

# GLOBAL DAIRY WEEKLY

A Newsletter Covering Major Events in International Dairy Markets

## Highlights

1. Pulse Drops Again
2. China Imports Down 8% in Q1
3. US March Milk Down 1%
4. Heavy EU-27 Milk Just Below Flat
5. NZ March Milk Output Falls

## First Take

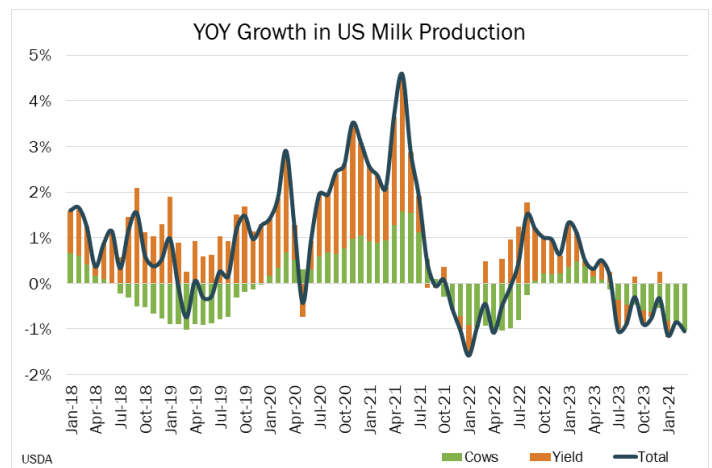
Milk production fell in US and NZ in March, while trends were mixed in the EU. It's the European spring that has the focus for most analysts, cold and wet conditions—particularly Ireland and the UK—has meant the spring has failed to launch. While warmer conditions are forecast and could fire up pasture growth a spring delayed is a peak flattened—shoulder production is unlikely to make up for any shortfall. In the US milk growth continues to be constrained by reduced cow numbers.

Meanwhile, China imported 8% less dairy product in the first quarter of 2024, measured on a milk solids equivalent basis. The China-shaped hole left in demand explains why milk production declines aren't enough to significantly boost dairy commodity prices. This week's Pulse paint the picture for ingredients demand with further slippage in WMP and SMP prices.

## Global Indicators

	Price USD/MT	US CME	EU Trade/EEEX	NZ* NZX/GDT
SMP	Spot	\$2,469	\$2,557	\$2,620
	3-Month	\$2,569	\$2,576	\$2,650
Butter	Spot	\$6,614	\$6,179	\$6,610
	3-Month	\$6,702	\$6,418	\$6,000
Cheddar	Spot	\$3,880	\$4,314	\$4,340
	3-Month	\$4,142		\$3,974
WMP	Spot		\$3,835	\$3,320
	3-Month			\$3,065
Whey	Spot	\$860	\$676	
	3-Month	\$937	\$799	
Exchange Rate (USD)		1	1.07	0.60
Recent milk YOY		-1.0%	-0.2%	-1.2%
Farmgate Price (US c/kg)		46.81	49.37	39.84
Corn (US c/kg)		17.31	21.76	
<i>*Latest GDT result, other prices are NZX futures</i>				

## Chart of the Week



US milk production fell in March, down year-on-year for the ninth consecutive month. Cow numbers fell and average yield per cow was flat. Read more [here](#).

# Global Dairy Markets

**Pulse Drops Again** : GDT Pulse #49 had regular WMP settling 1.1% lower than last week's auction at US\$3,175/t. Medium heat SMP fell 2% to compared with the C2 medium heat SMP contract at GDT 354, to US\$2,500/t.

**China Imports Down 8% in Q1** : Chinese dairy imports were mixed in the first three months of 2024, with growth for WMP, but declines in SMP, fats, dry whey, AMF and infant formula. We estimate milk solids equivalent (MSE) imports were down 8% in the period from January to March. WMP rose 7% for the year to date on weak comparables but remains 9.9% lower over the 12 months to March at 445,075t. This reflected weak domestic demand as well as much stronger local manufacture with growing milk supplies.

