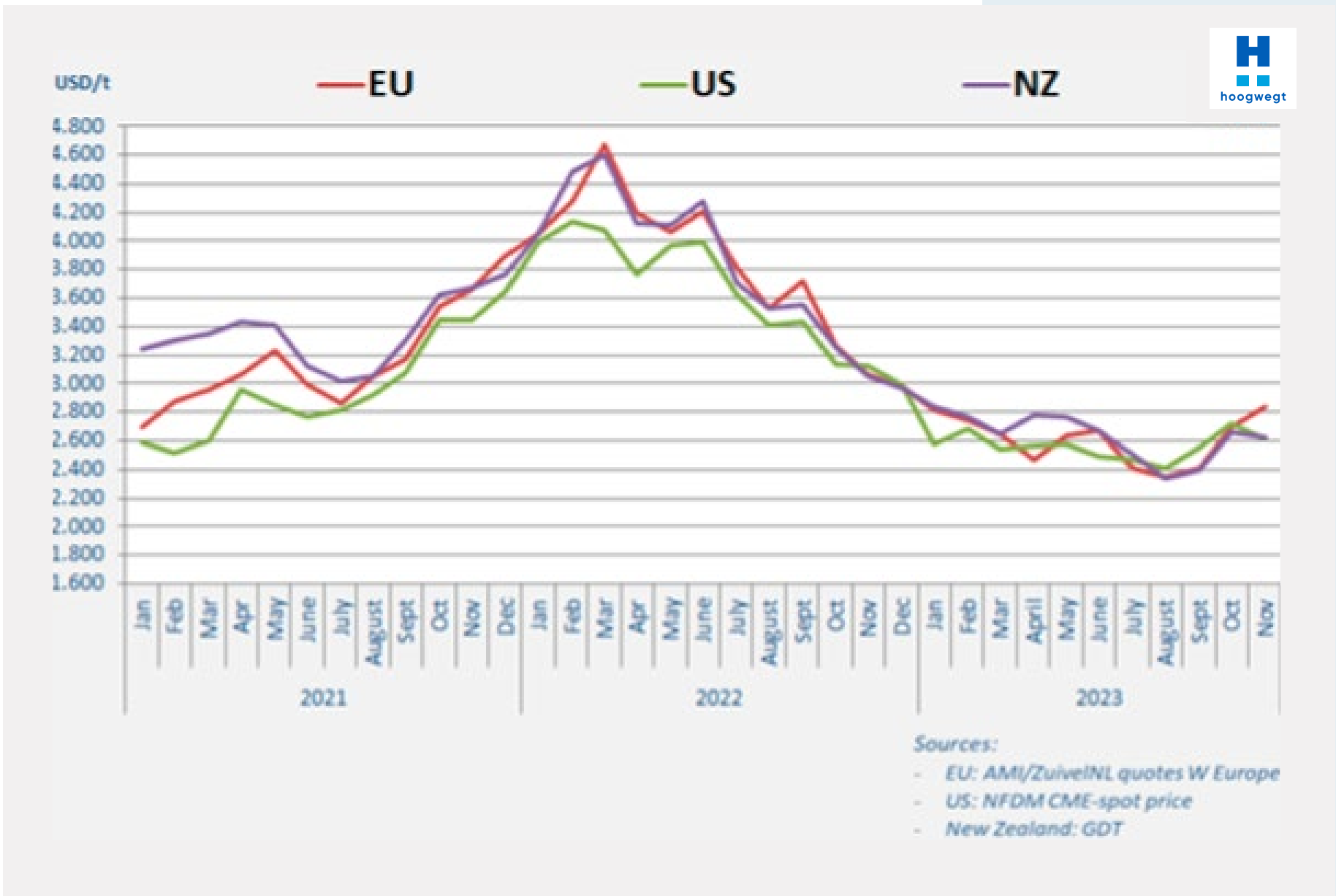
Very few buyers will be nervous about current availability of SMP/NFDM. After all, ongoing weak Chinese import of SMP and butter continues to free up significant volumes of NZ SMP and butter(oil) for the international market. However, if we look beyond NZ availability, export supply is weaker than it has been for years. So now that the Oceania peak is already behind us, it will be interesting to observe whether stocks that have been built up during the peak supply weeks will be sufficient to even out potential shortages in the second half of the season.

Especially in a scenario that milk volumes dry up earlier than expected (when the potential El Nino implications come into play). Recent price developments suggest that EU will be least equipped to provide an alternative source of SMP in a few months from now. Currency tailwind has elevated EU origins significantly above US and NZ prices, but more importantly, recent EU milk production developments suggest that milk availability once cheese and liquid sales have been fulfilled may be very limited until the Northern hemisphere's peak arrives.

