

INTERNATIONAL DAIRY MARKET NEWS - EUROPE

Information gathered August 31– September 11, 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 Future reports may be included or withdrawn depending on availability of information.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

Discussions between the United Kingdom and European Union surrounding their future relationship recently took a new direction. The UK proposes rescinding some parts of previous agreements affecting Northern Irish borders. This leaves great uncertainty as to future trade relationships.

Early September post heat wave milk production is reported to be quite decent in some countries. Irish sources say that even in July, very wet summer helped milk production rebound to a good increase compared with last year. The same perspective comes from Germany for early September.

Internal EU demand for sliced cheese is very good. This fact, coupled with lower milk production during the recent heat wave in Germany and France in particular, have led to tighter cheese supplies. Some aging stocks have been sacrificed to meet current demand. A longer-term goal is to build the aging stocks, but not now. Current contracts are being met. Some inquiries for new contracts cannot be met.

EASTERN OVERVIEW

Preliminary data for Poland indicates that July milk production was up from July last year. Production also was higher than the three-year average. The civil unrest in Belarus has disrupted some dairy exports. Uncertainty as to normalization returning is an active topic of discussion.

BUTTER/BUTTEROIL

Butter prices in Western Europe are higher. Within countries, the highest prices are found in Germany, followed by Netherlands, Italy and France. Butteroil prices are steady to slightly lower.

While packaged butter demand is classified as generally stable, the perceived high price of cream has resulted in less butter churning. That is lifting prices. The same situation prevails as to bulk butter. Less bulk butter is being made due to cream prices. That has increased butter prices for buyers who want butter in the near term. Many holders of butter in cold storage are only too happy to sell at higher current prices, often above the price basis of the stored butter.

Contracting for new butter production is slow because buyers are resistant to making longer term commitments to current pricing. Some buyers say they expect lower butter prices by late October, continuing lower into early 2021. That expectation is keeping these buyers cautious until some seller price concessions evolve.

Western Europe, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 3,975 - 4,175

Western Europe, 99% Butterfat, Free on Board - Port Butteroil
Price Range - \$/MT: 4,925 - 5,025

SKIM MILK POWDER

Western European skim milk powder prices firmed. The highest prices are reported from plants in Germany, followed by France and Netherlands. Sources from some plants report increased buying interest. Often that is leading to resistance from buyers as to what price sellers expect. While the hit on Western European milk production from the recent heat wave has abated, SMP manufacturers are still catching up on production.

That leaves asking prices a bit higher than some buyers like. Many contracts through 2020 and into 2021 point to additional SMP price firming. That is giving some confidence to manufacturers in holding close to asking prices. Buyers who can wait and see are not sure how long to wait. Buyers not covered for Q4 2020 do not have much longer to get stocked and manufacturers say that some regular buyers are not yet covered. The SMP market is shaking itself out. SMP will be available but pricing is still a sticking point for some participants.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,525 - 2,725

DRY WHEY

In Western Europe, whey powder prices are mixed but very close to the last price report. German manufacturers tend to receive higher prices than in Netherlands. Demand is called stable to slightly revived. Manufacturers and buyers do not expect very much price fluctuation in coming months. That contributes to an orderly market.

Prices for: Western Europe, All First Sales, Free on Board - Port, Conventional, and Edible Dry Whey
Price Range - Non-Hygroscopic; \$/MT: 800 - 1,025

WHOLE MILK POWDER

Whole milk powder prices in Western Europe are steady. Plants in Germany report the highest prices followed by plants in Netherlands. There is inconsistency among prices in various countries.

This market has been quiet and stable. Manufacturers have a good sense of what regular customers will buy and production is scheduled accordingly. Occasional export orders lead to special production schedules but that is not a very common occurrence, especially with New Zealand WMP production near the seasonal peak and prices there being lower.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 3,175 - 3,375

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OCEANIA DAIRY MARKET OVERVIEW

AUSTRALIA: July 2019 – June 2020 milk production in Australia decreased 0.2 percent from the corresponding previous period, according to Dairy Australia. June 2020 milk production, 623.5 million liters, was 4.1 percent higher than June 2019. More detailed production data are in the table which follows.