SMP imports have slowed since August in response to high local inventories, with a 29% decline for the year to date. Dry whey also continued to decline sharply, down YOY in eight of the past nine months since July, 21% behind for the year to date. Cheese fell for the second consecutive month in March, down 6.7% YOY and 2% for the year to date. Trends in fats were mixed in recent months, but overall trade declined 10% (CBE) for the year to date.

**Argentina WMP Exports Down In March** : Dair4y exports were down 5.7% in milk solids equivalent (MSE) terms in March. At 8,910t, WMP exports fell 5.9% YOY in March - a 7-month low. The decline in WMP shipments reflected weaker sales to Brazil and Oceania.

Shipments across other categories were mixed, with growth in cheese and dry whey, but declines in SMP and fats.

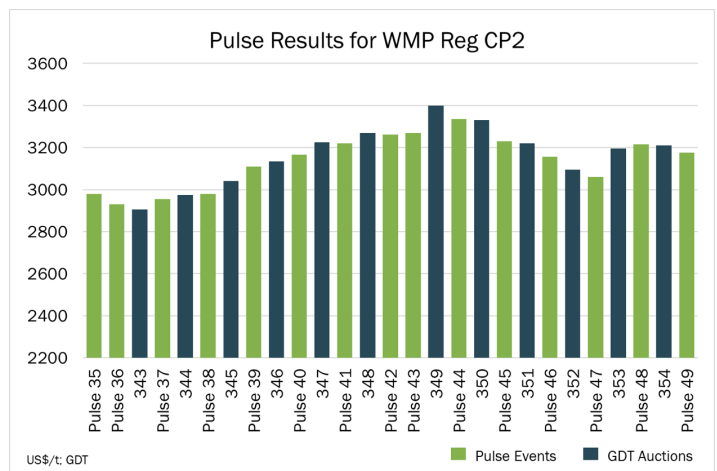
## USA Markets & Policy

**March Milk Down 1%** : US milk production fell 1% YOY in March according to the USDA, reflecting a continuing decline in the dairy herd. Average yield per cow was flat YOY while cow numbers were down 1% YOY in March. At 9.335m, March cow numbers were down 7,000 head on the prior month and 98,000 head below the same month

last year. This time, USDA "found" more cows in January and February – with numbers up by 3,000 head and 12,000 head, respectively. The US dairy herd peaked in March and has declined by 98,000 head since.

Among major producing states, milk production in Wisconsin rose by 1% YOY in March while California was up 0.7%. Milk production in South Dakota, Florida and Illinois continued to improve. Supplies are in decline for New Mexico, Texas and Oregon. Overall Upper Midwest supplies rose

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0.7% YOY while Desert states were down 5.6% YOY.

**Fluid Milk Sales Up In February :** Fluid milk sales rose 2.4% YOY in February and have now grown in four of the latest five months for which data is available.

Conventional milk sales rose 2.1% YOY for the month, while whole milk sales increased by 4.7% YOY. Conventional fat-reduced milk sales were down 1% YOY in February. Organic milk sales rose 7.8% for the month, representing 6.8% of overall sales.

**USDA Confirms Cow-To-Cow HPAI Transmission :** The USDA has confirmed cow-to-cow transmission of HPAI, saying cows shed the virus in milk at high concentrations. This means that anything that comes into contact with infected unpasteurised milk could spread HPAI. The USDA directive stressed that a milk recall is not necessary as products are pasteurized before entering the market. At this time there is no concern about the safety of the commercial milk supply, or that this circumstance poses a risk to consumer health. USDA also said respiratory transmission is not the primary means of transmission of the virus in cattle.

