

INTERNATIONAL DAIRY MARKET NEWS - EUROPE

Information gathered September 28 - October 9, 2020

Prices are U.S. \$/MT, F.O.B. port. Information gathered for this report is from trades, offers to sell, and secondary data. This bi-weekly report may not always contain the same products and/or regions. Future reports may be included or withdrawn depending on availability of information. MT = metric ton = 2,204.6 pounds.

WESTERN OVERVIEW

Autumn weather in Western Europe has been favorable to milk production. Most of the primary producing countries have reported year on year increases in recent weeks. While an annual increase is expected for 2020, some dairy experts in Western Europe caution that the pace of recent YOY increases folded into full 2020 data may effectively slow in the final three months of 2020 because in 2019, it was the final quarter where growth really broke through and lifted the annual data. There is also concern about future global dairy pricing if milk production increases in Western Europe are added to expected increases in the United States and Oceania. Milk production is seasonally declining. Germany is heading toward the expected seasonal low in November. A similar pattern is noted in France.

Last week many dairy processors met under the auspices of the European Commission to review the status of the European dairy industry. It is reported by some attendees that sentiment was more positive than at the last meeting in June. There was general consensus that the dairy market has been resilient. Strong exports, retail sales, partial recovery of food service demand, and government stimuli are cited as factors. Nevertheless, there was uncertainty expressed as to the future, due to possible impacts of economic factors on consumer purchasing, as well as COVID-19 factors limiting dining out.

Cheese manufacturers are maintaining busy schedules to keep up with demand. Orders from within the EU have increased. Not all buyers can receive delivery as soon as they would like. Export interest is very strong even if a bit weaker than several months ago. The cheese business in Western Europe is doing very well. Increased milk production this year has helped keep milk flowing into cheese plants.

EASTERN OVERVIEW

In Poland January – August 2020 milk production was reported as 4.7 percent higher than January – August 2019 according to CLAL data provided to USDA.

Production of some dairy commodities in Poland January – August 2020 compared with January – August 2019, are cheese, +4.0 percent; butter, +8.9 percent; and SMP, +5.8 percent.

BUTTER/BUTTEROIL

The butter price range in Western Europe moved slightly lower. Pricing varies among countries and within some of the major producers. While the limits of the price range shifted, many prices at specific plants with regular customers were quite steady. Butteroil pricing is mixed.

Packaged butter sales in Germany are at expected levels. This market is more profitable for manufacturers than block butter. However, sales typically increase late in the year, so a bit more price negotiating is occurring in contracting discussions between sellers and buyers reflecting expectations for late 2020.

Block butter deals are slow to finalize. Short term demand is extremely subdued. Manufacturers are not eager to increase volumes

at pricing many buyers will accept. Selling cream is often more profitable than making it into block butter. Some buyers report that many current bids are essentially ignored by manufacturers. Moreover, many buyers are well covered through the end of the year.

Butter exports from Western Europe have slowed down. Current pricing challenges include being able to compete effectively in some export markets, except for some specialty premium brands.

Western Europe, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 3,950 - 4,200

Western Europe, 99% Butterfat, Free on Board - Port Butteroil
Price Range - \$/MT: 4,700 - 5,075

SKIM MILK POWDER

The Western Europe skim milk powder price range shifted slightly lower. The highest prices tend to emanate from Belgium and Germany, followed by Netherlands and France. The market is overall quite steady and calm.

Most plants have a good order book for Q4 2020. This is because most regular buyers are contracted. Small volumes are available for spot market purchases. Contracting for Q1 2021 is mixed. A number of buyers are crouched in a wait and see position, awaiting a better sense of future conditions.

Export interest is increasing. Manufacturers report that price driven importers are increasingly drawn to Western Europe.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,500 - 2,700

WHEY

The Western European dry whey price range is mixed. The lower end slightly increased while the top is steady. Prices are usually higher from plants in Germany than plants in the Netherlands.

Many European whey manufacturers are having success in increasing exports. This is motivation to increase production. The mix has helped keep prices generally steady but increase revenues. Most production through 2020 is contracted. There is a good start to early 2021 contracting.