AUSTRALIA MILK PRODUCTION, MILKFAT and PROTEIN

July 2019 - June 2020

State	Million Percent Change		Percentage	
	Liters	From 1 Year Ago	Milkfat	Protein
New South Wales	1,043.6	- 3.6	4.10	3.43
Victoria	5,618.7	+ 0.8	4.31	3.52
Queensland	311.0	-12.9	4.18	3.40
South Australia	487.9	- 1.7	4.13	3.41
Western Australia	364.3	- 2.7	4.00	3.32
Tasmania	950.0	+ 4.4	4.88	3.76
Australia (Total)	8,775.5	- 0.2	4.29*	3.51**

+1.5 percent from prior year period

** +2.0 percent from prior year period

NEW ZEALAND: New Zealand is nearing the peak of seasonal milk production. This has also resulted in heavy production schedules at most dairy manufacturing plants. Early calving is expected to be beneficial to milk production. With a majority of New Zealand dairy production and products exported, New Zealand is quite focused on global conditions. A continuing concern is whether economic growth will slow, which would likely slow export demand. So far the New Zealand view is that dairy demand is growing.

Following the advent of COVID-19, New Zealand required some skilled foreign farm workers to return to their countries of citizenship. This week that was eased, so some visa holding farm workers with past ties to New Zealand will be allowed to return.

Last week a major dairy cooperative has reaffirmed the current milk pay price forecast. Ultimately this will depend on dairy product pricing holding, especially whole milk powder.

BUTTER/BUTTEROIL

Butter prices in Oceania are steady to higher. Demand for current delivery has increased and buyers are paying more to get stocked. The magnitude of the price increase was a surprise to some people, especially buyers who needed to stock up now. Some participants had expected weaker prices but that did not occur. Buyers who could contract for delivery late in 2020 were able to secure lower pricing. While some analysts do not think the higher prices can hold, there had been some thought two weeks ago that prices would decline. Because prices increased, discussions are actively evaluating what may happen next for near term deliveries.

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

3,300 - 3,675

Secondary Sourced Information:

At GDT event 267 on September 1, 2020, the butter all contracts price, \$3,334, decreased 1.2 percent. The October contract, \$3,670, increased 9.1 percent.

SKIM MILK POWDER

Skim milk powder prices in Oceania are mixed. Low range prices held steady. Upper range prices significantly dipped. Near term SMP pricing has been somewhat volatile. The magnitude of the increase two weeks ago surprised many people. This week the previous increase pulled back down. So yes there was a very noticeable price dip this week, but that was a dip from a significant increase.

Production is near the seasonal high. Export interest from Southeast Asia and China has been decent. Manufacturers are filling contracts and see the market in pretty good balance

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,625 - 2,775

Secondary Sourced Information:

At GDT event 267 on September 1, 2020, the skim milk powder all contracts price, \$2,663, increased 1.8 percent. The October contract, \$2,771, decreased 12.4 percent.

CHEESE

Oceania cheddar prices dipped slightly at the bottom of the price range but remained steady at the top. Higher pricing tends to relate to current sales. Buyers who can wait for deliveries can get lower range pricing. Manufacturers say that current buying interest was a bit heavier than they had expected. There will be plenty of cheese for contract obligations but the current pacing of buying is a factor this period.

Prices for: Oceania Cheese, Cheddar, 39% Maximum Moisture, Free on Board - Port,
Price Range - \$/MT: 3,350 - 3,700

Secondary Sourced Information:

At GDT event 267 on September 1, 2020, the cheddar all contracts price, \$3,428, decreased 0.4 percent. The October contract, \$3,618, increased 2.5 percent.