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



Monthly SMP prices in the main export markets

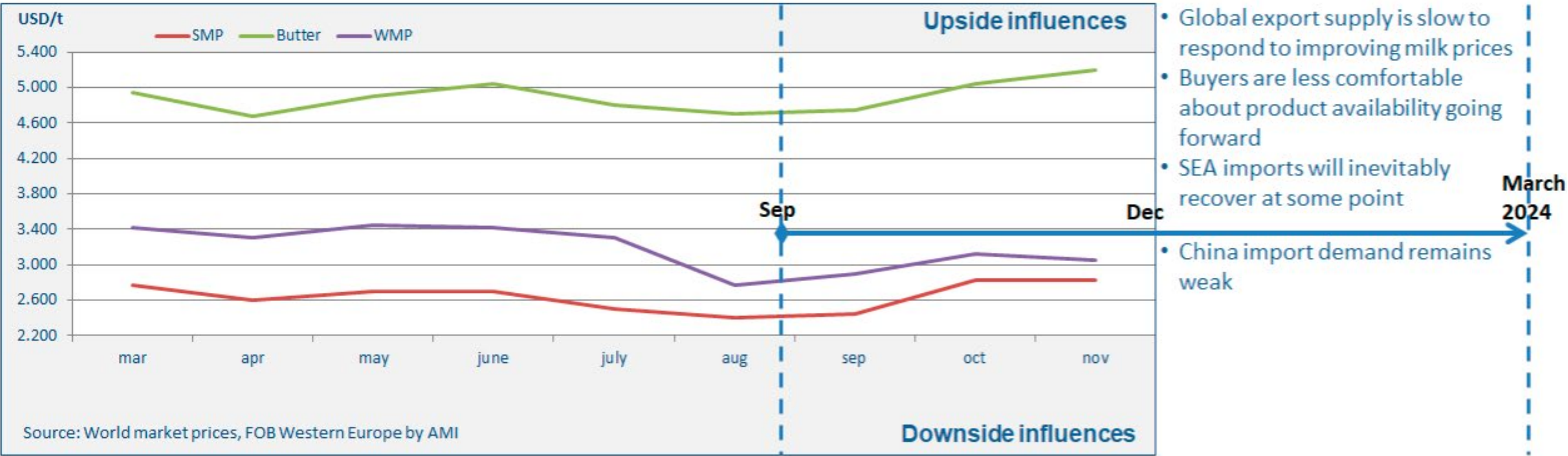


Looking forward

If we look back at the previous couple of months, then the direction of prices was driven by the outcome of “which is weaker”: dairy demand or milk production. As milk production apparently has become the weaker of the two over the past few months, prices have more or less recovered from the dip in Q3. In the final weeks of the year, we may see market activity slow down and prices remaining mostly range bound. The trade paragraph above indicates that global imports may diminish for the second year in a row in 2023. As it seems unlikely that we will see a third consecutive year of weakening import

demand in 2024, the direction of prices at the start of the new year will be determined by the speed of export supply waking up to the opportunities in export markets. We are currently looking at milk production continuing to weaken towards the end of the year. Knowing that dairy farmers need time to translate positive market signals into higher output, it seems unlikely that milk production will be able to keep up with a potential improvement in import demand in Q1 of 2024.

Market Outlook for December 2023 – February 2024



Dairy Deep Dive

Let's Talk About Fats

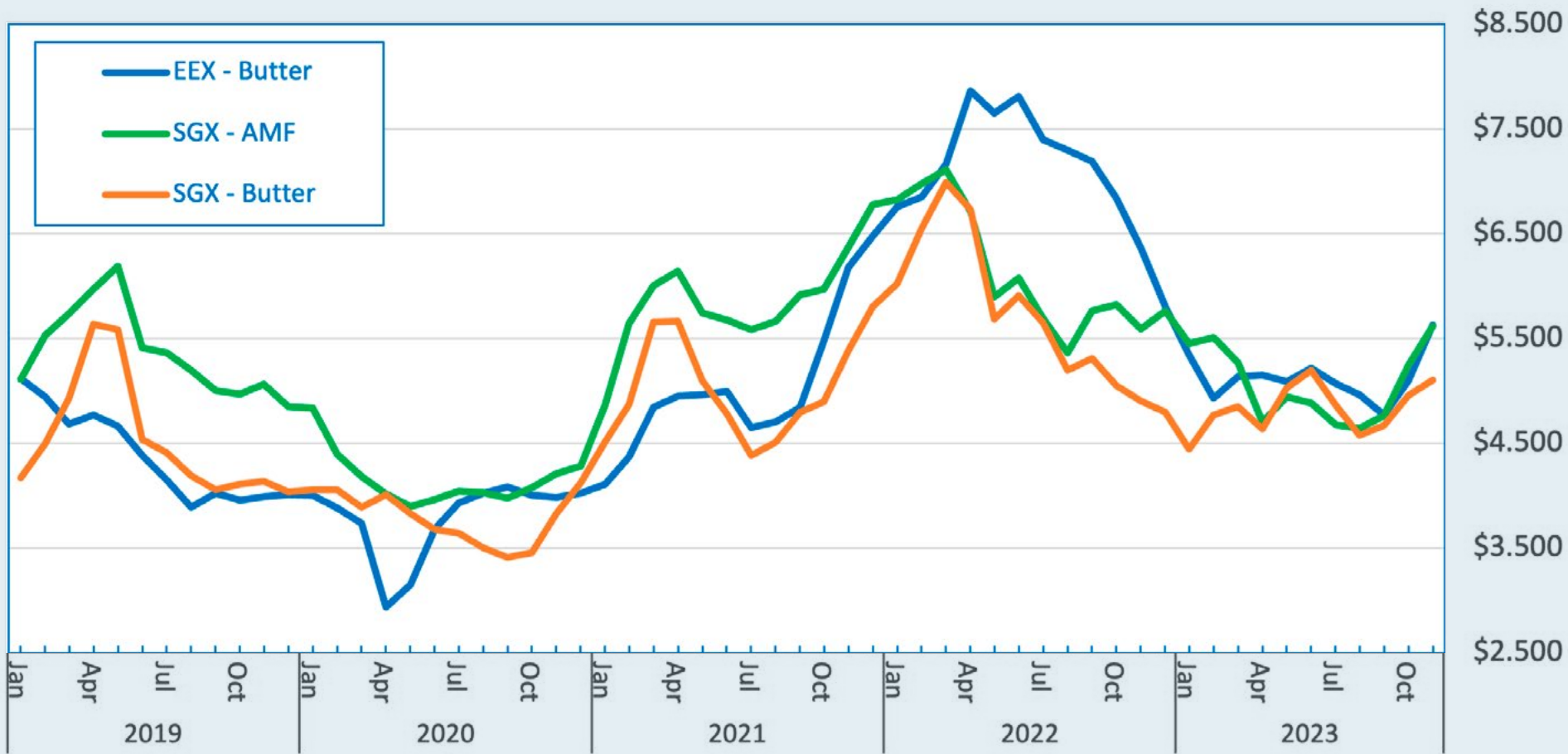
Historically, there has been quite a strong correlation between European butter, New Zealand (NZ) butter and NZ AMF. Obviously, Europe is a butter producing powerhouse (unless you like it salted, like me) that has an effect on NZ butterfat price-levels as well.

