

GLOBAL DAIRY WEEKLY

A Newsletter Covering Major Events in International Dairy Markets

Highlights

1. NZ-EU FTA finalised
2. Pulse drops
3. Global trade up 7.7% in January
4. US Feb butter stocks bearish
5. EU-27 milk down 0.9% in January

First Take

A surge in dairy exports at low prices is evident in the January trade data, with the milk solids equivalent of shipments up 7.7%. New Zealand exporters have been at the forefront of this clearance sale, with the trend continuing into February. NZ milk solids equivalent exports were up 50% for the month, and up 27% for November to February. We take a deep dive into these trends in this week's video, check it out [here](#).

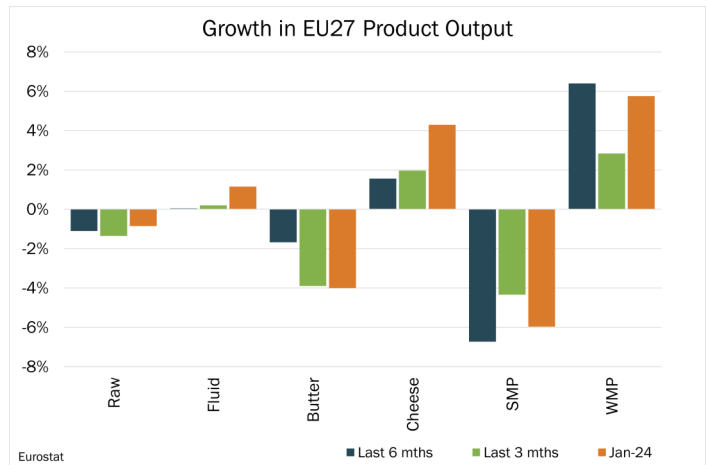
Meanwhile, EU milk production was down slightly in volume for January, although milk solids were flat YOY. EU manufacturers continued to prioritise cheese manufacture at the expense of SMP and butter. December inventories for butter were also well down for both butter and SMP. The data offers some context for the elevated butter prices that have continued well beyond the festive season. Low availability and good domestic demand have supported butter prices, while SMP is missing demand.

Global Indicators

	Price	US	EU	NZ*
	USD/MT	CME	Trade/EEEX	NZX/GDT
SMP	Spot	\$2,469	\$2,543	\$2,550
	3-Month	\$2,563	\$2,561	\$2,640
Butter	Spot	\$6,261	\$6,007	\$6,410
	3-Month	\$6,393	\$6,264	\$5,900
Cheddar	Spot	\$3,103	\$4,383	\$4,290
	3-Month	\$3,691		\$4,192
WMP	Spot		\$3,707	\$3,160
	3-Month			\$3,090
Whey	Spot	\$887	\$703	
	3-Month	\$978	\$753	
Exchange Rate (USD)		1	1.08	0.60
Recent milk YOY		-1.3%	-0.9%	6.5%
Farmgate Price (US c/kg)		45.67	50.15	40.15
Corn (US c/kg)		17.02	20.73	

**Latest GDT result, other prices are NZX futures*

Chart of the Week



EU-27 SMP output declined in January due to a big fall in German production. Cheese production continues to lift. Read more [here](#).

Global Dairy Markets

Prices down at Pulse auction : The latest Pulse event saw both WMP and SMP prices ease.

Regular WMP sold for US\$3,060/t lost 1.1% from the GDT event #352 last week and was down 3% from the previous Pulse auction. Instant WMP settled at US\$3,155/t. Meanwhile, medium heat SMP prices settled at US\$2,470/t, down 0.6% from GDT #352 and 5.4% lower than the previous Pulse event.

The Pulse event lasted 7 rounds over 15 minutes with 24 winning bidders taking home 1,927t of the 2,000t of product on offer.

Global trade up 7.7% in January : Global trade increased 7.7% year-on-year in Milk Solids Equivalents (MSE) terms in January and was 4.4% higher over the last quarter, according to our [Global Dairy Directions](#) analysis . In the past year, trade was only 0.8% above the prior year, which reflected the minimal growth in global milk supplies and therefore export availability.

There were mixed trends over the past quarter across major commodities – growth in WMP, cheese, fats but declines in SMP and dry whey.

