

INTERNATIONAL DAIRY MARKET NEWS - EUROPE

Information gathered August 3 - 14, 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 Future reports may be included or withdrawn depending on availability of information.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

Dairy plant managers in Germany report that milk production as July ended was estimated to be a couple of percent higher than a year ago. The seasonal decline is said to be about one half less than the previous week of 2020. News from France is similar. Plant managers there report a bit above 2 percent more milk than at the end of July last year. This week a heat wave has moved into Northern Europe, including Germany and France. Germany recorded high temperatures of 95 fahrenheit. France was in the low 90's. The heat is expected to ease, but may hasten the seasonal decline. Across manufactured dairy products, declining milk production is facing increasing consumer demand, especially as many people returned from long July holidays. That has tightened spot cream prices.

While still awaiting official June dairy data for the non-United Kingdom part of Western Europe, data from the UK has been released. YTD milk production is down 0.6 percent from the same period of 2019 according to Eurolait citing Eurostat data. June 2020 milk production is up 0.1 percent from June 2019. Cheese and WMP show as the emphasis for production increases. June 2020 YOY cheese production is 4.3 percent higher than June 2019. YTD through June 2020 cheese production leads the same period of 2019 by 0.9 percent. June 2020 YOY WMP production is 5.6 percent higher than June 2019. YTD through June 2020 WMP production leads the same period of 2019 by 4.5 percent. Through June 2020, butter production declined 1.5 percent from January - June 2019 and SMP production declined 16 percent. Formal talks between the EU and United Kingdom as to post Brexit trade matters are in recess until later in August. Historically, a significant amount of UK cheese and WMP production have gone to EU customers.

Cheese demand is called stable with continuing orders. Aging stocks remain a bit low, but manufacturers say at adequate levels. Behind the scenes is the cheese that entered the Private Storage Assistance (PSA) program which closed June 30, 2020. The cheese storage period was a minimum 60 days and maximum 180 days. That cheese, when it is able to taken from storage, or required to be removed, will be able to be sold.

A new free trade agreement between the EU and Vietnam became effective August 1. Goods in transit on August 1 are also covered. For dairy, after a maximum of 5 years, all tariffs on goods shipped from the EU to Vietnam will be eliminated. Some tariffs will be eliminated sooner.

EASTERN OVERVIEW

Cheese exports from Belarus January - June 2020 were 10.1 percent higher than the same period of 2019 according to CLAL data made available to USDA. Russia received the majority of cheese exports. Whey exports January - June 2020 were 44.4 percent higher than the same period of 2019. Russia and China are the leading destinations for whey exports.

BUTTER/BUTTEROIL

Butter prices in Western Europe are higher. Some prices in German are the highest, followed by prices in France, Netherlands and Italy. Butteroil prices are mixed. Increasing prices for spot cream are a

factor causing butter pricing to firm. Another factor is increasing demand for packaged butter in some regions.

Bulk butter demand has been steady, but this week is beginning to become slower as buyers focus on higher prices. Some brokers are moving butter with a lower cost basis than currently manufactured bulk butter.

Western Europe, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 3,925 - 4,250

Western Europe, 99% Butterfat, Free on Board - Port Butteroil
Price Range - \$/MT: 4,800 - 4,950

SKIM MILK POWDER

Prices for skim milk powder in Western Europe are mixed, but the general emphasis is weaker prices capped by a few anomalous higher prices in specific situations. Pricing is inconsistent throughout Western Europe with wide variation within the price range. Most plant to plant reports are weaker prices for the bulk of sales. The highest prices are found in Germany. Prices in France and Netherlands follow. Sources in Germany report that SMP production has recently increased there. In part this is anticipatory of expected contracting interest later in the year, both export and within the EU. Export inquiries are increasing, and manufacturers want to be ready to make deals with regular customers.

Contracting discussions for Q4 and early 2021 continue in the major SMP producing countries. Buyers are also thinking about SMP that entered the Private Storage Assistance (PSA) program which closed June 30, 2020. The SMP storage period was a minimum 90 days and maximum 180 days. That SMP will be eligible to reach the market this year.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,350 - 2,625

DRY WHEY

Whey prices in Western Europe are steady at the top of the price range but slightly lower at the bottom. German whey tends to account for the highest prices. Dutch whey registers the lower prices. Demand is calm with some evidence of relaxed buying interest. Production in some plants is believed to be slightly higher, so that is being watched in terms of whether pricing will respond moving forward.