With current struggling European milk production, butter production registered its first negative growth figure in Eurostat's September report. A very mild decrease and not as strong as the decrease of SMP production.


Germany, France, the Netherlands all posted negative Year on year figures for butterfat production. Ireland was still positive but with the expectation of a negative Q4 in European milk production, including the Irish, production isn't expected to be awesome going forward either.

As per the latest MMO Meeting in September 2023 (pending a new update), Europe's reported stock levels in butter and butter oil are still high, but nobody seems to care, and with relatively firm cream prices, butter prices firmed up as well.

EEX Butter, SGX Butter, SGX AMF in US\$/t. monthly avg.



EU Butterfat Production September 2023

					
	Kt	YoY%	YTD in Kt	YTD%	Cumulative YTD Kt
Germany	33.3	-4.7%	367.8	4.1%	14.4
Ireland	25.3	6.6%	226.8	5.5%	11.8
France	26.8	-8.7%	301.4	-1.3%	-3.9
Poland	19	0.5%	170.5	-4.0%	-7.10
Netherlands	9.4	-5.1%	94.9	-11.3%	-12.1
Belgium	9	3.8%	90.2	12.8%	10.2
Denmark	6	33.3%	79.2	20.5%	13.5
Italy	7.5	-7.1%	72.7	-2.5%	-1.9
Finland	4.6	7.3%	44.2	1.0%	0.4
Austria	2.4	-2.9%	26	0.1%	0
Portugal	2.3	27.4%	24.1	14.5%	3
Czech Rep	2	-5.3%	17.7	-4.3%	-0.8
Sweden	0	-	17	13.0%	2
Spain	1.3	-23.5%	15.5	-21.1%	-4.2
Lithuania	1	46.3%	10.6	29.6%	2.4
Hungary	0.9	21.1%	8.9	26.4%	1.9
Romania	0.9	-7.4%	7.5	-0.1%	0
Slovakia	0.7	-28.3%	6.5	-15.7%	-1.2
Estonia	0.4	33.3%	3.6	12.5%	0.4
Bosnia & Her.	0	-	1.3	-	1.3
Latvia	0.3	88.9%	2.7	47.8%	0.9
	153.1		1589.1		31