ONIL issues tender : Algeria’s buying agency ONIL has issued a new tender for SMP and WMP for the period from June to September 2024. The tender closes 27 March and is expected to attract sellers from across the globe.

SMP is expected to be supplied from EU sellers as EU SMP continues to be competitive in the international market, while WMP volumes are primarily supplied from New Zealand due to a more competitive price level compared to EU producers.

Argentina’s WMP exports improve : At 15,632t, Argentinean WMP exports rose 74.8% YOY in February – that was the fourth consecutive monthly increase, reflecting higher shipments to Northern Africa and Brazil.

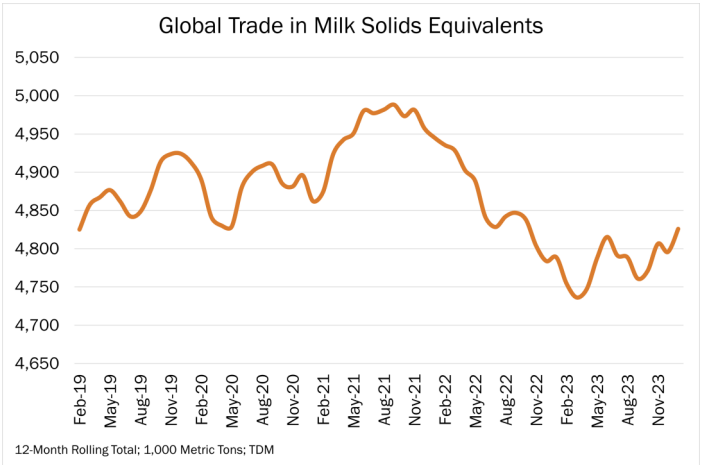
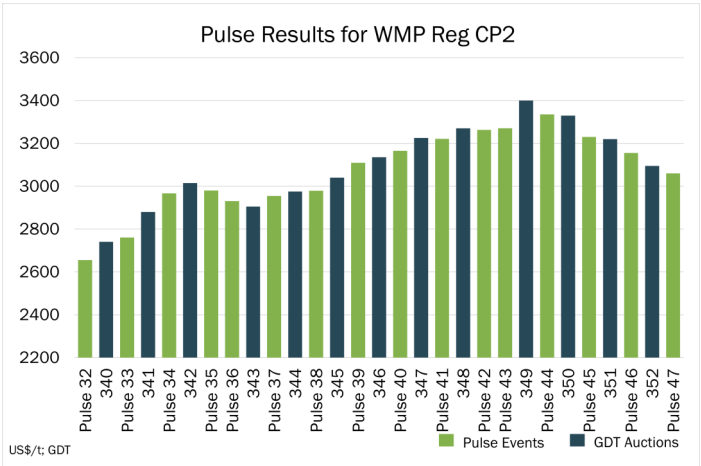
Shipments across other categories for the month were mixed, with growth in AMF, but declines in cheese, dry whey and butter. We estimate exports were up 14.9% in February in

milk solids equivalent (MSE) terms.

NZ exports surge : New Zealand dairy exports of were again positive in February, featuring large increases for milk powders, cheese, dry whey and AMF. WMP exports rose 76% YOY to 152,416t, reflecting higher shipments to China & HK which more than doubled.

SMP exports were 51,043t in February, up 13.1% YOY with stronger shipments to China & HK and MENA offsetting lower sales into SE Asia

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which at 22,039t were at a 4-month low. February cheese exports increased 1.8%, reflecting stronger shipments to Australia while exports to all key Asian markets except China & HK were lower. Fat exports were mixed for the month - butter down 6.3% YOY while AMF rose 61%.

Argentina's new import rules to fight inflation :

Argentina’s headline inflation stood at 276.2% in the 12-months to February, with the monthly rate for general inflation at 13.2%. On average, food prices increased 11.9% in February, lifting 303% in a year which has prompted Argentina’s economy minister Luis Caputo to request supermarkets lower prices instead of implementing discounts. The minister warned businesses he will boost competition in Argentina by facilitating imports of basic foods, including dairy. Food importers will receive foreign currency to pay for shipments in one single payment from the Central Bank and within a maximum of 30 days, compared to other importers who access foreign currency in four payments and up to 120 days after lodging requests.

