

INTERNATIONAL DAIRY MARKET NEWS - EUROPE

Information gathered January 24 - February 4, 2022

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 Future reports may be included or withdrawn depending on availability of information.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

Seasonal milk output increases in the largest dairy producing country in Europe, Germany, are inching up slowly. The persistently stifled milk production from dairy farms reflects various underlying factors. Dairy cow numbers continue to decline, according to German sources. No single factor seems to be driving this reduction. Slaughter cow prices firmed last year, which motivated some herd reductions. Also pushing this outcome was higher farm operating costs chipping away at net dairy farm earnings. Costs include feed, diesel fuel, fertilizer, energy, as well as environmental and social costs, such as environmental and animal welfare factors. Not all of the other dairy countries in Western Europe exactly parallel the German experience. Yet the cost squeeze and incentive to reduce herd size also exists elsewhere.

Looking ahead in 2022, the current market factors in play are expected to continue. Subdued milk production increases are the best outcome now expected. Demand for dairy products is expected to be robust. Some manufacturers believe that contracting further ahead will gain favor as buyers strive to be assured of getting supplied.

Cheese demand remains brisk. Demand is coming from retail stores, food manufacturing, and export customers. Each side of the demand triangle is expected to remain actively seeking cheese. By now it almost goes without saying that Western Europe has more cheese making capacity than is being used. Cheese output is limited by milk availability, not by plant capacity.

EASTERN EUROPE

Current conditions in Ukraine and surrounding countries has led to increased discussion about where or if dairy factors may be affected, if at all. In the larger context of all of Europe, Western Europe plays a relatively minor role. But within Eastern Europe, there is substantial cross border dairy trade. Ukraine is a net exporter of SMP and a net importer of cheese. Belarus, a neighboring country, is a net exporter of a number of dairy products, with Russia often a top importer. Ukraine imports butter and cheese from Belarus.

BUTTER/BUTTEROIL

The Western European butter price range is steady to higher. The butteroil price range is higher. Calmer butter prices are attributed to January butter sales being consistent with normal expectations. Markets like realized expectations. Thus, as the expectations had been priced in, steady lower range pricing and moderately changed upper range prices resulted. Contracted retail orders for packaged butter were readily accommodated. It was last minute purchases that pushed the upper range price higher. Sellers were able to extract a price premium for those last-minute sales.

Bulk butter buyers exercised caution. Current prices are leading to some pacing of purchases, hoping for softening bulk butter pricing. Few bulk butter buyers are currently squeezed to stock up right away, so caution is possible. More attention is being focused on Q2 2022 contracting than spot sales. In that sense, many buyers have warmed to getting further ahead in contracting because it allows for less anxiety in seeking out supplies. This seems to work in a market where generally steady pricing seems likely to be the expected outcome.

Western Europe, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 6,500 - 7,150

Western Europe, 99% Butterfat, Free on Board - Port Butteroil
Price Range - \$/MT: 6,500 - 8,800

SKIM MILK POWDER

The Western European skim milk powder price range increased at each end. Supply continues to be tight and is expected to remain tight. Subdued milk output is expected during much of 2022, which will leave less milk going to dryers. Most scheduled Q1 SMP production in Western Europe has been sold. Q2 is getting there as well. Demand is global and local. EU customers are lining up supplies. Buyers from abroad are also ready to deal. With European and Oceania SMP pricing very close, global buyers are driven primarily by availability and logistics, not price. Continuing price strength is expected.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 3,925 - 4,150

WHEY

In Western Europe the whey powder price range moved higher. The market is very strong. Low availability of food grade whey, as well as animal feed whey, is noted. Persistent tightness has prevailed recently. Buyer inquiries are called livelier as 2022 rolls along. The general upward tenancy of other manufactured dairy product prices is also cited as helping to support whey price tendencies. Continuing supply tightness and strong demand are expected in Western European whey powder markets in coming weeks.

Prices for: Western Europe, All First Sales, Free on Board - Port, Conventional, and Edible Dry Whey
Price Range - Non-Hygroscopic; \$/MT: 1,400 - 1,525

WHOLE MILK POWDER

Western European whole milk powder pricing pushed higher at each end of the price range. On a product generally considered to be in the second tier in Western Europe, manufacturers are stunned at how far pricing is over Oceania, which leads in global WMP production. Buyers are ready to close deals for the near term as well as later dates – whatever they can lock down. WMP tends to be a lower use priority for Western European milk. This is likely to keep stocks very tight through 2022.