Prices for: Western Europe, All First Sales, Free on Board - Port, Conventional, and Edible Dry Whey
Price Range - Non-Hygroscopic; \$/MT: 850 - 1,025

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CONTINUED FROM PAGE 8**WHOLE MILK POWDER**

The price range for whole milk powder in Western Europe is slightly lower. There is inconsistency in prices among the major producing countries and among manufacturers. Buyers and sellers report that overall WMP is a generally steady market.

Plants that have increased production are readily finding buyers. While typically internal EU sales are the focus, 2020 has brought more export interest. Contracting tends to be finalized easier than with some other dairy powders because buyer and seller future price expectations are more aligned.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 3,150 - 3,375

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OCEANIA DAIRY MARKET OVERVIEW

AUSTRALIA: An organization representing dairy producers in Australia just projected that seasonal milk production will increase. Outcomes of this season are expected to be the best in three years. Factors cited include favorable weather, lower input costs, and relatively firm farmgate milk prices.

Legislative hearings examining performance of the dairy industry and the Australian Dairy Plan are ongoing. The perceived conflict was voiced by some representatives of dairy producers who believe dairy processors have too much power over dairy advocacy entities. Related to this is the issue of whether dairy processors are not fairly financially funding advocacy entities in comparison to dairy producers. A final report is expected in early 2021.

NEW ZEALAND: Dairy manufacturers are generally pleased with the strong start to the milk production season, but some believe early gains may ease moving later into the season. Last week storms brought snow and freezing temperatures to parts of the South Island, which temporarily disrupted milk production. Production has bounced back and is not expected to have much of an impact on the overall season. A side benefit was that the storm brought much needed rain to the rest of New Zealand, where September has been drier than what dairy producers wanted.

A large dairy cooperative announced selling a significant stake in two China dairy farm hubs. The proceeds will be used in New Zealand to pay down debt and fund focusing on more profitable opportunities.

The results of a survey conducted by a major agricultural lender found that new farmer confidence has declined. Fewer farmers expect the economy to improve during the next 12 months.

BUTTER/BUTTEROIL

Butter prices in Oceania are higher. This is reflective of GDT prices and private sales. Buying interest from the Middle East and EU helped move pricing higher. New Zealand butter buyers have taken note of recent plans to lower volumes of butter offered on the GDT over the next 12 months, as well as at the latest event.

With this week expected to likely be the peak of New Zealand milk production, forward looking buyers are beginning to stake down commitments of supply assurance in coming months. There is butter readily available for near term sales and during coming months. Buyers and sellers are comfortable making deals at current pricing. Cream is available for production to fill commitments.

Oceania, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 3,275 - 3,700

Secondary Sourced Information:

At GDT event 269 on October 6, 2020, the butter all contracts price, \$3,561, increased 8.4 percent. The November contract, \$3,700, increased 11.6 percent.

SKIM MILK POWDER

Skim milk powder prices in Oceania are mixed. Sources comment that strong buying interest from Southeast Asia and within Oceania contrasted with lower demand from North Asia. It is also noted that previous earlier than usual seasonal buying from China seems to have slowed. Effective January 1, 2021, a zero percent tariff for SMP purchases from New Zealand takes effect. The thought is that recent China purchasing was to lay in stocks for cover in the event of supply disruptions. Renewed buying from China is expected after January 1.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,850 - 3,225

Secondary Sourced Information:

At GDT event 269 on October 6, 2020, the SMP all contracts price, \$2,865, decreased 0.9 percent. The November contract, \$3,226, increased 6.6 percent.

CHEESE

Cheddar prices in Oceania strengthened. Cheesemakers in New Zealand and Australia report stronger demand. Demand has increased from historic export channels but also within Oceania. It is noted that a COVID-19 outcome seems to be that more people in Australia and New Zealand have stayed close to home and have been purchasing more cheese for home consumption. There is some supply tightness now through November, which has helped nudge prices higher. Manufacturers feel the cheese market will be good in coming months.

Prices for: Oceania Cheese, Cheddar, 39% Maximum Moisture, Free on Board - Port,
Price Range - \$/MT: 3,650 - 3,875

Secondary Sourced Information:

At GDT event 269 on October 6, 2020, the cheddar all contracts price, \$3,694, increased 0.4 percent. The November contract, \$3,865, increased 6.2 percent.

WHOLE MILK POWDER

Whole milk powder prices in Oceania are steady to higher. Slower export interest from North Asia was offset by increased interest from the Middle East. Manufacturers are pleased to have pricing move above \$3,000/MT, a price point generally regarded as a good benchmark of dairy manufacturing profitability.

