

INTERNATIONAL DAIRY MARKET NEWS - EUROPE

Information gathered February 17 - 28, 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 Future reports may be included or withdrawn depending on availability of information.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

In many of the largest milk producing countries in Western Europe, winter has been quite mild. This has resulted in favorable conditions for milk production. In Germany and France during recent weeks, production volumes have been ahead of last year at this time. Dairy manufacturers comment that fluid milk availability is quite good for this time of the year.

Calendar year EU milk production increased 0.6 percent according to Eurolait. The year ended stronger, with EU December 2019 milk production up 1.2 percent from December 2018. The December YOY strength was driven by stronger December increases in Germany, France, Italy, and especially Netherlands, which had 3.7 percent higher December 2019 YOY results. Calendar year 2019 milk production in the two largest producing countries, Germany and France, lagged 2018. Full year production increased in Ireland, United Kingdom, and Spain.

Cheese production in the EU during December 2019 increased 1.5 percent YOY. Calendar year 2019 production increased 0.2 percent. Germany, the largest cheese producer, was up 5.3 percent in December YOY and up 2.1 percent for the year. France, the second highest cheese producer, increased 0.6 percent for the year even though December YOY was 0.6 percent lower.

EASTERN OVERVIEW

Poland, the leading Eastern European milk producing country, recorded a 1.9 percent increase in milk production for calendar year 2019, according to Eurolait. December 2019 YOY milk production increased 1.8 percent. Cheese production in Poland for 2019 increased 3.9 percent. December YOY cheese production increased 5.5 percent.

BUTTER/BUTTEROIL

Western European packaged butter demand is steady. Demand in coming weeks is expected to increase, based on seasonal experience in recent years. Buyers seeking bulk butter for current delivery have become more active in closing deals. Moving forward, buying demand is less intense as more buyers are adopting a wait and see attitude. With generally good early 2020 milk production strength, there is more confidence that enough cream will be available for churning so as to mitigate the need to expedite contracting to be assured of supplies. Export interest is strong as EU butter pricing is competitive globally.

Western Europe, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 3,775 - 3,975

Western Europe, 99% Butterfat, Free on Board - Port Butteroil
Price Range - \$/MT: 4,850 - 4,975

Secondary Sourced Information:

EU butter production for calendar year 2019 increased 2.6 percent according to CLAL data provided to USDA.

EU butter exports January – December 2019, 180,197 MT, increased 41 percent from 2018, according to Eurostat. Among top destinations, exports increased to the USA 21 percent, to United Arab Emirates 154 percent, and to China 38 percent.

SKIM MILK POWDER

A wait and see attitude has developed in Western European skim milk powder markets. Orders for coming months are mostly finalized. Contract deliveries are being made in a timely way. There is increasing confidence that 2020 milk production is off to a good start. This removes some potential apprehension as to expectations for SMP production. Another factor mentioned is the coronavirus situation. Developments in China, which have reduced economic activity and presented logistical challenges in transportation and unloading at ports, has slowed SMP exports from the EU to China. This also contributes to increasing numbers of buyers feeling that they can step back and evaluate whether prices will soften further before making new purchases. A compounding factor is the evolving information about rising numbers of people carrying the virus in Italy. That may lead to some slowing of SMP shipments within the EU.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,700 - 2,850

Secondary Sourced Information:

EU SMP production for calendar year 2019 decreased 0.3 percent according to CLAL data provided to USDA.

EU SMP exports January – December 2019, 962,359 MT, increased 18 percent from 2018, according to Eurostat. Among top destinations, exports to China increased 38 percent, to Algeria decreased 30 percent, and to Indonesia increased 27 percent.

DRY WHEY

Whey markets are calmer because stocks are growing a bit. One factor is increasing milk availability for cheese production. Another relates to slowed exports to China following efforts to contain the coronavirus there. A consequence of easing competition for supplies of whey is that some customers are now more inclined to wait and see, evaluating possible resulting price weakness. This impetus only increased with recent information about more efforts being made to contain coronavirus in Italy.