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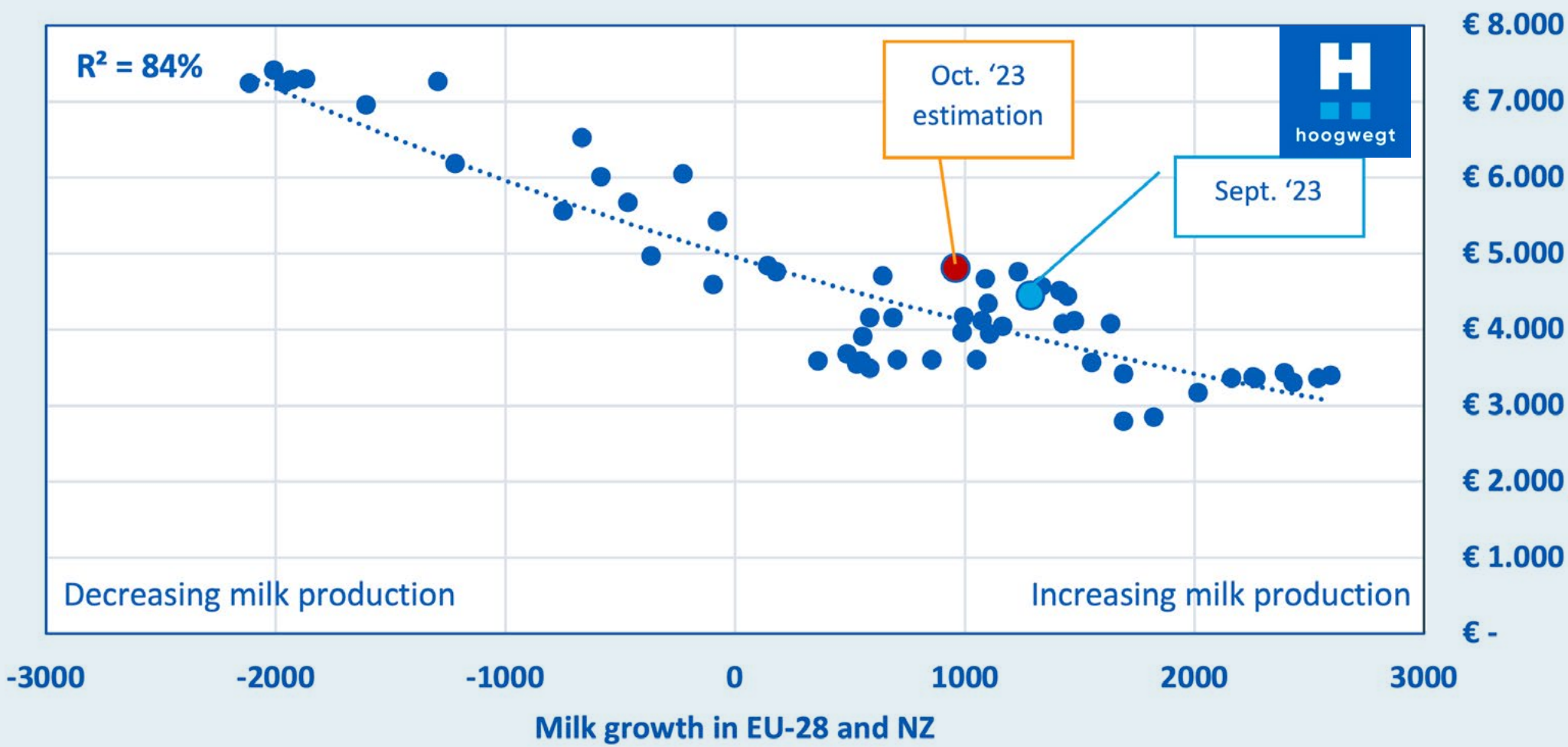
The correlation between European and NZ growth (or decline) in milk production and butter (and AMF) prices is quite strong (see charts). Less milk usually leads to less supply, especially when valorization isn't favorable and can be a reason for firmer prices depending on demand. YTD Exports out of Europe and NZ saw increasing demand, but domestic consumption in Europe suffered on inflated prices. Recently, retail butter demand seemed to have picked up a bit on lower prices. We should see some validation of that in the December update on Europe's quarterly stock estimation.

Less milk also can lead to a higher milk value, as shown by the charts. A person that expects negative milk growth in Europe and NZ, expects to shift towards the left on the regression line. In this case the subject is the EEX Butter price.

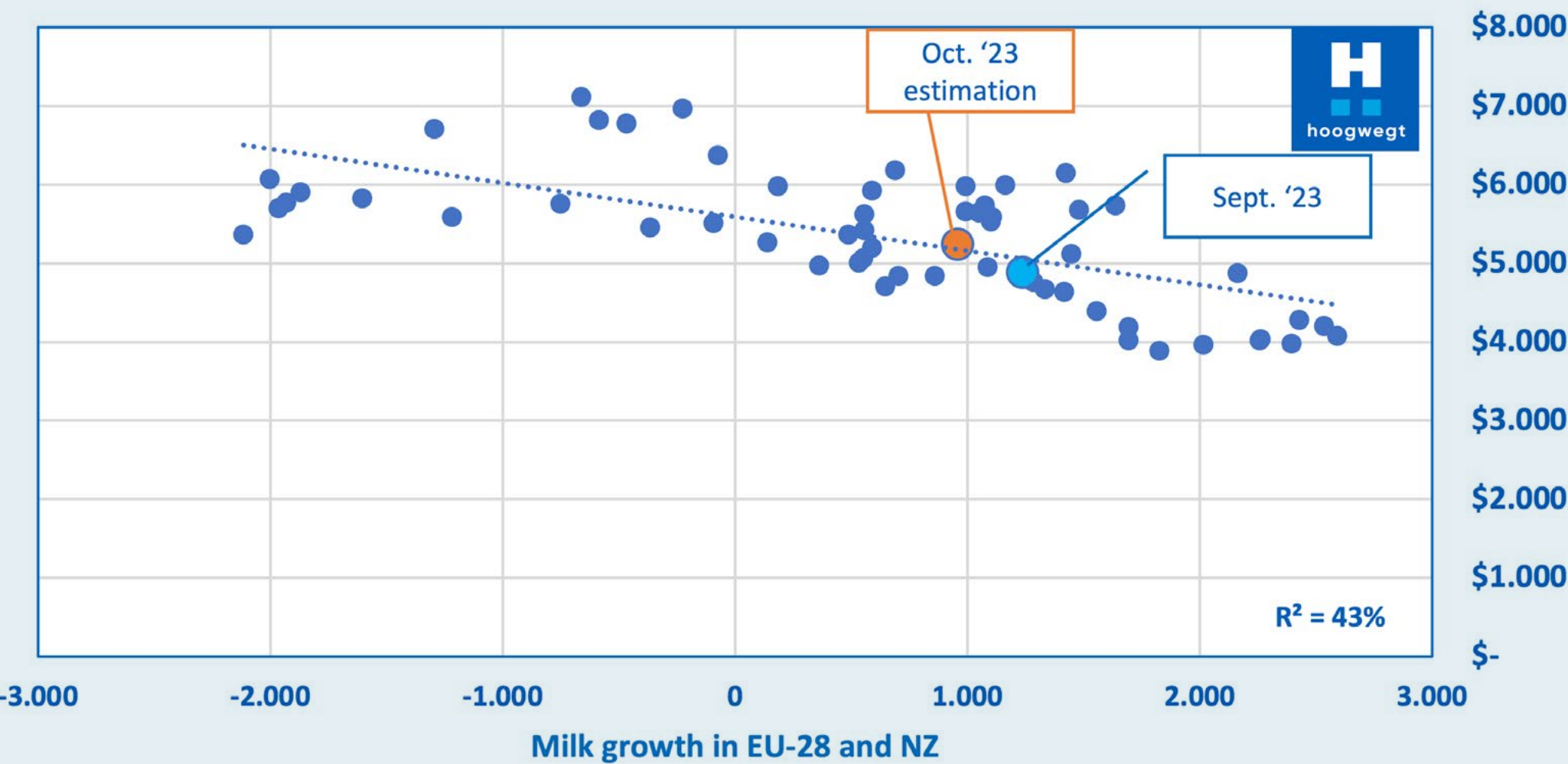
The correlation also exists for NZ AMF and Butter. Although it's less accentuated.