Additionally, WMP is the single greatest driver of seasonal milk pay prices in New Zealand. The consensus view expects pricing to remain above that level until at least spring 2021. This price is not so high that buyers will slow purchasing. An orderly WMP market is expected in coming months.

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Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 2,950 - 3,125

Secondary Sourced Information:

At GDT event 269 on October 6, 2020, the WMP all contracts price, \$3,041, increased 1.7 percent. The November contract, \$3,121, increased 2.3 percent.

**Exchange rates for selected foreign currencies:
October 5, 2020**

.0130 Argentina Peso	.0137 India Rupee
.7182 Australian Dollar	.0095 Japan yen
.1793 Brazil Real	.0467 Mexican Peso
.7544 Canadian Dollar	.6642 New Zealand Dollar
.0013 Chile Peso	.2621 Poland Zloty
1.1787 Euro	.0235 Uruguay Peso

Conversion example: To compare the value of 1 US Dollar to Mexican Pesos: $(1/.0467) = 21.4133$ Mexican Pesos. Source: "Wall Street Journal"

INTERNATIONAL DAIRY MARKET NEWS - SOUTH AMERICA

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SOUTH AMERICA OVERVIEW

Except for Brazil, farm milk production is generally improving throughout the main dairy basins of South America as the spring flush approaches. Although drought conditions have improved a bit in Brazil, farm milk production has stagnated, and raw milk volumes are below the levels of the previous year. In general, milk intakes are less than adequate to meet most processing needs, while inventory levels for most dairy products remain low. Having said this, farm-gate milk prices had increased drastically as competition for raw milk among processors continues to rage. Higher farm-gate milk prices are translating into higher prices for dairy products at the retail level. As a result, retail sales for UHT milk, cheese, and powdered milk, have been slower compared to the past couple of weeks. Nevertheless, in some cases, some monthly stipends derived from government credit programs have helped sustain consumer dairy purchases, despite high prices. Meanwhile, Brazil's dairy imports are on the rise again after nearly a year of lethargy. The high price of milk and the relative strength of the Brazilian currency have boosted imports, which should eventually help lower dairy products prices, according to some contacts.

In Argentina and Uruguay, rainfalls are spurring pasture quality in the main dairy basins of the countries. However, some dry climate is anticipated by the end of the year because of La Niña. So far, farm milk intakes are more than adequate for processing needs as higher than anticipated milk intakes continue balancing into milk powders. Moreover, throughout the spring flush, milk/cream intakes are anticipated to be more accessible for processing. Unlike Brazil, in Argentina/Uruguay, milk prices paid to tambos are relatively modest, in some cases, depressing milk-feed ratios to several dairy farm operations. In terms of demand, the retail sector remains as the key driver of the dairy industry during this pandemic juncture, while the food-service sector continues reopening but at a very slow pace.

WHOLE MILK POWDER

Whole milk powder (WMP) free on board export prices are mixed on active trading. With the recent resurgence of Brazilian imports, there is more commercial activity for WMP within the Mercosur bloc at a more defined price. This could explain, in some way, why the price range for WMP is narrower during these past two weeks. The general WMP demand, particularly from Brazil, is steadily growing. On the other hand, there has been a recent reduction on WMP shipments from Uruguay to Algeria. However, some regional producers hope to take part in another Algerian tender later in the year.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 3,000 - 3,100

Secondary Sourced Information:

At the GDT Event 269 on October 6 whole milk powder (WMP) prices across all contract periods averaged \$3,041 per metric ton, up 1.7 percent from the last event.

SKIM MILK POWDER

In the Southern Cone region, free on board export prices for skim milk powder (SMP) are unchanged on moderate trading. The market undertone is currently on a steady status, which is unusual knowing the high price-demand volatility of this relatively small baking niche market. Drying schedules for skim milk have been limited in some drying facilities as most balancing plant managers are focusing on converting condensed milk volumes into WMP. However, SMP inventories are reported as balanced at this point.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,750 - 2,950

Secondary Sourced Information:

At the GDT Event 269 on October 6, skim milk powder (SMP) prices across all contract periods averaged \$2,865 per metric ton, down 0.9 percent from the last event.