Local food manufacturers says the measures do not address the price distortion between the value paid to producers and what consumers pay in stores. Argentina’s largest industrial chamber UIA said the rules are unbalanced, distorting who can access foreign currency to pay for imports and supplies with no small businesses benefitting from the measure.

Cocoa futures hit record high : Cocoa futures for May delivery surged to a record intraday high of US\$10,080/t this week. Cocoa has tripled in cost

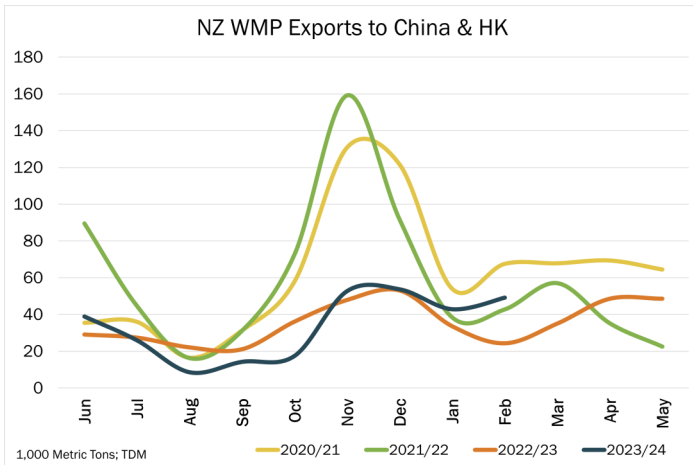
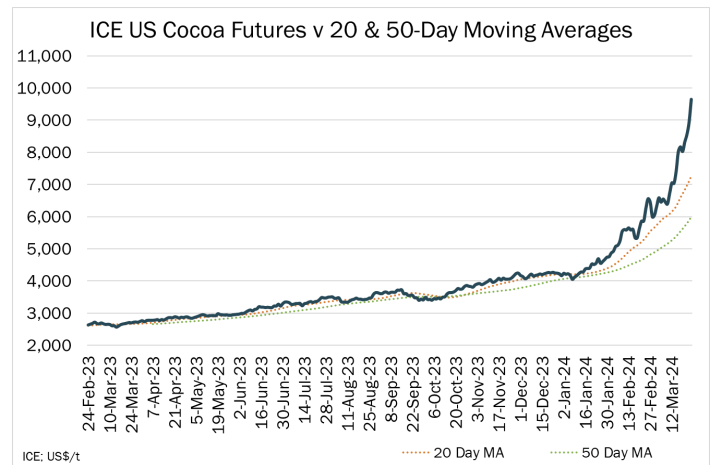
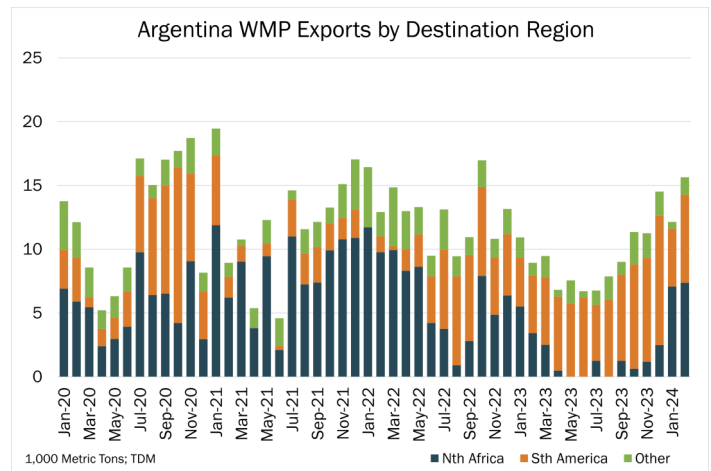
over the past 12 months.

Large chocolate companies were well-hedged in 2023 and did not need to immediately pass on high prices, there is only so much they can do to absorb costs, according to Rabobank commodities analyst Paul Joules.

The largest cocoa deficit in 60 years, with the International Cocoa Organization forecasting a supply deficit of 374,000t for the 2023/24 season, a 405% increase on the 74,000t deficit in 2022/23. The cocoa stock to grindings ratio of 29.2 forecast for 2023/24 is 23% below the 10-year average of 37.8.