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Manufacturers are firmly enforcing higher pricing as a condition to close deals. That is the reality buyers will face rolling ahead. For most EU WMP buyers, the theoretical alternative of getting Oceania WMP to Europe is easier thought about than accomplished. This will contribute to maintaining current Western European WMP market dynamics.

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

Price Range - 26% Butterfat; \$/MT: 4,975 - 5,300

Secondary Sourced Information:

Ukraine is a net exporter of SMP January – November 2021. During that period, total SMP exports, 12,000 MT, decreased 20.5 percent from January- November 2020 according to CLAL data made available to USDA. Top destinations, volumes, and percent change from January – November 2020 to January – November 2021 are: Bangladesh, 1,675 MT, -22.09 percent; Georgia, 719 MT, -63.9 percent; and Armenia, 571 MT, -42.77 MT.

Ukraine is a net importer of cheese January – November 2021. During that period, total cheese imports, 49,000 MT, increased 16.7 percent from January- November 2020 according to CLAL data made available to USDA. Top source countries, volumes, and percent change from January – November 2020 to January – November 2021 are: Poland, 20,190 MT, -2.06 percent; Germany, 10,840 MT, +30.57 percent; and Netherlands, 4,516 MT, +44.76 MT.

Belarus is a top dairy exporter among Eastern European countries. January – November 2021 compared with January – November 2020, total dairy exports and percent changes according to CLAL data made available to USDA for some primary dairy products are: butter, 80,000 MT, +3.2 percent; cheese, 272,000 MT, +9.4 percent; SMP, 111,000 MT, -3.3 percent; WMP, 35,000 MT, +39.5 percent; and whey, 131,000 MT, +1.9 percent. Top destinations for butter are: Russia, 71,955 MT, +0.87 percent; Ukraine, 4,371 MT, +74.37 percent; and Azerbaijan, 1,591 MT, -7.42 percent. For cheese top destinations are: Russia, 254,846 MT, +8.7 percent; Kazakhstan, 6,796 MT, +17.5 percent; and Ukraine, 6,787 MT, +36.39 percent. Top SMP destinations are Russia, 48,929 MT, +10.83 percent; China, 20,003 MT, +2.15 percent; and Kazakhstan, 12,583 MT, -31.83 percent. Top WMP destinations are: Russia, 25,548 MT, +18.94 percent; China, 5,239 MT; and Kazakhstan, 1,076 MT, -11.18 percent.

INTERNATIONAL DAIRY MARKET NEWS - OCEANIA

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OCEANIA DAIRY MARKET OVERVIEW

AUSTRALIA: Brushfire warnings in Western Australia are generating some concern. This contrasts with recent monsoon activity which brought flooding to other areas. Extremely heavy rain from cyclone Tiffany, which caused flooding, left parts of Western Australia, South Australia and Northern Territory road and rail lines cut off. Some harvest activity has been disrupted. Ground conditions in some areas have delayed or negated silage-making.

Even so, profitability is reported to be improving by some dairy producers. Increased dairy sales in Australia as COVID factors recede have been welcome. Food service and restaurant sales are now improving.

NEW ZEALAND: The continuing strength in New Zealand WMP prices has resulted in some increases in seasonal milk price forecasts. A large New Zealand coop increased the forecast \$0.50 to \$8.70 - \$9.50/kgMS. Another New Zealand dairy organization shifted higher to \$9.16-\$9.42/kgMS. Either way, increasingly more economists are speaking about the potential for end of season milk prices setting a record if global milk supplies continue to tighten.

Seasonal milk production continues to struggle in comparisons with recent production. On the other hand, this has helped boost dairy product prices higher.

BUTTER/BUTTEROIL

Prices comprising the Oceania butter price range increased. New Zealand sources observe that Oceania butter prices are the highest in some time. Buyers are observed to be ready to close deals. Bargaining seems closer to posturing than genuinely pausing and pushing back. A factor in play is that Western European butter prices are higher yet. This removes a sometimes-used bargaining ploy.

Increased buying interest from the Middle East and Southeast Asia helped strengthen demand. Strong buying from North Asia continued. African buyers also stepped up recently. Many have a history of preferring to source butter in Oceania. All of this portends well for continuing butter price strength.