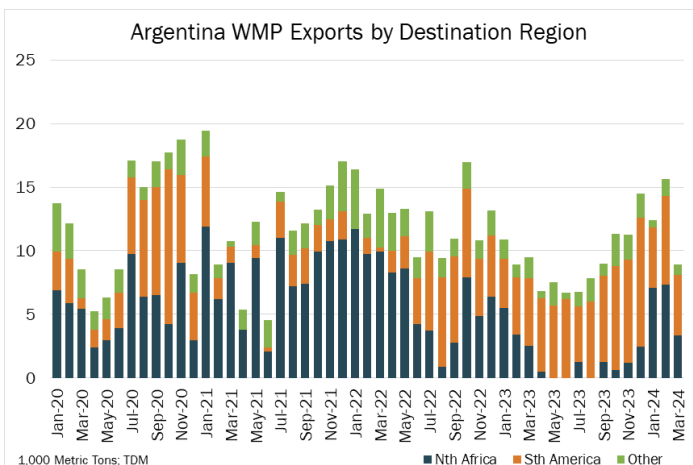
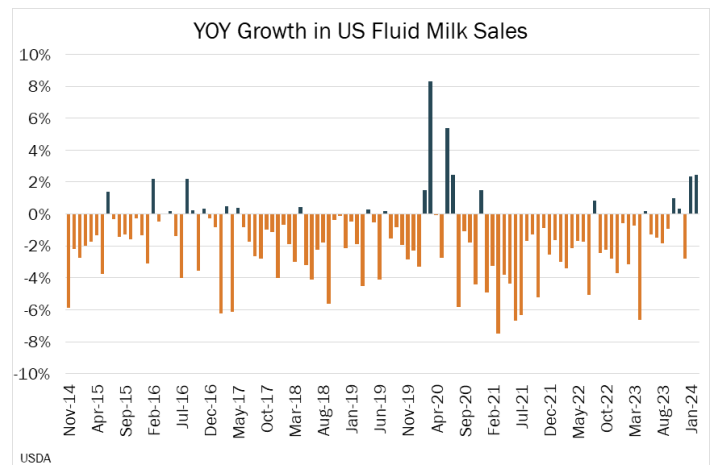
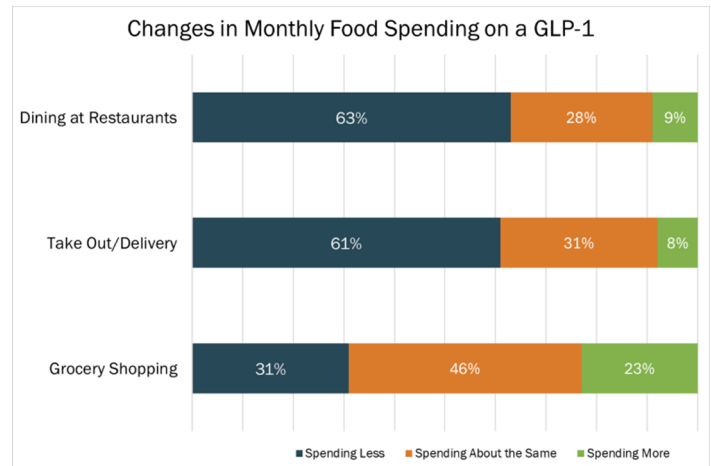
**Weight loss drugs limit foodservice spending :** Most people taking GLP-1 weight loss medications are spending less on eating out and takeaways, according to a Morgan Stanley survey. Morgan Stanley analysts expect the market for GLP-1s to be valued at US\$105bn by 2030, by 2035 31.5m people – or 9% of the US population by 2035.

GLP-1s are a manageable long-term pressure on restaurants, not an “existential risk”, according to Morgan Stanley. “Restaurants offer convenience and/or experience in addition to food, and that won’t change with GLP-1 usage”. However some restaurants may have to adapt to health-conscious consumer behaviors, they noted.

## European Markets

**EU-27 Milk Flat in Feb :** EU-27 milk production declined 0.2% YOY and February, based on almost complete Eurostat and AGEA milk production data, the smallest fall over the last six months. February production declined 0.3% YOY in Germany while Ireland was down 16.3% as cold wet conditions prevail. Netherlands production fell 2.3% YOY and Denmark was down 0.4%. French milk collections increased 0.5% while Poland was up 3.7% YOY and Austria improved 4.6% YOY for the month.