Prices for: Western Europe, All First Sales, Free on Board - Port, Conventional, and Edible Dry Whey
Price Range - Non-Hygroscopic; \$/MT: 800 - 975

Secondary Sourced Information:

EU whey exports January – December 2019, 701,000 MT, increased 1.1 percent from 2018, according to CLAL data provided to USDA.

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CONTINUED FROM PAGE 8**WHOLE MILK POWDER**

Western European whole milk powder is mostly being delivered to customers in the EU. The market tone is calm. Orders are being filled and buyers are generally already contracted. This leaves very light spot market interest. Export activity is secondary to supplying EU buyers. Western European WMP pricing still makes it less attractive to global customers who care about price, than sourcing from Oceania. Most export business is from repeat customers.

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

Price Range - 26% Butterfat; \$/MT: 3,250 - 3,375

Secondary Sourced Information:

EU WMP production for calendar year 2019 increased 2.1 percent according to CLAL data provided to USDA.

EU WMP exports January – December 2019, 297,429 MT, decreased 11 percent from 2018, according to Eurostat. Among top destinations, exports to Oman decreased 16 percent, to Algeria decreased 18 percent, and to Nigeria increased 18 percent.

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OCEANIA DAIRY MARKET OVERVIEW

AUSTRALIA: January – December 2019 full year milk production in Australia decreased 4.3 percent from calendar year 2018, according to Dairy Australia. Australia now officially joins New Zealand with calendar year 2019 milk production below 2018. More detailed production data are in the table which follows. For 2019, average milkfat was steady with 2018. Average protein for 2019 was up 3.8 percent from 2018.

AUSTRALIA MILK PRODUCTION, MILKFAT and PROTEIN

State	July - December 2019		December 2019	
	Million Liters	Percent Change From 1 Year Ago	Percentage Milkfat	Percentage Protein
New South Wales	554.4	- 7.1	4.00	3.25
Victoria	3,229.1	- 3.5	4.10	3.43
Queensland	167.5	-14.9	3.90	3.23
South Australia	240.2	-10.2	3.82	3.24
Western Australia	190.1	- 4.5	3.87	3.17
Tasmania	496.1	+ 1.0	4.20	3.53
Australia (Total)	4,877.5	- 4.3	4.07*	3.40**

*0.0 percent from prior year period
** +3.8 percent from prior year period

Data from Dairy Australia

Some factors present challenges to Australian milk production. Dairy officials in Australia mention unease among some dairy producers in Western Australia. A combination of production costs and what is perceived as weak milk pay prices are resulting in more herd culling or outright herd sales for slaughter or export. Some observers believe the impact on milk production could be up to a 10 percent decline in the region.

Seasonal milk production in Australia typically reaches close to the seasonal low in February, then remains near the low through June when the production year ends. Thus, milk production for the remaining months of this season will be relatively constrained in making any significant impact on accrued seasonal milk production so far. For this, among many reasons, such as the fire and drought impacts, dairy experts in Australia expect seasonal milk production to finish the production year below last season volumes.

With Queensland leading most Australian regions in weaker milk production, dairy processing capacity is increasingly not needed. This is leading to a foreign owned Queensland dairy plant closure by the end of February. Another Queensland dairy plant owned by the same firm is reducing production of yogurt. This typifies a sad cycle where lower milk production results in surplus processing plant closures – which reduces options for remaining dairy producers.

NEW ZEALAND: Some New Zealand based dairy officials are talking about slightly lower milk production helping dairy producers overall by helping to maintain pay prices. Lower production relates to health concerns and weather factors. The quarantines in China have resulted in a big decline in eating out and in store food shopping in affected areas. Dairy processing is reduced. Fewer remaining working port workers are available to unload shipments. Internal logistics have slowed, especially trucking. Whatever the tenure of this coronavirus impact, it is an impact now which acts to depress

pricing. Weather in New Zealand may help to slow milk production and thereby generate upward price pressure. Dry weather in the North and flooding in the South are impacting milk production. Some experts believe that the balancing out may help to keep milk pay prices higher. There are some dairy observers who in recent weeks have opined that the effects of coronavirus will be short-lived. Yes, that may be. Yet no one really knows. Just this week, after many days of commentary that the virus will be short lived, global stock markets on several continents plummeted, supposedly on new fears of coronavirus. This virus is a major unknown risk factor.

