

GLOBAL DAIRY WEEKLY

A Newsletter Covering Major Events in International Dairy Markets

Highlights

1. US Exports Rebound in February
2. Brazil WMP Imports Decline
3. US Cheese Output Eases
4. European Dairy Prices Rise
5. NZ Methane Review Underway

First Take

US dairy industry observers may take heart from the improved export performance for February. The 14.6% increase in milk solid equivalent terms in February comes after 12 consecutive months of year-on-year contraction in shipments and was helped by an extra day in that month. The US has been the cheapest origin cheese for sometime so its perhaps unsurprising shipments are increasing in early 2024. Given waning domestic demand, export expansion will be necessary as new cheese capacity comes on stream later this year.

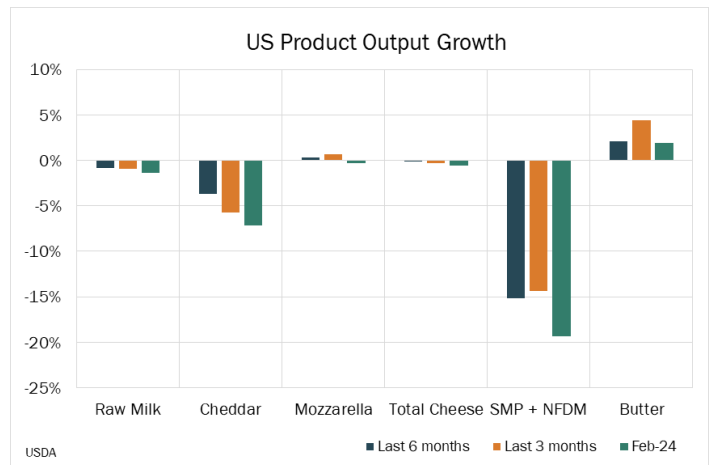
Meanwhile, the half-year results for global chocolate maker Barry Callebaut make for some interesting reading. Global sales volumes have been surprisingly resilient given significant cocoa price rises, with the business able to capture the move to private label. It does point to a flat outlook as cocoa prices continue to rise, worth watching for a key part of the SMP market.

Global Indicators

	Price USD/MT	US	EU	NZ*
		CME	Trade/EEEX	NZX/GDT
SMP	Spot	\$2,524	\$2,550	\$2,600
	3-Month	\$2,627	\$2,731	\$2,680
Butter	Spot	\$6,460	\$6,403	\$6,530
	3-Month	\$6,669	\$6,674	\$6,000
Cheddar	Spot	\$3,461	\$4,341	\$4,380
	3-Month	\$3,946		\$4,340
WMP	Spot		\$3,798	\$3,300
	3-Month			\$3,220
Whey	Spot	\$799	\$700	
	3-Month	\$897	\$830	
Exchange Rate (USD)		1	1.09	0.60
Recent milk YOY		-1.3%	-0.8%	6.5%
Farmgate Price (US c/kg)		46.81	50.29	40.15
Corn (US c/kg)		16.98	20.86	

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

Chart of the Week



US cheese fell again in February, down 0.6% YOY compared to a 0.8% decline in available milk. Read more [here](#).

Global Dairy Markets

US Exports Rebound in February : February shipments increased 14.6% YOY in milk solids equivalent terms. That was the first expansion after 12 consecutive monthly declines, and was despite the continuing large declines in butter exports.

Cheese exports were 43,608t in February, up 32.1% YOY, mostly reflecting stronger shipments to Mexico, Japan and Central America, and despite weaker sales into SE Asia, South Korea and Australia. Dry whey exports rose 10% YOY in February following a long period of declines, driven by stronger shipments to Mexico and SE Asia and despite weaker shipments to China & HK. At 2,347t, butter exports were down 19.3% YOY.

NFDM/SMP exports were 67,545t, up 7.1% YOY in February driven by higher shipments to SE Asia offsetting much weaker exports to Mexico. Average daily SMP shipments in February were at a 9-month high.

Brazil WMP Imports Decline : At 10,273t (a 14-month high), WMP imports in March were down 31% YOY, the first contraction after five consecutive monthly increases. WMP imports were 166,913t for the year to March. Negligible Exports of just 2,861t resulted in net imports of 164,053t for the 12-month period.

Argentina's Milk Supply Plunges : Argentinean milk output continues to decline, falling YOY in every single month since May 2023 and losing 320m litres of milk in the February quarter alone. Over the same 3 months, WMP manufacture fell 18.5% and cheese was down 4.2%.