Higher food prices in a warmer world : A study from the European Central Bank on monthly price tags on food and other goods is estimating food prices and overall inflation is likely to rise 1.5–1.8 percentage points annually within the decade due to climate change. The environmental study looked at food, other goods, temperatures and other climate factors in 121 nations since 1996.

According to the study this will lift overall



inflation by 0.8–0.9 percentage points by 2035 and according to climate scientist and author of the study Max Kotz an example of how climate change undermines human and economic welfare. Kotz said productivity shocks resulting from climate change-induced weather phenomena such as heat waves have a knock-on effect on food inflation and headline inflation.

During Europe’s 2022 heatwave, high heat cut food supplies and caused food prices to rise two-thirds of a percentage point while headline inflation jumped one-third of a percentage point.

USA Markets & Policy

Cattle disease identified as bird flu: The mystery illness reported last week by the Texas Animal Health Commission has been identified as Influenza A and genetic sequencing has revealed it to be Highly Pathogenic Avian Influenza (HPAI) which has been in the US for two years. According to the Animal and Plant Health Inspection Service (APHIS), the virus has been detected in samples from several impacted herds in Texas, Kansas and New Mexico.

The Texas Department of Agriculture released a statement saying cattle impacted by Influenza A have flu-like symptoms such as fever and thick and discoloured milk with a sharp reduction in milk production averaging 10-30lbs (4.5-14 kgs) per cow, saying herds impacted could lose up to 40% of milk production for 7-10 days until symptoms dissipate.

In a press release, Ever.Ag said it is not expecting the cattle disease to lead to a major supply crisis based on anecdotal reports and the characteristics of the illness as known today. So

far impacts are reported to last from 2 to 3 weeks in affected cattle with low mortality reported. On the demand side, the impact—if it eventuates—is expected to be modest and mostly contained to beverage milk.

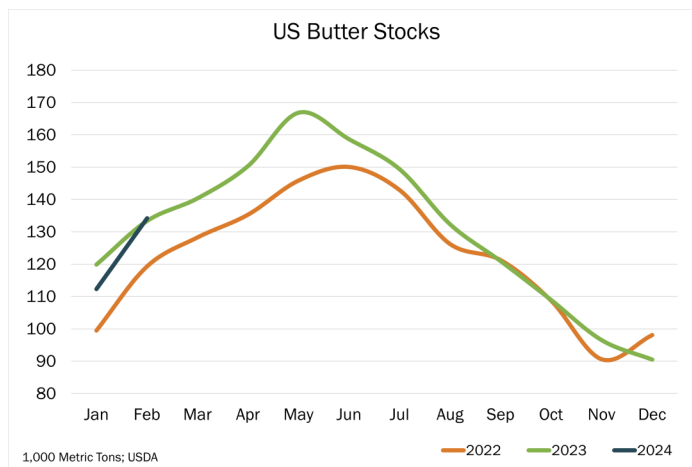
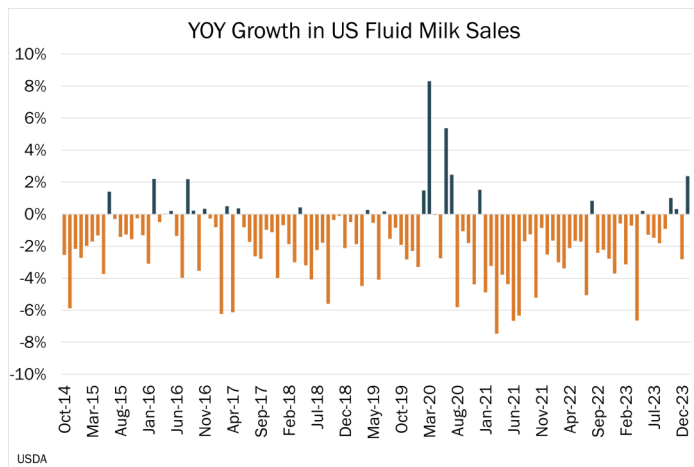
Fluid milk sales improve in Jan : Fluid milk sales rose 2.4% YOY in January, the third increase in the last four months for which data is available.