German output rose 1.1% in week 15 (ending 14 April 2024). UK production fell 2% YOY in the



same week. French milk output fell 0.7% YOY in week 15 – this was the second consecutive weekly decline.

**SMP Output Down in February :** EU-27 SMP output fell 3.2% YOY in February, along with a 8.3% YOY fall in butter mostly reflecting a 2,400t contraction in Germany. Cheese output continued to lift due to favourable stream returns – up 2.9% YOY in February, mostly reflecting increases in Germany and Poland.

WMP output improved 7.7% on a weak comparable. The absence of Latam suppliers from the global WMP market is also offering EU manufacturers space to grab market share in coming months.

**Denmark Won't Seek Derogation Extension :** The Danish Government is not seeking an extension from the EU Commission for a nitrates derogation when it expires on 31 July 2024.

Under the directive, Danish farmers are allowed to apply 230kg of nitrogen from livestock manure per hectare annually compared to the standard EU limit of 170kg/ha. The directive was created to prevent agricultural nitrates from contaminating waterways, but Denmark has not reduced the discharge of nutrients to coastal waters for 10 to 15 years.

Minister for the environment Magnus Heunicke said Denmark was keen to focus on nitrogen emissions and acknowledged the decision will lead to increased costs for cattle farms.

Denmark, Ireland, the Netherlands and the Flanders region in Belgium are the only EU territories in which the derogation applies.

**Shrinkflation Declarations Mandatory In France :**

Retailers must indicate products impacted by shrinkflation from 1 July under a new law in France. France’s minister of economy, finance and recovery Bruno Le Maire called shrinkflation a scam with the decree aimed to restore consumer confidence through transparency.

The French ministry of economics, finance and industrial and digital sovereignty initiated the decree and submitted proposals to the EU earlier this year. Under the law, large and medium sized stores will need to inform consumers if product

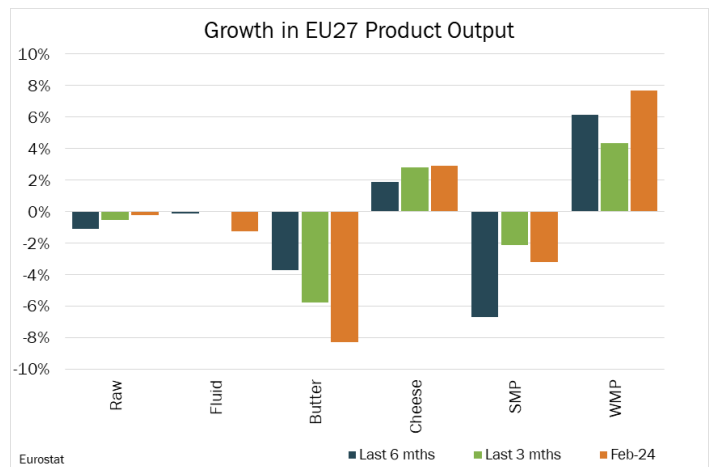
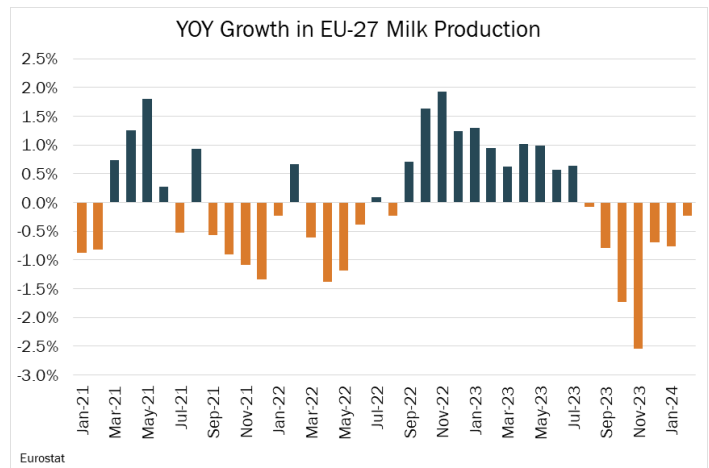
has decreased in size by use of in-store signage. The signage must specify the evolution of the price in relation to weight no later than two months after the marketing date of eligible products.