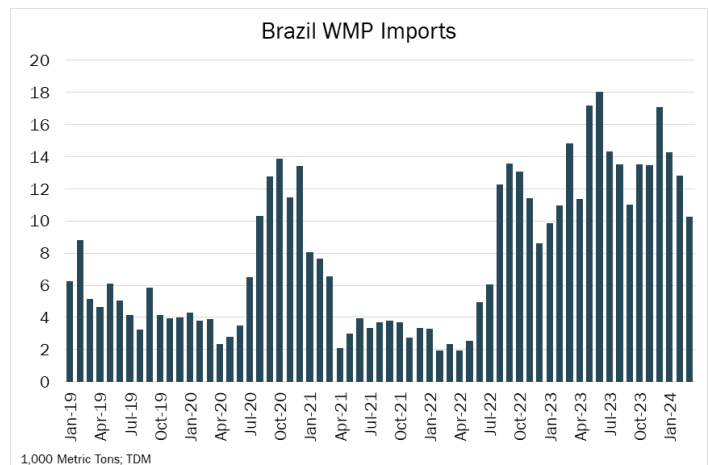
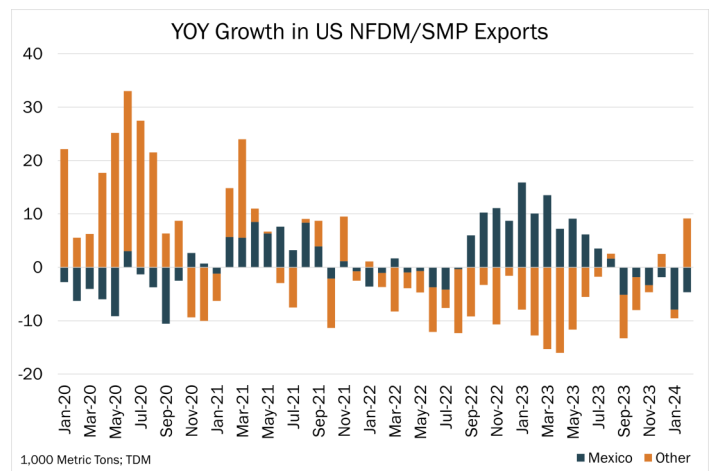
SMP/butter output volumes remain relatively small, but over the February 2024 quarter declined by 24% and 8%, respectively. At the end of February, WMP stocks were seasonally falling and at a 3-year low of 21,111t.

Australian Exports Continue to Grow : Australian exports were up 5% for the season to February in milk solid equivalent terms. The increase was led by increased shipments of cheese, milk powders,

butter and dry whey.

Exports were ahead in the month of February across most dairy products except milk & cream, fat-filled milk powder and mixtures and MPC. Cheese exports rose 21.5% YOY, mostly reflecting stronger sales to Japan and SE Asia. February SMP exports were 16,582t - a 24-month high – and up 85.8% YOY. WMP exports rose 89.9% YOY on relatively small volumes. Fat exports rose 80.3% YOY on a commercial butter equivalent basis in February – AMF was up 2.5% YOY and

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butter rose 147.6%.

Arla Adds Mozzarella to GDT : Arla Foods will begin offering Mozzarella blocks at GDT events from September. Arla joined the GDT platform in 2012 and has offered product in 277 GDT events.

Food Inflation Drops to 2.5-Year-Low : Food inflation was at a two-and-a-half year low across OECD countries in February.

Food prices rose 5.1% across 38 countries in February, down from 6.3% in January. Food inflation was lower than the February OECD consumer price index which was measured at 5.7% for the month. February was the 15th consecutive month of moderating prices rises. Food inflation eased to 2.1% in February from 3% in the prior month across the G7 countries of Canada, France, Germany, Italy, Japan, the UK and the US.

Prices Lift on Pulse : Regular grade WMP prices rose at this week's GDT Pulse event with prices

up 0.6% against GDT event #353 and 5.1% ahead of the previous Pulse event at US\$3,215/t. Instant WMP settled at US\$3,310/t, taking the weighted average WMP price to US\$3,280/t. Futures settled higher with the April SGX-NZX WMP futures closing at US\$3,280/t.

