

INTERNATIONAL DAIRY MARKET NEWS - EUROPE

Information gathered October 12 - 23, 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 Future reports may be included or withdrawn depending on availability of information.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

Netherlands unofficial milk production estimates for early October indicate seasonal declines slightly lower than expected. France and Germany are believed to have slowed the seasonal decline. The German seasonal low point is expected to occur in mid-November. Irish milk production is viewed as continuing to be ahead of last year at this time.

A new development in Germany is increased manufacturing and sales of UHT milk. This is attributed to consumer interest in stocking up on milk as a precautionary measure related to concerns of COVID-19 related milk supply disruptions.

The European Commission is developing proposed legislation to be released by the end of 2023, intended to create a legal framework for a sustainable food system. The interests to be addressed are maintaining adequate and affordable food and maintaining adequate income for producers, while adhering to sustainability goals as to climate neutrality by 2050.

Demand for sliced cheese within Western Europe, especially Germany, France, and Netherlands, remains strong. The strongest demand is for home consumption. Food service demand is better than expected, but lags home dining demand. Italian cheese demand has pulled back. Supply availability is mixed among and within countries. Cheesemaking is at the top of the list for extra milk.

EU cheese exports January – August 2020, 619,000 MT, increased 8.0 percent from January – August 2019 according to CLAL data made available to USDA.

EASTERN OVERVIEW

Dairy exports from Belarus remain strong January – August 2020 compared with January – August 2019. Export volumes and percent changes for the period include butter, 58,000 MT, +4.9 percent; cheese, 173,000 MT, +11.8 percent; SMP, 85,000 MT, +6.4 percent; WMP, 19,000 MT, 24.2 percent; and dry whey, 91,000, +29 percent, according to CLAL data made available to USDA.

BUTTER/BUTTEROIL

In Western Europe, the butter price range is unchanged. The highest butter prices tend to be in Belgium, followed by Germany, Italy, France, then Netherlands. There has been a shifting toward more prices within the range moving higher. Butteroil prices are higher.

Demand for packaged butter is getting stronger. Retail purchasing has recently increased. Some sellers label demand as high. Ordering activity is reported to be higher in the last few days. Some manufacturers increasingly believe packaged butter is undervalued. Even with some plants increasing butter production schedules, these factors portend possible price strengthening in coming weeks.

Bulk butter activity is primarily centered on filling existing contracts. New contracting is slow. Many buyers are uncertain about making new price commitments. Current bulk butter manufacturing schedules and stocks on hand are handling current demand.

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: 4,725 - 5,125

Secondary Sourced Information:

EU butter exports January – August 2020, 185,000 MT, increased 43.2 percent from January – August 2019 according to CLAL data made available to USDA.

SKIM MILK POWDER

The Western European skim milk powder price range is steady at the bottom but slightly lower at the top. The highest SMP prices are noted in Belgium, followed by Germany, France, and Netherlands. Prices received by a number of plants are higher than two weeks ago.

Demand is said to be gathering momentum, even if mostly focused on short term needs. It is spot markets showing price strength. Contracting for the longer-term future is more tentative. Much of current sales activity is moving to customers in the EU. Export interest is slower. Looking ahead, while milk production is nearing the seasonal low, that is normal. SMP production schedules are in the normal range for this time of year. The market has accounted for the pacing of milk production and SMP production. Activity moving forward is not expected to generate many surprises.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,500 - 2,675

Secondary Sourced Information:

EU SMP exports January – August 2020, 587,000 MT, decreased 14.6 percent from January – August 2019 according to CLAL data made available to USDA.

WHEY

Dry whey pricing in Western Europe is mixed. Prices setting the low end of the price range are steady. The top of the range is slightly lower. Plants in Germany record the highest prices, followed by plants in Netherlands. Some plants report contracting at higher price levels. There are indications of increasing buying interest ahead through the end of 2020. Continuing interest on making more cheese in Western Europe is expected to help whey production. There is confidence that buyers will be there for what is produced.

Prices for: Western Europe, All First Sales, Free on Board - Port, Conventional, and Edible Dry Whey
Price Range - Non-Hygroscopic; \$/MT: 850 - 1,000

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Secondary Sourced Information:

EU whey exports January – August 2020, 516,000 MT, increased 11.9 percent from January – August 2019 according to CLAL data made available to USDA.

WHOLE MILK POWDER

Whole milk powder pricing in Western Europe reflects a slightly lower price setting the low end of the price range. The upper range price is steady. Market activity is calm and constant. That keeps anxiety levels low. This pattern is expected to continue in coming weeks. The production focus remains on internal EU markets. However, export activity remains more active than normal, but is readily accommodated.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder

Price Range - 26% Butterfat; \$/MT: 3,125 - 3,375

Secondary Sourced Information:

EU WMP exports January – August 2020, 233,000 MT, increased 14.5 percent from January – August 2019 according to CLAL data made available to USDA.