With exporters' milk production struggles, one has a reason to see prices firming, even without excessive demand. But note that butter carries some seasonality, festivities usually see increasing demand until they're passed and the reported stock levels do seem high.

EU28+NZ Milk production change vs. EEX Butter, '19 - '23



EU28+NZ Milk production change vs. NZ AMF, '19-'23



Bulls vs Bears...

On the bullish side:

- Will Europe continue to see negative milk production growth through Q4? Recent weeklies out of France, Germany and UK are saying yes, since they're all very negative.
- USA is still struggling, and NZ isn't doing great either with the risk of El Nino, that could affect milk production in a negative way.
- With retail prices lower, domestic consumption might return.
- Europe's SMP production and supply has been low.

On the bearish side:

- Margins for US farmers are improving, and milk production should gradually improve there.
- Recessions, inflation, leading to drops in demand.
- Asian demand still seems to be low. While others who bought might have enough for now.

Things we watch:

- Geopolitical turmoil and governmental policies.
- Natural Gas; closing in on winter and when either Asia or Europe face a very cold winter Europe is not out of the woods yet.
- Blue-tongue disease in North-Western Europe, how much impact has it and will it spread further?
- Volatile currency rates and foreign exchanges.

A Quick Note on...

Whey

Global supply

→ September 2023 Dry Whey (human) production in the US registered a somewhat weaker 73.1 mil. Lbs. calculating to -2.01% compared to last year. Stocks were reported at a +24.7% YoY level of 80.4 Mil. Lbs. according to the USDA, but on a MoM decrease of -6.1%. US Cheese production overall was positive; +0.15% compared to Sep '22 at 1152 million pounds.

Global trade

→ September EU-27 Exports of whey products (HS0404) out of Europe slipped a bit; -1.4% compared to September 2022, calculating -2.5Kt. Main destination China wrote a loss of demand out of EU-27 registering 50Kt (-15% YoY) South East Asian destinations grew (Malaysia 21Kt (+31% YoY), Indonesia 16.6Kt (+9% YoY), S Korea 14.3Kt (+18%), Thailand 10.8Kt (+41% YoY). Exports of Dry Whey (HS040410) in September showed a slight

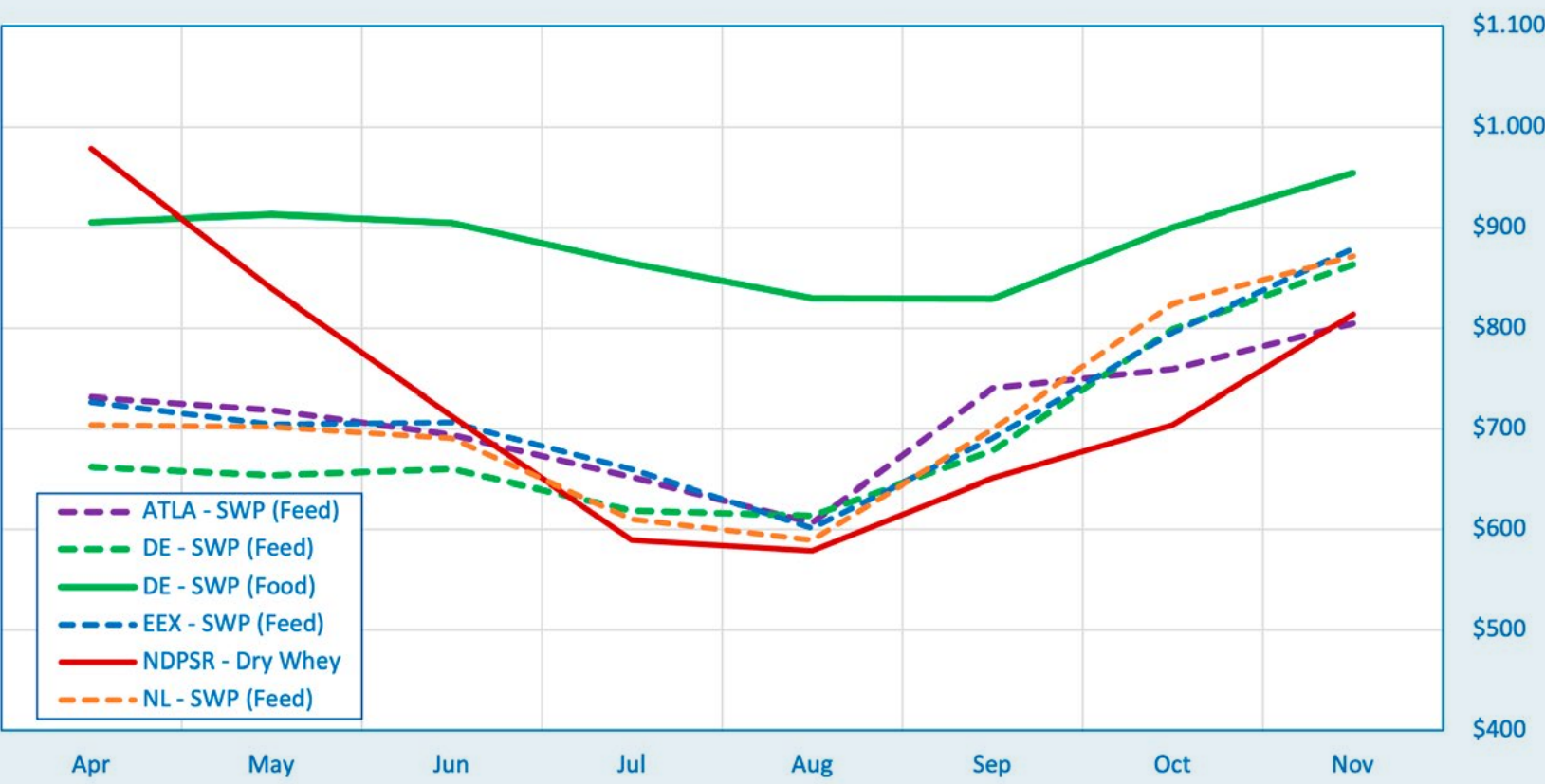
increase compared to the same period last year, rising by 0.4Kt from 2022, which is an increase of 0.8%. Down compared to the three year average (-0.8%).