Conventional milk sales lifted 2.6% YOY for the month, while whole milk sales were ahead by 5.2% YOY. Conventional fat-reduced milk sales were down 1.9% YOY in January. Organic milk sales rose 0.4% for the month and represented 6.7% of overall sales.

Feb butter stocks ahead of expectations : Butter stocks rose 0.6% YOY in February according to the latest USDA Cold Storage report, adding 21,873t from January to 134,177t. The report was bearish for prices. The faster-than-historical stock build may calm some nervousness in buyers, but prices remain elevated for now.

The USDA report was neutral for cheese, with stocks near expectations. Cheese inventories rose in February, up 3,069t from the prior month to 663,728t. “American cheese” stocks actually declined 3,162t between January and February to 377,759t, but still 2.9% higher than YOY. Other-than-American-cheese stocks (including mozzarella) rose from the prior month by 6,231t to 285,969t in February and were up 0.2% YOY.

FTC investigates grocery inflation : The US Federal Trade Commission (FTC) has demanded more investigation after its own report examining the



supply chain shocks during the pandemic and impacts on grocery retail competition found profits of grocery retailers rose and remain elevated, while food and drink retailers' revenue is more than 6% higher than total costs in 2021. FTC found profits were higher again in the first three quarters of 2023 with revenue sitting 7% higher than total costs for the year.

Higher prices continued after the worst of the supply chain disruptions were resolved, leading to higher profits for retailers. FTC commissioner Rebecca Kelly Slaughter said indications that profits increased and remain high could mean consumers are not benefitting from competitive markets. The report also found larger grocers were more likely to put strict delivery requirements in place for upstream suppliers and impose fines on those that did not comply.

The FTC investigated nine companies as part of the study launched in 2021, including retailers Krogers, Amazon and Walmart, US food company Kraft Heinz and meat processor Tyson Foods as well as Procter & Gamble. Grocery wholesalers C&S Wholesale Grocers, McLane Company and Associated Wholesale Grocers were also assessed in the study.

European Markets

Milk down 0.9% YOY in January : EU-27 milk production declined 0.9% YOY in January, based on complete Eurostat and AGEA data. This follows a 0.7% YOY fall in December. January production declined 2% YOY in Germany, France was 0.3% lower. Irish production continues to be affected by wet weather, with a 22.4% YOY decline in January. Milk output in Denmark and the Netherlands was

down 2.2% and 3% respectively compared to January 2023. Poland was the only major producing country remaining in growth mode, output was up 2.8% YOY for the month.

Despite the decline in milk production for the month, milk solids were near flat, reflecting a growth for protein offsetting a decline in fat.

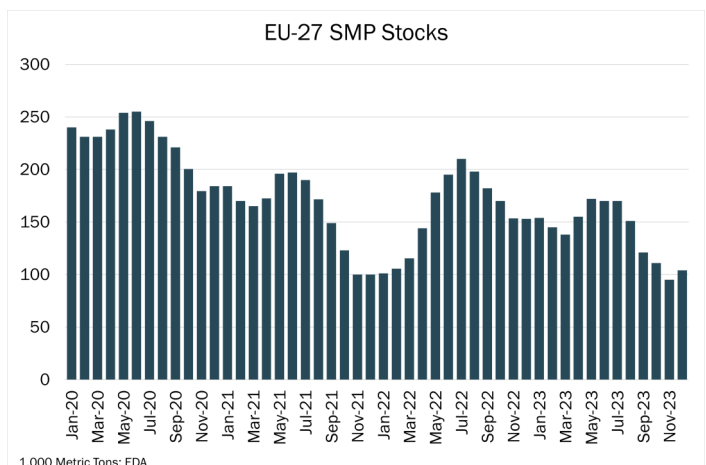
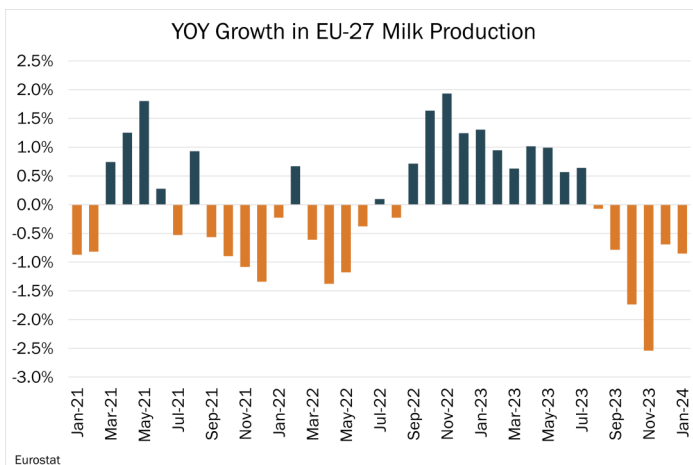
German milk supplies rebounded in week 11 (ending 16 March), up 0.5% YOY – the first increase since mid-October. UK production also recovered – up 0.5% YOY in the same week while France rose 0.7% YOY, marking the eighth consecutive weekly expansion.