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OCEANIA DAIRY MARKET OVERVIEW

AUSTRALIA: August 2020 milk production in Australia, the second month of the new season, increased 3.2 percent from August 2019, according to Dairy Australia. More detailed production data are in the table which follows.

AUSTRALIA MILK PRODUCTION, MILKFAT and PROTEIN

August 2020

State	Million Liters	Percent Change From 1 Year Ago	Percentage Milkfat Protein	
New South Wales	182.7	+2.0	3.99	3.40
Victoria	902.0	+3.9	4.08	3.48
Queensland	53.7	- 6.9	4.01	3.36
South Australia	72.4	+5.3	3.76	3.40
Western Australia	61.1	+1.6	3.75	3.37
Tasmania	65.5	+6.3	4.46	3.55
Australia (Total)	1,337.4	+3.2	4.06*	3.46**

*+4.1 percent from prior year period

** +0.3 percent from prior year period

Profitability is believed to be increasing for many dairy producers in south and west Australia. This is attributed to lower feed costs and greater pasture health and availability. Some northern dairy producers report that purchasing fodder rather than irrigating using high priced water has increased milk yields and helped with profit levels. Shifting milk contracts in Gippsland seem to be leading to a cheese plant being closed because the processor who lost milk intake volumes can no longer efficiently operate. It is uncertain which of two plants may close.

NEW ZEALAND: A large New Zealand dairy cooperative has increased the prior forecast for farmgate milk prices, 5.90 – 6.90 New Zealand dollars per kg of milk solids. It was announced last week that the 2021 forecast is now a range of 6.30 – 7.30 New Zealand dollars per kg of milk solids. Cited as enabling the increase was improved demand in China, quick recovery from COVID-19 impacts, and strong demand for WMP. However worrisome factors that could have an adverse impact as the season proceeds are mentioned to be currency exchange rate volatility, increased milk supply from the US and EU, and uncertainty as to future COVID-19 impacts and possible global economic slowing.

There is some concern that pasture growth has slowed recently. Unusually cold weather over the South Island and to a lesser extent the North Island, combined with heavy rain, slowed growth. More normal weather is expected soon, which will bring some relief if it develops.

Lower credit availability for New Zealand dairy producers has become an obstacle to expansion or new entry to farming. A new enterprise is about to proceed with an initial offering to raise money to fund farmland acquisition. The plan is then to lease farmland to producers limited by credit to acquire farmland.

BUTTER/BUTTEROIL

In Oceania the butter price range strengthened. Butter markets have tightened in the near term. Manufacturing remains quite active but contracts for future delivery keep some newly produced butter unavailable. Cream availability will be declining seasonally. That has led to some buyers being increasingly motivated to secure supply commitments of butter. This is both due to likely tighter availability from non-GDT sales, as well as expected higher prices moving forward. Butter volumes offered at this week's GDT event were lower than two weeks ago.

Oceania, 82% Butterfat, Free on Board - Port Butter

Price Range - \$/MT:

3,625 - 3,825

Secondary Sourced Information:

Seasonal butter exports from Australia July – August 2020, 2,521 MT, increased 61.1 percent from July – August 2019 according to Dairy Australia.

Butter exports from New Zealand January – August 2020, 278,000 MT, decreased 8.8 percent from January – August 2019 according to CLAL data made available to USDA.

At GDT event 270 on October 20, the butter all contracts price, \$3,678, increased 3.3 percent. The November contract, \$3,820 increased 3.2 percent.

SKIM MILK POWDER

The Oceania skim milk powder price range is lower. The greatest downward adjustment was the top of the price range. Many buyers and sellers had expected pricing to ease this week. Volumes of SMP offered at the GDT event were steady with two weeks ago. Expectations of less SMP availability later this year are leading contract negotiations to gravitate toward pricing above current levels. Strong export interest is also expected to continue in coming months. Regional manufactured volumes will be declining.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder

Price Range - 1.25% Butterfat; \$/MT:

2,825 - 2,900

Secondary Sourced Information:

Seasonal SMP exports from Australia July – August 2020, 13,368 MT, increased 27.4 percent from July – August 2019 according to Dairy Australia.

SMP exports from New Zealand January – August 2020, 2,521 MT, increased 61.1 percent from January – August 2019 according to CLAL data made available to USDA.

At GDT event 270 on October 20, the SMP all contracts price, \$2,851, decreased 0.2 percent. The November contract, \$2,885, decreased 10.2 percent.

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CHEESE

Prices for cheddar in Oceania lifted the price range higher. Demand has been and remains strong. Manufacturers expect brisk demand to continue at least through November. That sentiment is one that buyers have accepted and responded to in price negotiations. Looking toward Q1 2021 there is less certainty that current pricing will continue. Buyers are likely to find cheese when they want it but there seems to be no great evidence of buyers pacing buying.

Prices for: Oceania Cheese, Cheddar, 39% Maximum Moisture, Free on Board - Port,
Price Range - \$/MT: 3,750 - 3,925

Secondary Sourced Information:

Cheese exports from New Zealand January – August 2020, 211,000 MT, decreased 5.7 percent from January – August 2019 according to CLAL data made available to USDA.