→ US Exports: In September, sales of dry whey and WPC <80% experienced a slowdown. Dry whey recorded its sixth consecutive month of year-over-year decline (-31.1% YoY) due to reduced demand from China, Indonesia, and Malaysia. On the other hand, WPC <80% showed year-on-year losses in every month of 2023, except for February. This decline is attributed to decreased demand from significant markets, including China, Canada, and Mexico.

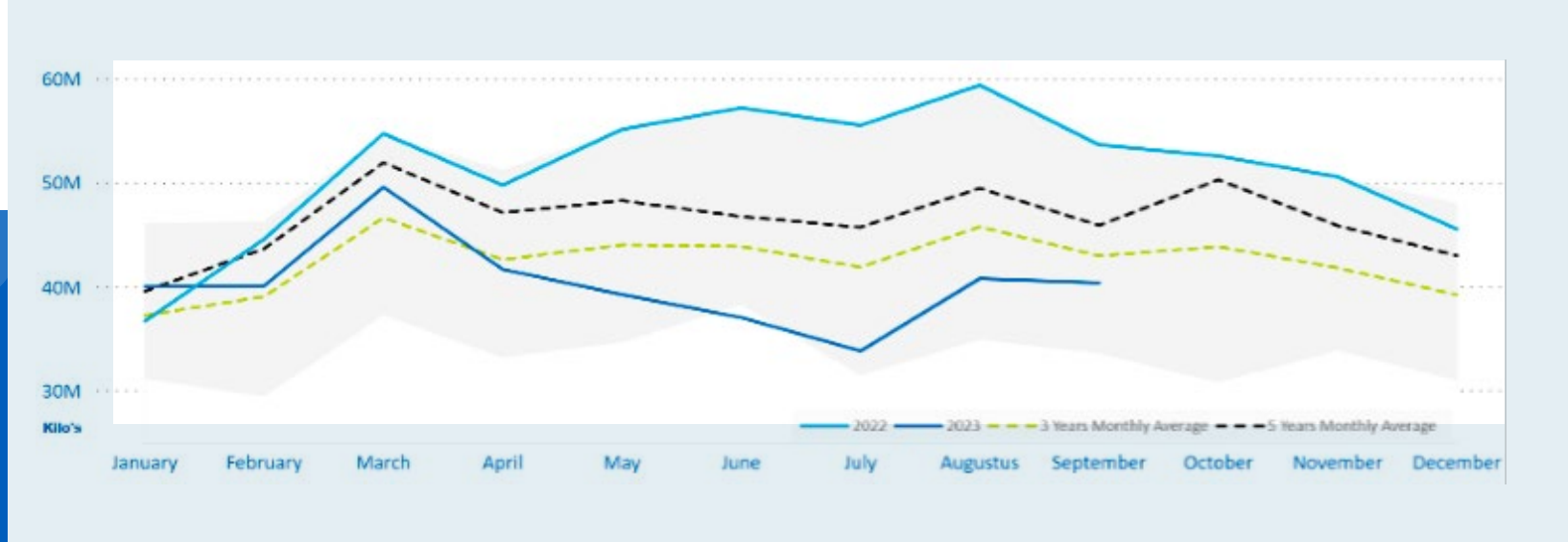
→ Chinese imports for October: Whey Products (HS Code: 040410) Ireland dropped from third highest in market share last year to ninth as shipments from the country plummeted by 3,5Kt (-75% YoY). Sailings from Belarus (+1,5Kt or +34% YoY) and France (+1Kt or +60% YoY)

compensated losses in imports from Ireland and the US (-3.7Kt) only partially. WPC 80+ (HS Code: 350220) Larger imports from the US (+291MT or +45%YoY) drove total WPC +80% shipments 4% above 2022 levels. More volume from Australia (+0.3Kt) helped to push imports higher and outweighing declines from Poland and Germany (almost -0.3Kt combined).