Prices for: Western Europe, All First Sales, Free on Board - Port, Conventional, and Edible Dry Whey
Price Range - Non-Hygroscopic; \$/MT: 775 - 1,050

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CONTINUED FROM PAGE 8**WHOLE MILK POWDER**

Whole milk powder prices are very slightly higher. The market for WMP is described as quiet overall. Manufacturers comment that interest from specific buyers varies over time, but typically there is always a willing customer ready to close a deal, especially smaller deals. That leaves a market where buyers generally expect they can find WMP when they want it, and most sellers feel comfortable that WMP will keep flowing out the doors.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 3,200 - 3,375

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OCEANIA DAIRY MARKET OVERVIEW

AUSTRALIA: It remains early in the new milk production season. Seasonally low milk production will be increasing in coming months. Dairy producers in Australia are increasingly scrambling traditional patterns of where their milk is sold. Recent dryness has resulted in more options for producers in Victoria to truck milk to New South Wales and Queensland. Another factor leading to the shifting patterns is that processors are willing to extend truck routes further to assure milk supplies. Processors are now required to publish contracts online so dairy producers can determine minimum prices being offered in assessing options for shipping their milk. That also has resulted in new milk sales patterns.

NEW ZEALAND: June 2020 New Zealand milk solids reported by DCANZ, 20.3 million kg, are up 2.0 percent from June 2019 milk solids, 19.9 million kg. June 2020 milk production, 230 million MT, is up 1.8 percent from June 2019, 226 million MT.

June milk production is typically the lowest month of the year. Production generally trends up in July and then sharply increases in August, often more than quadrupling from July. Thus, the official June data is of little probative value in terms of the present. Some New Zealanders report that on the North Island, excellent weather had enhanced pasture growth. Calving is well underway. These conditions, if they continue, could be a positive for milk production this season.

BUTTER/BUTTEROIL

Oceania butter prices dipped slightly. Butter production is increasing sharply from seasonal lows. Most manufacturers cleared stocks from last season by mid-July, which is a typical annual process. Buyers expect that timing. Increasing volumes of new season production, with production expected to climb further, have caused many buyers to step back and hope for price weakness. Most regular buyers are well stocked and can afford to be discrete in purchasing at this time of year.

Oceania, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 3,450 - 3,500

Secondary Sourced Information:

At GDT event 265 on August 4, the butter all contracts price, \$3,438, decreased 2.8 percent. The September contract, \$3,450, decreased 1.6 percent.

SKIM MILK POWDER

Skim milk powder prices in Oceania are mixed. As with WMP, SMP has experienced less buying interest from North Asia. Some sellers believe that China has been carrying higher than typical stocks of dairy powders as a cautionary planning move should future events interfere with export flows. That currently reduces the need for SMP imports to keep up with demand. Buyers considering Oceania SMP are also increasingly aware that SMP availability in the EU is up. That contributes to a wait and see approach.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,600 - 2,850

Secondary Sourced Information:

At GDT event 265 on August 4, the SMP all contracts price, \$2,583, decreased 4.6 percent. The September contract price was \$2,854.

CHEESE

Oceania cheddar prices are lower. Slower export interest from buyers who see increasing cheddar production ahead was not unexpected. Many buyers are taking their time and hoping that will keep downward pressure on pricing for awhile. Early in the season, with a good deal of cheese scheduled to be produced moving forward, this approach follows the pattern prevailing in a number of other manufactured dairy products in Oceania.

Prices for: Oceania Cheese, Cheddar, 39% Maximum Moisture, Free on Board - Port,
Price Range - \$/MT: 3,400 - 3,650

Secondary Sourced Information:

At GDT event 265 on August 4, the cheddar all contracts price, \$3,568, decreased 5.3 percent. The September contract, \$3,640, decreased 1.8 percent. Prices are lower across all contracts.