Medium heat SMP prices were 2.6% higher, settling at US\$2,550/t, 2.6% ahead of the contracts achieved at GDT #353. The nearest futures contract (April 2024) settled US\$10/t higher at US\$2,560/t

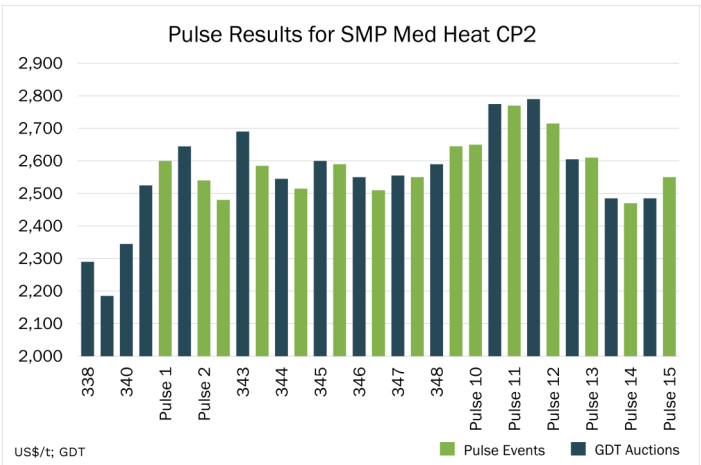
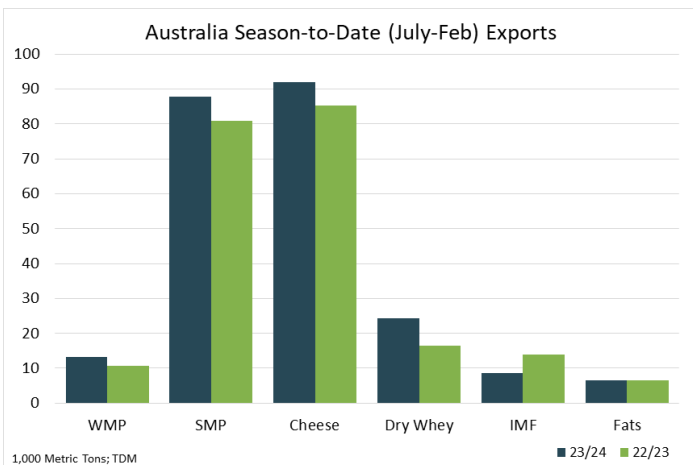
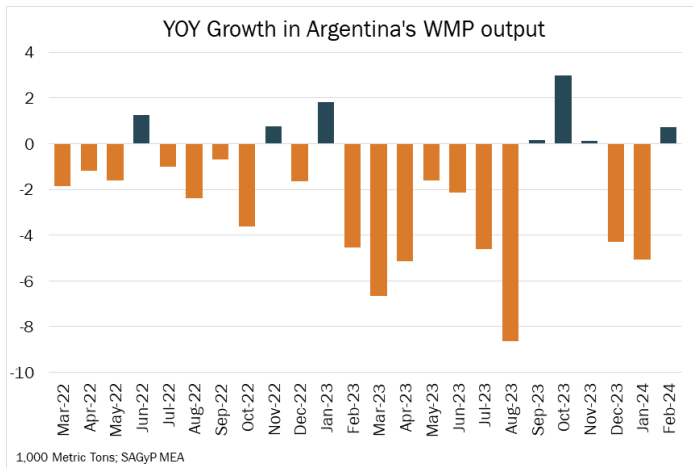
The Pulse event ran for 20 minutes with 18 winning bidders out of 42 participants taking home 1,697t of the 1,750t of product on offer.

USA Markets & Policy

Cheese Output Eases in February : Cheese production fell 0.6% YOY in February in leap year-adjusted terms, according to the USDA. This compares to an estimated 0.8% decline in the availability of "manufacturing milk." American cheese output declined 4.7% YOY for the month, with a 7.2% decline for cheddar. "Other cheese" (including mozzarella) output fell 0.3%.

Combined NFDM & SMP output fell 19.3% YOY in February, with NFDM down by 22% while SMP fell 5.9%. In contrast, butter production rose 1.9% YOY in February. Dry whey production also increased, up 4.2% YOY for the month with a 0.6% YOY increase in WPC, reflecting another solid 6.5% increase for WPC 50-89.9% products. WPC 25-49.9% production fell for the sixth consecutive month in February, down 12.3% YOY.