SMP manufacture down in January : EU-27 SMP manufacture declined 6% YOY in January, alongside a 4% fall in butter, mostly reflecting a 10,000t contraction in German output. Cheese manufacture continued to lift due to favourable stream returns – up 4.3% YOY in January, mostly reflecting increases in Germany and Poland. WMP output improved on a weak comparable – up 5.7% YOY.

Grocery inflation eases in the UK : The UK Office for National Statistics has reported the CPIH gauge for food and non-alcoholic beverages rose 5% in the 12 months to February, down from 7% in the 12-months to January. Contributing to the large falls in the annual inflation data is falling inflation in food, restaurants and cafes.

Prices for food and non-alcoholic beverages have been stable since mid-2023, up by less than 2% over the nine months to May 2023 and February 2024. Prices eased for meat, vegetables, milk, cheese and eggs, while oils and fats rose.

CEO of the UK Food and Drink Federation Karen



Betts said the further cooling in rates is promising and reflects stabilizing prices across food and drink supply chains.

UK food manufacturers in spotlight : Executives from Arla Foods, Unilever and Kraft Heinz have answered questions about shrinkflation, relationships with retailers and their approaches to foods high in fat, salt and sugar at a meeting with the Environment, Food and Rural Affairs Committee.

Representatives from Dairy UK, the Agricultural Industries Confederation and the Provision Trade Federation were also questioned about issues regarding the impact of inflation on suppliers' and manufacturers' costs and how production costs, food and retail prices interact. Dairy UK policy and sustainability director Peter Dawson said the supply chain relationships between dairy farmers and the margin pressures suppliers face remain unchanged, with dairy exposed to global pricing dynamics.

Inventories lower at year-end : December SMP stocks fell by 50,000t YOY and are on par with 2021. The latest assessment of EU dairy inventories by the EDA shows the impact of lower SMP production in Q4-23.

Butter stocks decreased substantially in 2H-23 and in December were also lower by 50,000t when compared to the prior year due to good domestic and global demand. Cheese stocks declined as well and are lower than in previous years at approximately 300,000t.

Oceania Market

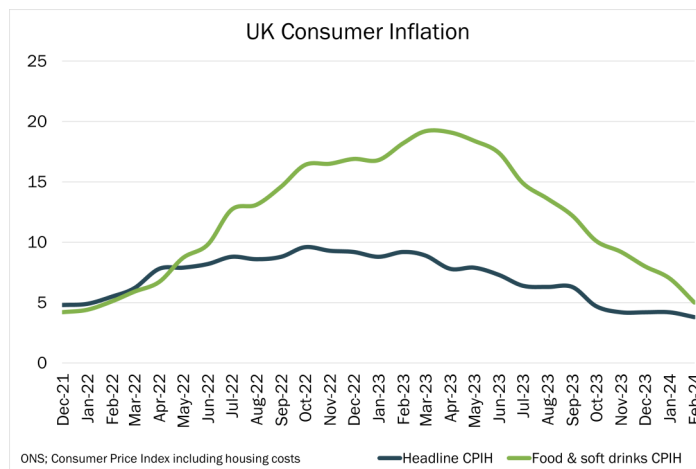
NZ-EU FTA finalised : The trade agreement between New Zealand and the European Union has been finalised with five of the NZ Parliament's six parties supporting a third reading of the EU FTA Legislation Amendment Bill. The agreement comes into force in May with 94% of New Zealand exports to the EU becoming tariff-free, rising to 97% after seven years. If quotas are filled, NZ dairy exports could make up 60% of EU's butter imports and 15% of cheese imports.