WHOLE MILK POWDER

Oceania whole milk powder prices are lower. Weaker export interest from North Asia dampened prices. That coupled with uncertainty as to export demand in the near term were in play.

Many buyers decided that this early in the season with increasing milk production ahead, it might make sense to wait and see before purchasing more. Some observers note that in Waikato on the North Island of New Zealand, excellent weather had enhanced pasture growth and calving is well underway. If conditions continue there, that could be a big positive for milk production this season. WMP availability is expected to increase and be readily available. Current price weakness reflects that.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 3,025 - 3,100

Secondary Sourced Information:

At GDT event 265 on August 4, the WMP all contracts price, \$3,003, decreased 7.5 percent. The September contract, \$3,094, decreased 8.2 percent. September 2020 - January 2021 monthly prices are all lower.

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CONTINUED FROM PAGE 8B**Exchange rates for selected foreign currencies:
August 10, 2020**

.0137 Argentina Peso	.0134 India Rupee
.7149 Australian Dollar	.0094 Japan yen
.1825 Brazil Real	.0445 Mexican Peso
.7490 Canadian Dollar	.6591 New Zealand Dollar
.0012 Chile Peso	.2668 Poland Zloty
1.1739 Euro	.0235 Uruguay Peso

Conversion example: To compare the value of 1 US Dollar to Mexican Pesos: $(1/.0445) = 22.4719$ Mexican Pesos. Source: "Wall Street Journal"

INTERNATIONAL DAIRY MARKET NEWS - SOUTH AMERICA

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SOUTH AMERICA OVERVIEW

Milk production at the farm level has been unstable lately in the main dairy basins of Argentina and Uruguay, mainly because pleasant temperatures have increased the productive yields of dairy herds. On the other hand, in some dairy farms across southern Argentina, winter temperatures and poor-quality pastures minimize productive milk yields. In general, raw milk volumes are enough to meet most of the production needs from dairy processors in Argentina and Uruguay. At the retail level, demands for bottled milk/UHT are healthy as several grocery outlets are restocking shelves. However, sales of other dairy products, such as cheese and butter are described as slow, compared to the first weeks of the COVID-19 pandemic. It worth mentioning that a few months ago, Argentina decided to withdraw from the ongoing trade negotiations with the Mercosur bloc to focus on its domestic economic challenges, which have been intensified by the COVID-19 pandemic. However, it is still too early to see the effects, if any, of this decision.

In Brazil, raw milk volumes are at low levels. Due to the coronavirus pandemic, dairy manufacturers continue to prioritize the production of UHT milk over cheese, yogurt, and milk caramel. The UHT milk market remains on firm ground as COVID-19 continues to spread across the country. Cheese stocks, mainly Mozzarella, are reported to be low in volume, while powdered milk stocks are starting to increase.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 2,900 - 3,250

Secondary Sourced Information:

At the GDT Event 265 on August 4, whole milk powder (WMP) prices across all contract periods averaged \$3,003 per metric ton, down 7.5 percent from the last event.

SKIM MILK POWDER

During the past two weeks, SMP free on board export prices adjusted down in the Sothern Cone region of South America, following downward trends at some offshore auctions. As the SMP market adapts to the new challenges of COVID-19, speculations about its near future fate are starting to ease. This, in part, has been reflected in the current lower export prices. More skim milk volumes are clearing into dryers. Thus, the production of skim milk powder (SMP) has been more active. SMP inventories are more accessible in the market with fair export activity outside the Mercosur bloc.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,550 - 2,700

Secondary Sourced Information:

At the GDT Event 265 on August 4, skim milk powder (SMP) prices across all contract periods averaged \$2,583 per metric ton, down 4.6 percent from the last event.

WHOLE MILK POWDER

Free on board (f.o.b.) export prices shifted down as the current WMP supply is above its demand. The production of whole milk powder (WMP) has been more active in the region during the past two weeks. At this point, manufacturers' offers are ample and WMP inventories are more accessible in the market. So far, WMP exports outside the continent are still rising, with Algeria being the main buyer. That said, stock levels for WMP could ease somewhat throughout the rest of the winter season. Meanwhile, exports to Brazil, whose price is reflected in the top-end of the range, are more active compared to a few months ago.