While this is generally a dry period in New Zealand, this year is exceptionally dry. In some of the hardest hit areas, the soil is described as baked. Some aquifers are at decades low levels. The government has formally declared drought conditions in some areas of the country. Even well-prepared dairy producers are vulnerable to overwhelmingly prolonged periods of inadequate rain. A dairy cooperative has begun hauling water to some especially dry areas in milk tank trucks, then hauling milk out.

There is growing dairy producer distress in Waikato, an area on the upper North island. Extremely dry weather, with very little rain expected in coming weeks, challenges dairy producers in maintaining herds. Feed and water limitations are at issue. Reducing herd sizes has become more appealing to some. However, this is so popular that reportedly some producers face a three-week delay until cows can be received by various meat processors. Even where herds are maintained, it is increasingly popular to dry off cows early. All of this could take a toll on milk production.

BUTTER/BUTTEROIL

Oceania butter prices moved lower. Some dairy officials believe that weaker pricing in Western Europe may have two types of impacts on lower Oceania prices. Buyers from Oceania have been aware of the price disparity and some are now working on sourcing from Western Europe. Other buyers already stocked are more comfortable in slowing purchases in Oceania. Both factors are acting to soften Oceania pricing.

This is occurring even as Oceania continues to experience seasonally declining milk production, leading to declining butter churning. Some buyers feel that with Western European milk production seasonally increasing, that may help offset the factor of declining Oceania production.

The majority of regional butter exports are from New Zealand. Supplies are tight in Australia. Many manufacturers there are mostly committed into mid-year.

Oceania, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 4,050 - 4,125

Secondary Sourced Information:

At GDT event 254 on February 18, the butter all contracts price, \$4,090, decreased 3.9 percent. The March contract, \$4,075, decreased 4.7 percent.

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SKIM MILK POWDER

Skim milk powder prices in Oceania are mixed, down at the low end of the price range, but higher at the top. The anomaly in current pricing is the factor of higher pricing for March contrasting with weaker pricing moving forward. There is some scratching of heads by dairy industry officials as to why near-term Oceania SMP pricing shows the strength it does.

Most continuing Oceania SMP customers are contracted. There are growing stocks of SMP in Western Europe, where the SMP price range is lower than in Oceania. Oceania contracts are being filled. Then there is the factor of slowing shipments to China resulting from coronavirus. Reasons include slowed ship unloading, slowed transportation, slower manufacturing schedules in some of China, and less consumer demand. Some observers note that non-GDT pricing for March is typically not as high as the GDT contract for March. All of these are in the mix.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,800 - 3,250

Secondary Sourced Information:

At GDT event 254 on February 18, the SMP all contracts price, \$2,840, decreased 2.6 percent. The March contract, \$3,249, increased 4.7 percent.

CHEESE

Cheddar prices in Oceania are stronger. The recent weakening of some dairy powder prices has not reached cheddar. Coronavirus factors said to be depressing Oceania dairy powder prices, do not seem to apply to cheddar. While China is a customer for cheddar from New Zealand, the array of other export destinations keeps cheddar exports moving. Tight supplies in Australia have limited volumes available for export.

Manufacturers will be dealing with lower Oceania cheddar production schedules in coming months, so there is some confidence in ongoing pricing holding some strength. Buyers tend to close deals when they need cheese. Wait and see does not much apply in this product market.

Prices for: Oceania Cheese, Cheddar, 39% Maximum Moisture, Free on Board - Port,
Price Range - \$/MT: 4,475 - 4,625

Secondary Sourced Information:

At GDT event 254 on February 18, the cheddar all contracts price, \$4,526, increased 5.3 percent. The March contract did not trade.