Retailers have welcomed the decree but argue manufacturers should be required to report on shrinkflation as they are making the decision to resize products and have all the relevant data.

**UK: Border Checks On High-Risk Agrifoods :**

Beginning 30 April, high-risk agrifood imports from the EU will be subject to physical checks at the border. Processed dairy, which includes chilled milk, cheese containing non-pasteurized raw milk and eggs will require physical assessment.

Border checks will scale up to full check levels in “a sensible and controlled way” according to the Department of Environment, Food and Rural Affairs (Defra). Defra said border checks are also required for medium-risk food imports but as yet it is unclear when this will happen.



A Government spokesperson said the checks were being phased in to minimise disruption while still protecting biosecurity. Trade bodies pointed to ongoing confusion about the border checks, saying it made preparation challenging. Cold Chain Federation’s chief executive Phil Pluck said businesses needed a clear timeline and specific information about the phases.

**Bord Bia Expects Irish Milk Output Recovery :** Irish milk production is expected to recover quickly after sharp YOY declines in the first months of 2024.

Head of Bord Bia David Kennedy said wet weather in the first months of 2024 impacted grass-growth, hampering milk production. Trouble getting cows on grass and delayed calving added pressure on milk production in the short term. Kennedy tips optimal temperatures for grass over summer, saying Bord Bia expects wetter summers and warmer winters in line with trends in other European countries.

Kennedy said farmer sentiment is impacted by the current, very wet weather but Irish dairy farmers were ahead of the national sustainability agenda. Farmers have reduced their CO2 footprint by 10% per kilogram of emissions over the past nine months. Further, farmers are switching to better fertiliser and breeding more productive cows.

## Oceania Market

**NZ March Milk Output Falls :** New Zealand milk production was down 1.2% YOY on a solids basis in March, taking season-to-date production 1.1%

ahead of the prior year. Milk intake fell 3.5% YOY on a volume basis with seasonal output trailing 0.2% behind the prior year comparable.

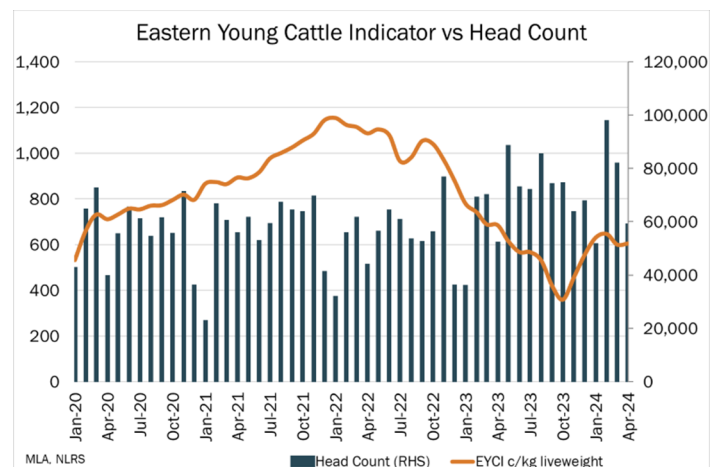
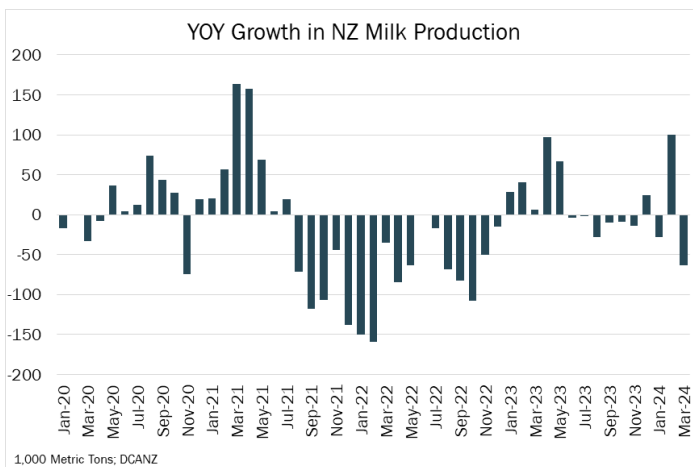
The drop was just short of predictions as NZX forecast March production to fall 1.6% YOY on a solids basis. Drier than normal conditions and irrigation restrictions impacted milk production. Farmers reportedly dried off cows earlier than normal. According to the NZX pasture growth index pasture growth in the North Island was better than the South Island through March.