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WHOLE MILK POWDER

Oceania whole milk powder prices moved lower. Although it seems like not long ago that the new milk season began, New Zealand is now nearly at the peak of seasonal milk production. WMP plants are very actively drying. Production is high. At the same time, buying interest from the Middle East eased. New Zealand is very export focused so all of this coalesced to slightly weaken prices.

WMP is a mainstay of Oceania dairy product production. WMP pricing is a significant factor in determining seasonal milk pay prices. Dairy managers feel the market is close to balanced and demand is good. However, antennas are up for signs of an economic slowdown. That is a factor that could adversely affect dairy export sales.

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

Price Range - 26% Butterfat; \$/MT: 2,825 - 3,000

Secondary Sourced Information:

At GDT event 267 on September 1, 2020, the whole milk powder all contracts price, \$2,884, decreased 2.0 percent. The October contract, \$2,941, decreased 3.1 percent.

**Exchange rates for selected foreign currencies:
September 7, 2020**

.0134 Argentina Peso	.0136 India Rupee
.7276 Australian Dollar	.0094 Japan yen
.1887 Brazil Real	.0463 Mexican Peso
.7635 Canadian Dollar	.6692 New Zealand Dollar
.0013 Chile Peso	.2663 Poland Zloty
1.1816 Euro	.0236 Uruguay Peso

Conversion example: To compare the value of 1 US Dollar to Mexican Pesos: $(1/.0463) = 21.5983$ Mexican Pesos. Source: "Wall Street Journal"

INTERNATIONAL DAIRY MARKET NEWS - SOUTH AMERICA

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SOUTH AMERICA OVERVIEW

Milk production in the Southern Cone of South America, Argentina, Uruguay and Chile continues to rise as the spring flush approaches. Improved weather conditions have assisted with healthy pastures for farmers. Some market participants report there are enough raw milk supplies to meet dairy processors' needs. The industry is adjusting to a new normal from the pandemic as social distancing procedures are becoming a new operating standard in processing plants. Manufacturers are also adapting to changes in consumer consumptions, by producing more fluid milk, particularly UHT milk. Ice cream and chocolate plants have revved up production schedules ahead of the spring/summer. Cheese sales are healthy as the food service sector continues to improve.

Brazil has endured dry weather conditions that have hindered the quality and growth of pastures. Industry contacts relay there is rain in different areas that will hopefully start to improve pastures. Milk output is slowly growing, however milk intake volumes are behind compared to last year. Currently, raw milk is limited to meet most processing needs. Some operations continue to prioritize UHT milk production over other dairy products. The powdered milk markets are fairly steady with somewhat slower trading activity.

Market participants expect WMP production to rise along with seasonal milk output increases. Unless consumer demand for finished goods improves, this may place downward pressure on WMP prices in the near term.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 2,850 - 3,150

Secondary Sourced Information:

At the GDT Event 267 on September 1, whole milk powder (WMP) prices across all contract periods averaged \$2,884 per metric ton, down 2.0 percent from the last event.

SKIM MILK POWDER

In the first half of September, skim milk powder (SMP) market activities are a bit slower, with some buyers being on the sidelines due to the economic challenges from the pandemic. In general, SMP demands have been solid for many market participants and some have no difficulties within the industry in trading activities and current interests. There are anticipations prices will grow in the coming months due to limited trading in international markets and ice cream and chocolate operations increasing production schedules ahead of the spring/summer. SMP production is prompted by higher condensed skim milk volumes. Manufacturers' inventory levels are fairly balanced with most spot and contractual needs.

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 - 2,750

Secondary Sourced Information:

At the GDT Event 267 on September 1, skim milk powder (SMP) prices across all contract periods averaged \$2,663 per metric ton, up 1.8 percent from the last event.

WHOLE MILK POWDER

Whole milk powder prices in South America are unchanged from last week. Industry contacts say demand has eased back slightly. While export sales to Algeria and Brazil have been strong, weaker oil prices, currency issues and uncertainty caused by the coronavirus pandemic have held back sales. WMP production is steady but has had to compete with UHT milk processing for available milk supplies. However, buyers say WMP stocks are still readily available.