WHOLE MILK POWDER

Whole milk powder prices in Oceania are lower. There are more uncommitted stocks available than is typical at this point in the milk production season. Not significantly more, but more. This has resulted even as seasonal WMP production is moving lower. Slowing exports into China resulting from slowing demand attributed to coronavirus are cited. Some of this is caused by contracted shipments not being able to be unloaded in Chinese ports. This has initiated a chain reaction leading to a backup in New Zealand.

Uncertainty over the pacing of possible future contracting is also a factor weighing on prices. Even more uncertainty is once normality returns, will stocks move to China to make up for slowed current shipments? Or, will some deferred or delayed shipments never be made? For now, what is certain is that current exports of WMP have slowed and stocks in New Zealand have unexpectedly increased.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 2,950 - 3,000

Secondary Sourced Information:

At GDT event 254 on February 18, the WMP all contracts price, \$2,966, decreased 2.6 percent. The March contract, \$2,969, decreased 2.5 percent.

Exchange rates for selected foreign currencies:
February 24, 2020

.0162 Argentina Peso	.0139 India Rupee
.6604 Australian Dollar	.0090 Japan yen
.2279 Brazil Real	.0524 Mexican Peso
.7523 Canadian Dollar	.6338 New Zealand Dollar
.0012 Chile Peso	.2521 Poland Zloty
1.0856 Euro	.0261 Uruguay Peso

Conversion example: To compare the value of 1 US Dollar to Mexican Pesos: $(1/.0524) = 19.0840$ Mexican Pesos. Source: "Wall Street Journal"

INTERNATIONAL DAIRY MARKET NEWS - SOUTH AMERICA

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SOUTH AMERICA OVERVIEW

During the last two weeks, the climate in South America has been variable. For example, although some rains returned to Brazil, dry climate prevailed, which delayed the sowing of corn and soybeans. On the other hand, the humid weather in Argentina enhanced the growth of summer grain crops. Albeit the weather has been unstable throughout the continent, cows' milk yields continue to improve as temperatures drop. With relatively higher farm gate milk prices and low feeding costs, several dairy farmers are capitalizing on this opportunity to maximize their profits and/or minimize losses. Except for Brazil, raw milk availability is suitable to cover most manufacturing needs within the Southern Cone region. The cream market remains firm as supplies are scarce, while demands from butter churners and ice cream makers continue being strong.

In Brazil, fluid milk sales to retailers are reported as irregular mainly due to the Carnival, which started this week. Meanwhile, in Argentina and Uruguay, milk requests from bottlers are inching up as most educational institutions reopen after the summer break. In Brazil, the fear of coronavirus and a strike by some truck drivers, demanding a reduction of gasoline/diesel tax, delayed some shipments of soybeans destined for China early last week. Milk shipments have been delivered as usual, according to some contacts. So far, export shipments of dairy products have not been affected in the main ports of Uruguay, Argentina, and Chile. However, there is great concern among the industry since milk powder requests from China have increased in recent months.

WHOLE MILK POWDER

Free on board (f.o.b.) export prices for whole milk powder (WMP) in the Southern Cone region adjusted down on an unsettled market. The coronavirus has taken a toll on WMP prices and there is great concern among the South America dairy industry since WMP requests from China have increased in recent months. The production of WMP is ongoing, prompted by higher regional farm milk intakes, while inventories are steady to building.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 2,900 - 3,100

Secondary Sourced Information:

At the GDT Event 254 on February 18, whole milk powder (WMP) prices across all contract periods averaged \$2,966 per metric ton, down 2.6 percent from the last event

SKIM MILK POWDER

Across the Southern Cone of South America, skim milk powder (SMP) f.o.b. export prices adjusted down, shadowing downticks in SMP pricing trends at some offshore auctions. Without a doubt, the enormous uncertainty that the coronavirus outbreak has generated has been an important factor in this bearish behavior on SMP prices in global and regional markets. At this point, there are no reported problems regarding the export activity inside and outside the Mercosur area. SMP manufacturing is active, compared to the past few weeks, as more condensed skim milk volumes are balancing into dryers. In this way, SMP inventory levels are steady to growing in most balancing plants.

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 254 on February 18, skim milk powder (SMP) prices across all contract periods averaged \$2,840 per metric ton, down 2.6 percent from the last event.