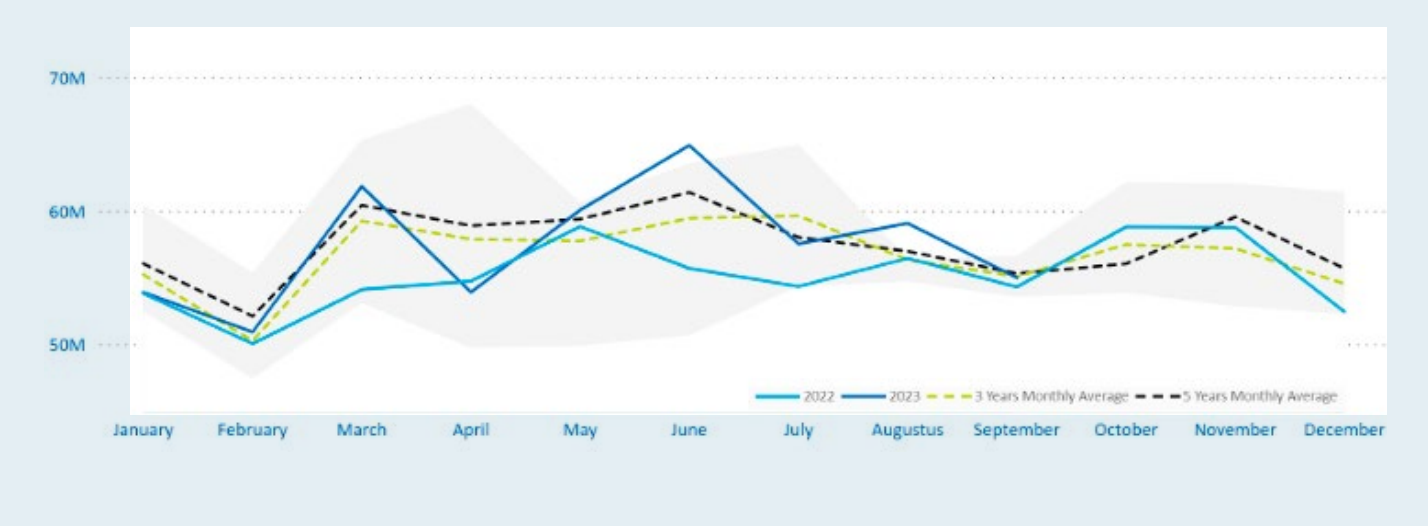
International price comparison
Whey in US\$/t monthly averages



Dry Whey (HS:040410) Exports - USA



Dry Whey (HS:040410) Exports
European Union (27 Countries) in 2023 (kg)