NFDM Inventories Down in February : NFDM stocks fell 1.3% between January and February to



95,068t, 33.6% lower YOY reflecting higher exports and weaker production. Stocks of dry whey, both human and animal product, were up 8% from the prior month to 33,054t, as increased production offset stronger exports.

Lactose stocks increased 3.4% to 48,801t in February, which was 35.1% lower in YOY terms. WPC stocks were down 3.7% between January and February to 26,229t, despite diverging output trends for different concentration products. Stocks of WPI were up 16.8% at the end of the month to 8,448t.

Farmer Sentiment Up on Expected Rate Cuts :

The outlook for US farmers is improving with the latest Purdue University/CME Group Ag Economy Barometer index rising three points to 114 in March. The index for Future Expectations also rose 5 points for the month.

An increasing number of farmers surveyed expect interest rate cuts over the next 12 months, with 48% expecting a decline, up from 35% in December. Fewer producers (32%) believe interest rates will lift in the next year, compared to 43% in February. More farmers believe now is a good time for large investments due to strong cash flow as and higher dealer inventories for farm machinery.

The short-term outlook on farmland values is stronger with the index 9 points higher in March compared to February. In March, 24% of producers expected farmland prices to rise, compared to 18% in February, mainly due to inflation expectations, non-farm investor demand and strong cash flows.

WIC Changes Affect Dairy : Updates to a federal

nutrition program will decrease allowances for juice, dairy and cheese while lifting non-dairy options, including plant-based and lactose-free. According to USDA, the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) changes align the program’s food with the best dietary science.

WIC participants receive benefits to purchase certain food items based on age and dietary needs. The program serves 6.6m pregnant, breastfeeding and post-partum women and children aged 5 or younger.

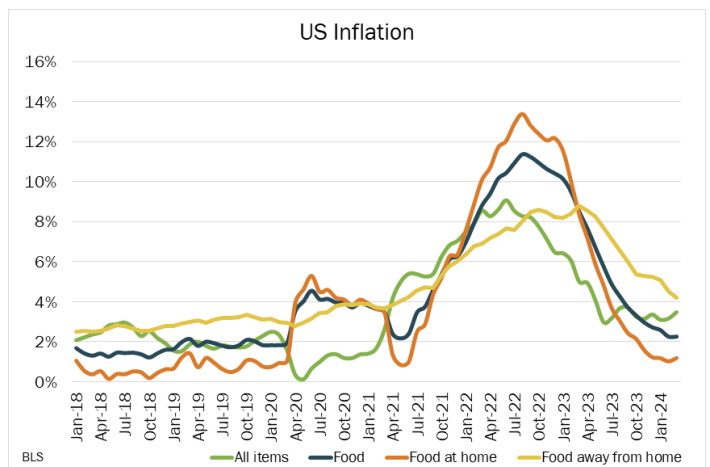
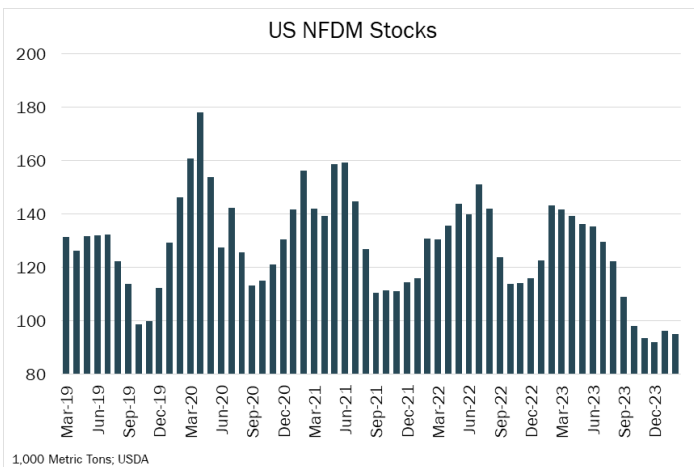
In a statement, the National Milk Producers Federation president and CEO Gregg Doud said he is disturbed by the decision to reduce access to the essential nutrients dairy adds to the diet.

US Inflation Higher-Than-Expected : At 3.5%, the surprise headline inflation reading for March was a 6-month high, driven by a 5.7% rent hike and a 4% increase in transportation costs. Food inflation was flat at 2.2% in March, still 20.7% above its 2021 comparable.