NZX expects April milk output to fall 1.1% YOY and May production to be down 5.3% YOY.

**Aus Cattle Market Steadies :** Cattle markets have steadied in 2024 after the wild swings of 2023 and 2022.

The Eastern Young Cattle Indicator (EYCI) is still weaker than YOY, but according to Mercado better prices are likely over the coming weeks, with current fundamentals it making “prices tanking in the same fashion they did last year” unlikely.

According to Mercado analyst Angus Brown, 2020 is the closest match for current conditions with the strong increase at the start of 2020 similar to December 2023. From March onwards in 2020, volatility decreased and prices tracked slowly upwards. Slaughter started higher in 2020 and waned during the year, with a good season and herd rebuild helping price improvements. For cattle prices to improve over rest of 2024 a tightening in supply is required, according to Brown.





## Company News

### **Unilever Wind Back Sustainability Targets :**

Unilever has made changes to its sustainability targets with CEO Hein Schumacher outlining new priorities. Unilever will focus on four sustainability issues including climate, nature, plastics and livelihoods.

Schumacher said Unilever will be more focused on allocating resources towards its bigger sustainability priorities and drive action towards long-term ambitions. The key changes concern targets for reducing use of virgin plastics as well as use of recyclable or reuseable packaging. Unilever pledged to cut virgin plastics by 50% by 2025, but is now aiming for a 30% cut by 2026 and 40% by 2028. The goal to make all packaging recyclable, reusable or compostable by 2025 has been pushed back to 2030 for rigid materials and 2035 for flexible materials. Unilever also moved its target of a living wage for all of its direct suppliers by 2030 instead pledging to foster a living wage for 50% of its direct suppliers by 2026.

**Lactalis Profits Lift :** Lactalis net profits rose to €428m in 2023, up from €384m the year prior. Sales rose 4.3% to €29.5bn in 2023 but net profit margin came in at 1.45% of sales in 2023 due to inflation.

Lactalis chairman Emmanuel Besnier said the profits remained low in 2023 as consumer purchasing power was impacted by inflation. Lactalis invested €920m in new products, modernizing dairy farms and cheese factories in France and North America.

**Fonterra Sells Lithuanian Stake :** Fonterra is selling its 10% stake in Lithuanian dairy business Rokiškio Sūris as part of a “strategic long-term

review of investments.” Rokiškio Sūris makes cheese, butter, whey protein and milk powders in the Lithuanian city of Panevėžys.

Fonterra bought the stake for NZ\$11.7m in 2017 and is selling its 3.59m shares for €2.2 per share, with a total worth of €7.9m. Rokiškio Sūris is planning to buy back the shares at the Vilnius Stock Exchange next month.

**Arla Buys Whey Division From Volac :** Arla Food Ingredients has acquired the Whey Nutrition division of the Welsh Volac group through purchase of shares. Volac specialises in whey ingredients for sports nutrition, with byproducts sold for food and animal nutrition made at its Felinfach processing facility in Wales.

Arla Foods Ingredients wants to make the Felinfach site a global production hub for its product offering in the performance, health and food sectors. The transaction is subject to regulatory approval.

**Daisy Brand Invests In Processing :** Daisy Brand is building a 75,000 square foot processing facility in Iowa, investing US\$626.5m in the plant. The site is expected to expand and could employ up to 255 people.

The plant is supported by US\$7m in direct financial assistance from the Iowa Economic Development Authority (IEDA) board and will receive other tax benefits.

Daisy Brand is the largest processor of sour cream and cottage cheese in the US.



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