New Zealand trade minister Todd McClay said the deal was disappointing for domestic dairy and beef sectors but said the EU is very protectionist.

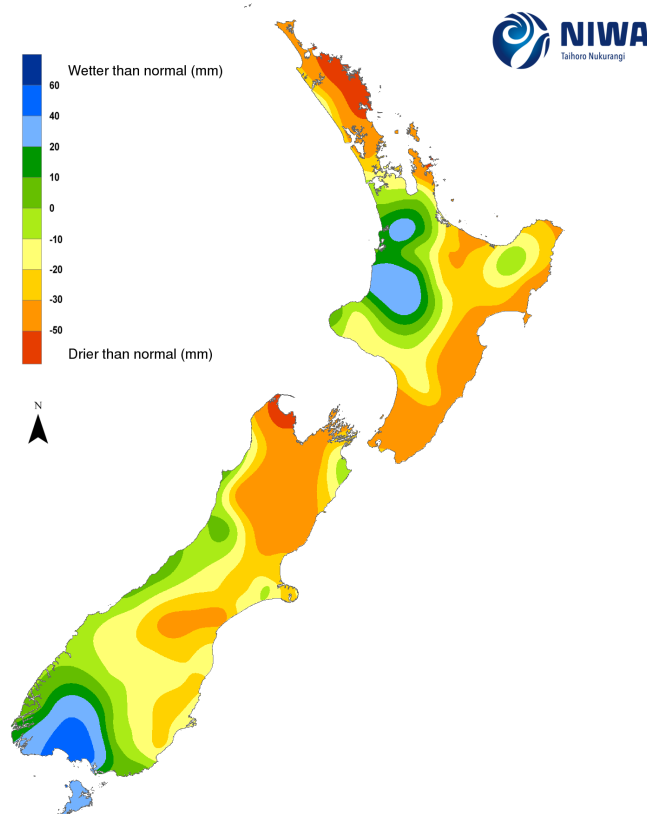
The New Zealand dairy sector has to accept a number of geographical indicators designated by the EU, including NZ feta producers who need to change the name from feta after pressure from Greece during FTA negotiations.

The deal has already been ratified by the European Parliament, with the highest approval rating of any free trade deal amongst MEPs.

NZ Government expands drought support : Following the declaration of drought in South



Soil moisture anomaly (mm) at 9am on 25/03/2024



Marlborough, agriculture minister Todd McClay has expanded the event to cover the South Island Canterbury and Otago regions.

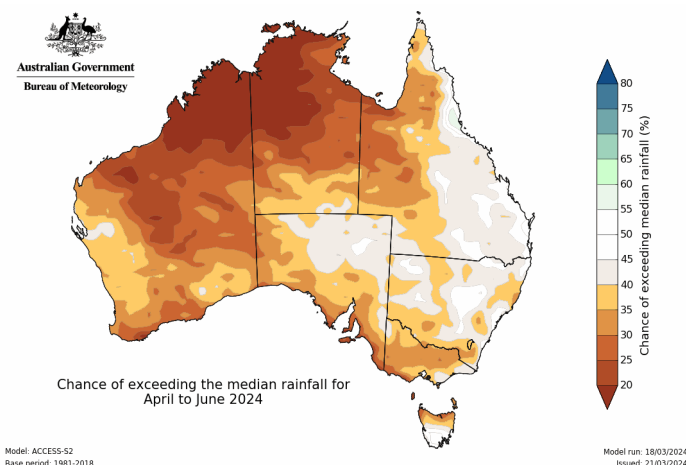
With the announcement, farmers and growers can access further support including tax relief. The classification also makes it possible for the Ministry for Social Development to consider Rural Assistance Payments, unlocking up to NZ\$70,000 for Rural Support Trusts across Canterbury and Otago.

Recent rains in the two regions have not delivered significant relief and farmers are already using winter supplementary feed to livestock where fodder crop yields are affected.