Seasonal cheddar exports from Australia July – August 2020, 5,151 MT, decreased 13.2 percent from July – August 2019 according to Dairy Australia. Seasonal other cheese exports from Australia July – August 2020, 16,935 MT, increased 6.3 percent from July – August 2020.

At GDT event 270 on October 20, the cheddar all contracts price, \$3,803, increased 3.0 percent. The November contract, \$3,904, increased 1.1 percent.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 2,975 - 3,100

Secondary Sourced Information:

Seasonal SMP exports from Australia July – August 2020, 13,368 MT, increased 27.4 percent from July – August 2019 according to Dairy Australia.

WMP exports from New Zealand January – August 2020, 228,000 MT, decreased 5.7 percent from January – August 2019 according to CLAL data made available to USDA.

At GDT event 270 on October 20, the WMP all contracts price, \$3,037, increased 0.3 percent. The November contract was \$3,100.

Exchange rates for selected foreign currencies:
October 19, 2020

.0129 Argentina Peso	.0136 India Rupee
.7069 Australian Dollar	.0095 Japan yen
.1783 Brazil Real	.0472 Mexican Peso
.7580 Canadian Dollar	.6605 New Zealand Dollar
.0013 Chile Peso	.2573 Poland Zloty
1.1772 Euro	.0233 Uruguay Peso

Conversion example: To compare the value of 1 US Dollar to Mexican Pesos: $(1/.0472) = 21.1864$ Mexican Pesos. Source: "Wall Street Journal"

WHOLE MILK POWDER

The Oceania whole milk powder price range is mixed, with a slight increase at the low end and a slight decrease at the high end. The price adjustment is negligible. New Zealand dairy manufacturers and buyers tend to expect WMP markets in the near term to be generally steady. It is noted that this week's GDT offering volumes match previous forecasts which contributed to slight price movement.

Looking ahead, observers say that volumes previously planned for spring 2021 sale will be shifted to December and January contracts. This is being done to better meet market demand cycles. Seasonal GDT offering volumes are currently anticipated to peak in November.

Many analysts expect WMP prices to be steady to slightly higher in the short term. Underlying this view is concern about weather turning dry, coupled with moving beyond the peak production period. Those factors drive the pricing projection. Prices easing below \$3,000 in early 2021 would not surprise these analysts. Substantial seasonal WMP inventory has already shipped out of New Zealand. As stocks decline in line with lower seasonal production, some manufacturers expect pricing to strengthen again by Q3 of 2021. At least, that assumption is in play in contracting negotiations.

INTERNATIONAL DAIRY MARKET NEWS - SOUTH AMERICA

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SOUTH AMERICA OVERVIEW

In Argentina and Uruguay, farm milk production continues to increase during this spring season and is very close to the peak of the year. So far this year, farm milk intakes are well above 2019 levels, as noted by some contacts. The fat and protein components in milk continue to improve, which is typical during this time of year. Feed supply available for dairy herds is generally ample, while quality is reported as fair/good, although some farming areas are experiencing drought conditions due to La Niña. Having said this, the volumes of milk available for processing bottled milk, cheese, and yogurt are more than adequate. Meanwhile, exports of dairy products are active within and outside the region.

In Brazil, milk production is growing, but at a slow pace. Unlike Argentina and Uruguay, milk output in Brazil is well below the levels of the previous year, a result of the past prolonged drought that impacted the main farm zones of the country. Although the drought has eased in the main dairy areas of the country, many tambos continue struggling with milk yields. The slow recovery on milk production is highly correlated to the low availability and quality of concentrate and forage. Due to the scarcity of milk, processors are paying higher premium prices for raw milk. However, milk intakes remain less than enough to satisfy the strong demands from the food processing industry. Low inventories of UHT milk and cheese continue pushing prices up, making negotiations difficult for some processors and buyers. Imports of cheese and dairy powder remain active from nearby countries.

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 270 on October 20 whole milk powder (WMP) prices across all contract periods averaged \$3,037 per metric ton, up 0.3 percent from the last event.

SKIM MILK POWDER

Free on board export prices for skim milk powder (SMP) are steady in the Southern Cone region of South America. Drying schedules for condensed skim milk are irregular, while SMP inventory levels are described as steady to slightly higher. Buyers' immediate needs for SMP remain strong as year-end festivities approach.

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 270 on October 20, skim milk powder (SMP) prices across all contract periods averaged \$2,851 per metric ton, down 0.2 percent from the last event.

WHOLE MILK POWDER

In the Southern Cone region, whole milk powder (WMP) free on board export prices remained unchanged with no major changes on the market status, which is described as balanced. Except for Brazil, WMP inventories are becoming more accessible in the market, driven by seasonally higher farm milk outputs throughout the region. Demands from the food processing industry remain stable, but are anticipated to inch up ahead of the upcoming year-end holidays.