“Food away from home” prices were reported up 0.3% from the prior month at 4.2% YOY in March, while grocery prices were flat month-on-month, and 1.2% higher YOY. The monthly US food inflation rate is now ahead of EU-27 where it was reported at 3% YOY in February (down from 5% in January).

European Markets

Dairy Prices Rise : European dairy prices rose last week with traders are holding out for longer term purchases with only smaller purchases for near-term delivery.



A strong recovery in cream and butter prices has pushed WMP to €3,595/t in the week ending 7 April 2024, up from €3,445/t. Butter quotes rose almost 3.5% in the same week and cream prices were up 5%.

Cheese prices were steady with price influences determined by regional factors. Mozzarella prices were up €5/t from the week before at €3,575/t, tracking behind quotes for Gouda and Edam. Cheddar prices eased €10/t to €3,975/t.

Tirlan Announce Weather Support Payment :

Tirlan has announced a 3c/l weather payment on all March milk intake. The payment is part of a €30m support package to farmers battling wet conditions. The support package also extends a current €30/t weather support payment on GAIN dairy feed until the end of April and extends the fertiliser credit scheme until end of May. Tirlan suppliers will also receive a higher proportion their milk revenue as an early interim payment, increasing from 50% to 60% for April milk paid in May.

Tirlan chair John Murphy said recent exceptional rainfall is affecting farmers and causing significant stress. Recent forecasts from Met Eireann is for frequent showers and rain with some heavy downpours.

Oceania Market

NZ Methane Review Underway : The Climate Change Commission (CCC) has found the rest of the New Zealand economy may pay a higher price than otherwise if agriculture is exempt from methane emissions reductions.

According to the report, New Zealand's split-gas approach to methane means the 2050 target is less ambitious than targets set by comparable countries. The target is to reduce methane emissions by 10% by 2023 with higher reductions required in the last 20 years to 2050. New technologies that could potentially aid agricultural methane emissions reduction are not yet commercially available or suitable in New Zealand. In another document the CCC warned the government needed to carefully consider policies and incentives for managing stocking

rates because they could have a significant impact on the emissions budget from 2036 to 2040.

The discussion document was published shortly after government ministers announced an independent review panel to test if current methane emissions targets are consistent with no additional warming.

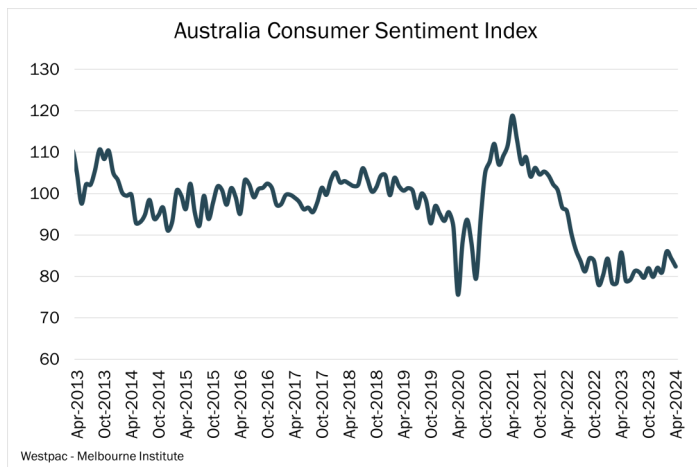
Aussie Consumer Sentiment Stays Negative: After rising sharply earlier this year, consumer sentiment is falling, recording its second consecutive fall in April. The Westpac-Melbourne Institute consumer sentiment index declined 2.4% points from the prior month to 82.4 in April. It's the longest time the index has remained in negative territory since the 1990s recession.

According to the Melbourne Institute, the component indices show improvement in assessments of family finances but a loss of confidence in the economic outlook and a fall in buyer sentiment.

Review Calls for Mandatory Supermarket Code : In Australia, an interim report recommending a mandatory code of conduct for supermarkets with hefty financial penalties for breaches has been delivered to the Australian Government.

The review recommended current voluntary guidelines be made into legally-binding obligations. Major breaches of the code would incur fines of up to A\$10m, 10% of annual turnover or three times the benefit gained from major systemic breaches of the mandatory code. The Review did not recommend forced divestiture.

The National Farmers Federation has welcomed the interim report's recommendations with president David Jochinke saying improved



transparency and accountability measures would help farmers under pressure from supermarkets.