Fonterra Australia—the hopeful : Fonterra is optimistic about its Australian business despite a drop of 70% in profits in the six months to 31 January. Gross profits fell 19% YOY to NZ\$138m for the period and EBIT was down 43% YOY to NZ\$42m. Milk supply rose 2% YOY to 66mkg of milksolids.

Managing director Rene Dedoncker says Fonterra continues to see value growth in its Consumer and Foodservice categories. Fonterra brands hold the top spot in the butter & spreads and cheese categories—despite a shift in consumer demand towards private label and lower priced products. Fonterra’s Ingredients business is under pressure from high milk prices relative to commodity pricing. This business focus reducing costs and improving return on capital.

Dry Australian weather outlook : The Bureau of Meteorology’s (BoM) latest long-range forecast for April to June is for below average rainfall in large parts of the south and east of Australia with



warmer than usual days and nights across most of the country.

High streamflows are forecast for most sites from March to May and there is an increased chance of unusually warm days in the east of Australia with warmer nights across the mainland’s east and eastern Tasmania. Sea surface temperatures are much warmer than average of the east coast of Australia and are expected to remain above average from April-June. El Niño continues to recede with the Pacific expected to return to neutral conditions during autumn.

Company News

Mars invests in chocolate R&D : Mars is investing US\$60m in a research and development site in the US for several chocolate and confectionery brands.

The investment in the company’s Hackettstown New Jersey site will have a new prototyping kitchen, packaging lab and collaboration space and will benefit brands such as M&M’s, Twix, Snickers, Milky Way, Skittles, Starburst, Extra and Altoids. Mars will develop and test sustainable packaging materials at the site.

Mars recently opened a US\$42m snacking research and development hub in Chicago and is also spending US\$237m to set up a new manufacturing facility in the US.

Arla invests in UK mozzarella : Arla Foods will invest £179m in its UK business with plans to become a major mozzarella exporter in the next three years.

As part of the investment, Arla’s Devon-based creamery Taw Valley will be updated with state-of-the-art technology, creating 100 skilled jobs for the region.

Exports of mozzarella will commence in 2027, building on double-digit growth in Arla’s mozzarella business over the past five years.

Russia Danone assets approved for sale : Danone has gained regulatory approval to sell its dairy assets in Russia, including its essential dairy and plat-based division assets. Danone expects to close the deal in coming weeks, selling to Vamin Tatarstan owned by local businessman Mintimer

Mingazov.

Danone has previously confirmed the sale of the Russian assets will incur a loss of €1.2bn. The Danone assets were seized by the Russian government in July 2023.

Amul partner with US coop : India's Gujarat Cooperative Milk Marketing Federation Limited (Amul) is partnering with the Michigan Milk Producers Association (MMPA) to bring Amul branded fluid milk to the US.

MMPA president Joe Diglio said the partnership benefits farmers in both the US and India. Using MMPA's caseless milk packaging design and proprietary fluid milk technology, Amul gains access to market for its fluid milk in specialty stores throughout the Midwest and East Coast of US.

Amul manufactures branded milk and milk products in India and exports to more than 50 countries. Managing director Dr Jayen Mehta said it is the first time Amul fresh milk has been launched outside India.

DMK closes factory : German dairy processor DMK has closed a cheese factory in northeast Germany and a cheese line at another factory in the northwest. DMK also announced one of its plants will stop drying milk, while another will focus solely on ice cream production.

DMK has reportedly lost around 700m kg of milk intake.

Mengniu profits fall : Mengniu Dairy's profits dropped 9.3% YOY to CNY4.8bn in 2023 due to higher tax expenditures and reduced earnings. Revenue lifted 6.5% YOY to CNY98.6bn in 2023.

The fall in profits comes as growth in the Chinese dairy industry slowed in 2023. Mengniu stored excessive supplies of milk, leading to impairment of assets. According to Mengniu's vice chairman Lu Minfang, intensified competition in the market caused the firm's sales expenses to rise.

Following the announcement, Mengniu's shares closed 9.9% lower on the Hong Kong stock exchange on Wednesday this week.



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Empowering Supply Chains to Feed a Growing World

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