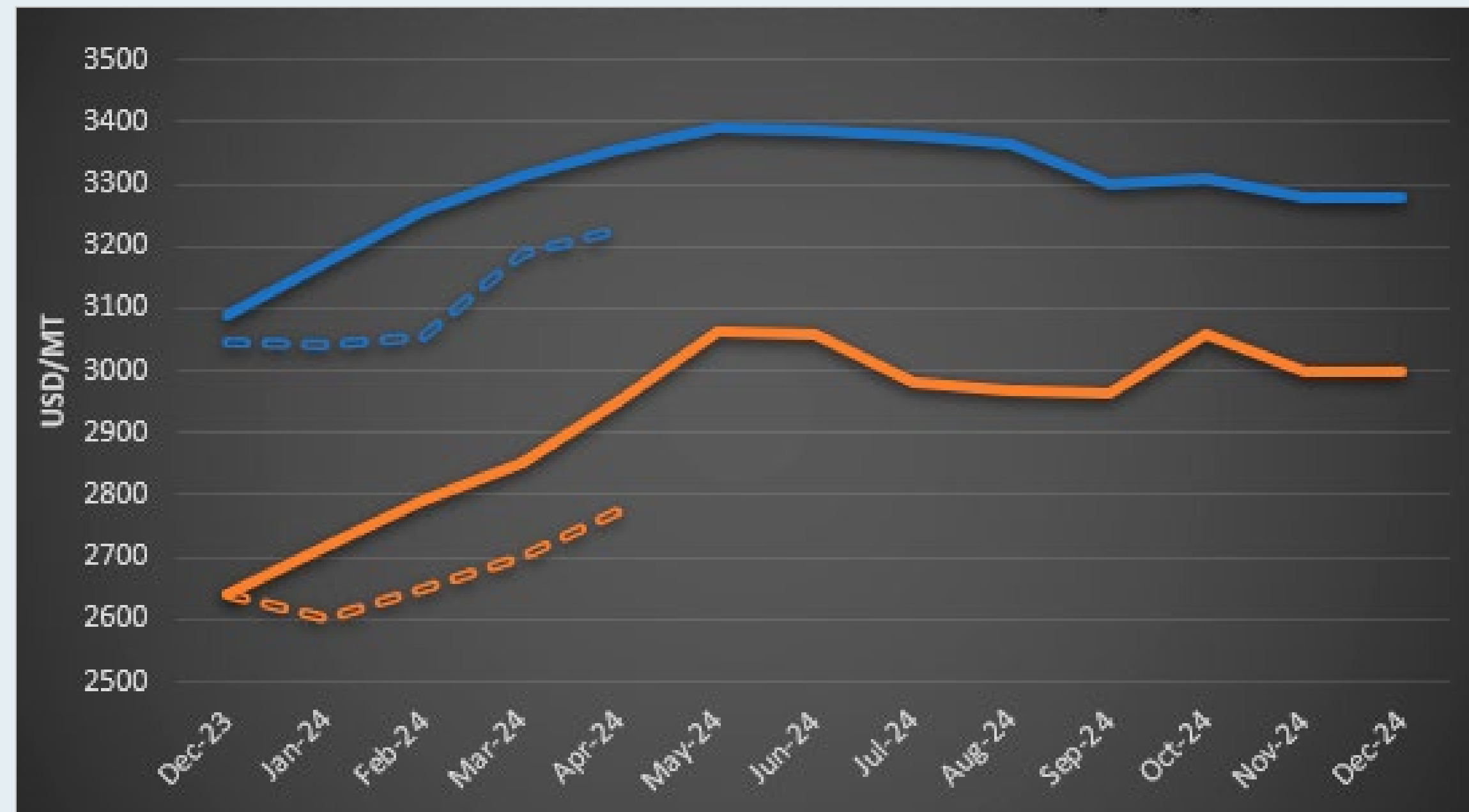


Futures

By: Bart Whiteley, Derivatives and Export Trader, HTM/APAC

- We are currently half way through the 2023/2024 season in the Oceania region, and after some early softness in prices that saw WMP and SMP hit the low \$2000's, we have seen the market strengthen into the end of the calendar year. Looking at the current SGX markets, there is a definite premium being priced in for 2024 onwards, with \$400-500/MT premium in Q2 SGX compared to GDT on both WMP and SMP. The general consensus is that the market is pricing in both a recovery in demand (namely from China) but also a lower supply environment for 2024 out of New Zealand (El Nino).
- For WMP, sellers have been hard to find, resulting in the market pushing up on small volumes until it hits a level where sellers are happy to increase volumes. This seems to be \$3400-\$3500 levels for Q1 and Q2, with some large trading days recently. The environment is vastly different to the start of the season, where the prompt months for SGX were trading at a \$100-\$120/MT discount to GDT. We now see \$200-\$300/MT premiums for prompt SGX months above GDT.
- The SMP GDT 344 result was well below market expectations, resulting in New Zealand SMP being the cheapest globally. The SGX market has shrugged off this result, and is pricing more in line with the other indices EEX and CME. As with WMP, we are seeing SMP prices at \$200-300/MT premiums on SGX above GDT. The main question is do we see the EU and US SMP prices drop to compete with NZ product, or does the upcoming GDT prices increase to match the international market? It is safe to say the market is currently pricing in the latter.
- Unsurprisingly, the strength in the powder markets has translated to the MKP prices, with this seasons MKP price (MKPU24) pricing above NZ\$7.70/kgMS, which is well above the lows of NZ\$6.70/kgMS that we experienced at the start of the season. We are currently calculating that the MKPU24 contract is 50% priced by previous GDT's, so if we continue to see GDT prices fall short of the SGX mark, expect the MKPU24 price to continue to slide down to NZ\$7.50/kgMS levels (in line with Fonterra's midpoint forecast).

SGX WMP & SMP Price Curve - 22/11/23



Kim Jonkergouw Technology Lead



In May 2024, I will celebrate my 5.5 years anniversary at Hoogwegt. My journey within Hoogwegt started in November 2018, with a deep dive into the world of Dairy products and processes. One thing I've learnt within such dynamic work field is that there is never a dull moment!

At the start of my career within Hoogwegt, I represented the QA department for Dairy Ingredients. But as time flies, after 3 years I was able to make a next step as Technology Lead, the function which I still really enjoy. Within this journey, we have made big achievements as the Technology Department within Hoogwegt. From a Quality Assurance perspective, we moved from our ISO22000 certificate to having all Hoogwegt entities globally GFSI benchmarked certified.

This step was a great example of working as One Hoogwegt, whereby all colleagues around the globe delivered their best to achieve this great result. On top of this, last year (2022), we achieved a 100% score for all our entities. Luckily we always strive for the best, and want to improve our organisation continuously. Challenge accepted of course!

World Comment.

The luck of being part of our Technology Department is that we work on several projects, short term and long term. Keeping track on all new kinds of technologies, processes and market trends makes our job really challenging.

Besides this, we are developing new products which comply with new expectations in the market. All of this require the challenges on application but also on food safety. Working closely together internally and with our partners, allows us to create a stronger team.

Within Hoogwegt, we have made big steps in professionalization throughout the years. This is to fully support our customers' needs for fruitful partnerships in an even more efficient way.

All of this, makes Hoogwegt a great company to work for, with a lot of knowledge and experience to learn from within, as well as the great possibilities to grow as a person.

I am proud to be part of this great journey within our team and within Hoogwegt. Looking forward to a bright future and new innovative and safe products!

Hoogwegt Happenings.

In the western hemisphere, Hoogwegt participated in the recent **FI Europe 2023** tradeshow. It was delightful meeting up with suppliers and customers, discussing market outlook and new developments. We look forward to seeing our valued partners again soon!

Several of our colleagues participated in the recent US Dairy Export Council (USDEC) Permeate Bakery Workshop. This permeate-focused workshop held in Shanghai, China, was attended by many representatives from the baking industry.

The interactive workshop not only allowed participants to learn more about using permeates in baked goods, but also to taste products and also mingle with industry experts.

The workshop was a roaring success and we look forward to engaging our buyers in China about this exciting ingredient!