Company News

Amul's Record Revenue : Amul Dairy revenue lifted 9% to US\$1,546bn in the year to 31 March – a record high. Chair Vipal Patel said Amul has increased milk payments 11% this year compared to the year before. Milk intake lifted 15% to 1.73bn kg of milk in 2023/24.

Patel said the cooperative was focused on genetic improvement of indigenous cattle to lift milk yields. Amul has set up total mixed ration stations which provide fodder to village-level milk producers.

Valio Shutter Two Plants : Finnish dairy cooperative Valio will close two food and drinks manufacturing plants in Finland. Affected sites are in Turku which processes the plant-based cooking and snacks range Oddlygood and a plant near Helsinki which produce juice, berry soups and glogg.

Operations at the shuttered sites will be transferred to Valio's Riihimäki plant which processes Oddlygood plant-based and creams, milk, buttercream and yogurts.

Mengniu Profits Falls : Mengniu Dairy's pre-tax profit fell 3.1% in 2023 to US\$872.4m, with net profit down 5.8% to US\$64m. Mengniu lifted revenue 6.5% to US\$13.6bn in 2023 as sales of liquid milk and ice cream rose.

Mengniu's Quijing factory in Yunnan is the first Chinese factory to achieve international and domestic zero-carbon certification after two consecutive years of carbon neutrality. The company also launched a fully intelligent dairy super factory in Ningxia where 100 people produce 1mt of dairy products valued at US\$1.38bn.

Mengniu's share price fell 9% following its results announcement and is at a five-year low.

Solid performance for Chocolate Maker : Barry Callebaut Group (BC) has reported 0.7% volume growth in the H2 2023/24 (ended 29 February) in what it described as a "challenging market". In its announcement BC noted food manufacturers

continued to be impacted by soft consumer demand. However "Barry Callebaut was able to mitigate these pressures as its diversified business model allowed the Group to capture the consumer shift towards Private Label chocolate offerings".

The significant increase in cocoa cost drove a 19.6% increase in revenue in local currencies (11.1% in CHF) to CHF4.6bn. Profitability has been supported by BC's cost-plus pricing model, up 0.8% in local currencies (down 7.9% in CHF). Due to one-off BC Next Level operating expenses (majority non-cash impairments and write-downs), operating profit (EBIT) was reported down -40.6% in local currencies (-48.9% in CHF).

BC reiterated full-year 2023/24 guidance of flat volume and EBIT on a recurring basis in constant currency, citing a "highly volatile environment".

Westland's Record Year : New Zealand processor Westland Milk Products reported a record profit of NZ\$55.9m in 2023, well ahead of the NZ\$38.9m result posted the year before. Westland's revenue was NZ\$1.065bn was slightly ahead of the prior year comparable due to strong sales of high value dairy products.

According to Westland chief executive Richard Wyeth the company invested NZ\$40m in a new butter plant, expanding in the US market. With financial support of Chinese dairy company Yili, Westland has invested in infrastructure to maximise revenue from high-margin products. Wyeth said the company's butter is stocked in more than 3,000 US grocery retail outlets, as well as Costco global stores in Korea and Taiwan.

Lactalis Australia to close Victorian plant : In Australia, Lactalis will close its Echuca factory, putting more than 70 jobs at risk. However the French-owned company will invest A\$85m over the next three years in its other Victorian sites.

A detailed review of operations led to a plan for one regional hub in the state, and having accounted for milk processing capability, operating costs, and site layouts, the Bendigo site has been chosen. CEO Mal Carseldine said the investment, mostly focused on Bendigo, would offer more jobs, a new production line, and more

yoghurt and custard capacity established at the Bendigo site.

GyG raises A\$135m : Australian-based Guzman y Gomez (GyG) has just finished a financing round, raising A\$135m from four investors. The Mexican-themed restaurant chain also lifted its valuation to A\$1.73bn, up around \$200m compared to two years ago when it last raised funds.

With the financing round, GyG has added Cooper Investors, Hyperion Asset Management, Firetrail Investments and QVG Capital to its list of shareholders.

The company is still assessing options for a public listing in the next year and said the funds raised will be used to support a three-year growth strategy, including Australian and overseas

expansion.

GyG reported a net loss of A\$3.9m in the first half of the financial year. The loss was attributed to A\$4m one-off costs, including a A\$2m payment to former executives who accused the company of racism and bungling plans to expand to 187 stores in the US. In H1, GyG said global sales rose 30% to A\$781m, with same-store sales rising 11% YOY.



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