Oceania, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 6,150 - 6,400

SKIM MILK POWDER

The Oceania skim milk powder price range moved higher, but less forcefully than WMP. Pricing overlaps much of the Western European SMP price range. Oceania is higher at the low end but lower at the top. SMP markets are tight. Regular buyers of Oceania SMP are likely to try to stay there because getting deals in Western Europe as a new customer is not promising. Then there is shipping to consider.

Buyers are said to be accepting pricing and locking in SMP regularly. The strongest buying activity recently has come from North and Southeast Asian buyers.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 3,950 - 4,100

CHEESE

The Oceania Cheddar price range pulled back. North and Southeast Asian buyers in the market remained pretty active. A change was the tepid interest from Africa after being active in recent weeks. That left more breathing room overall in seeking out cheddar, even if some buyers were still very busy. Decent demand is expected going forward, with uncertainty surrounding when African buyers might reappear in force.

Some buyers have been said to note that while the current GDT All Contracts price for cheddar is \$2.5782, that is higher than recent CME 40 pound block pricing, which on February 2 closed at \$1.8800. This is viewed as a possible factor, going forward, and depending on shipping and logistics, for buyers to possibly turn to U.S.-based cheese sources.

Prices for: Oceania Cheese, Cheddar, 39% Maximum Moisture, Free on Board - Port,
Price Range - \$/MT: 5,400 - 5,725

WHOLE MILK POWDER

The Oceania whole milk powder price range strengthened. Some dairy analysts have called the price increase massive. There seems to be good buyer support for pricing because current levels are sustained for coming months as contracts are finalized.

Tight supplies are a big factor driving WMP prices. Two components underlie the tightness, including, of course, lower than hoped for milk production. Additionally, export demand is quite persistent. It is noted that North and Southern Asian buyers seem motivated to close sales, with little price pull back. This is expected to continue. The feeling is that WMP pricing may well continue to increase in coming weeks. Because WMP prices are a big factor in New Zealand milk pay prices, dairy producers are hopeful for continuing increases in seasonal price forecasts.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 4,100 - 4,325

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**Exchange rates for selected foreign currencies:
January 31, 2022**

.0095 Argentina Peso	.0134 India Rupee
.7070 Australian Dollar	.0087 Japan yen
.1885 Brazil Real	.0485 Mexican Peso
.7869 Canadian Dollar	.6577 New Zealand Dollar
.0012 Chile Peso	.2451 Poland Zloty
1.1235 Euro	.0228 Uruguay Peso

Conversion example: To compare the value of 1 US Dollar to Mexican Pesos: (1/.0485) = 20.6186 Mexican Pesos. Source: "Wall Street Journal"

Secondary Sourced Information:

December 2021 milk production in New Zealand declined from December 2020 5.5 percent on a milk solids basis, and 5.0 percent on a tonnage basis according to DCANZ and NZX.

Seasonal milk production in New Zealand on a tonnage basis June - December 2021 decreased 3.35 percent from June - December 2020 according to DCANZ and CLAL. Seasonal milk solids production in New Zealand on a kg basis June - December 2021 decreased 3.16 percent from June - December 2020 but increased 2.7 percent from June - December 2019.

Annual milk production in New Zealand on a tonnage basis January - December 2021 increased 0.1 percent from January - December 2020 according to DCANZ and CLAL. Annual milk solids production in New Zealand on a kg basis January - December 2021 increased 0.4 percent from January - December 2020.

At GDT event 301, on February 1, 2022, the butter all contracts price, \$6,359, increased 3.3 percent. The March contract, \$6,405, increased 3.5 percent.

At GDT event 301, on February 1, 2022, the SMP all contracts price, \$4,051, increased 2.1 percent. The March contract, \$4,027, increased 0.3 percent.

At GDT event 301, on February 1, 2022, the cheddar all contracts price, \$5,684, increased 2.4 percent. The March contract, \$5,710, decreased 0.4 percent.

At GDT event 301, on February 1, 2022, the WMP all contracts price, \$4,324, increased 5.8 percent. The March contract, \$4,311, increased 5.9 percent.

INTERNATIONAL DAIRY MARKET NEWS - SOUTH AMERICA

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SOUTH AMERICA OVERVIEW

The near term outlook for milk production in Latin America is far from assured. The dryness associated with La Nina patterns is beginning to raise more concerns across the continent. Dairy farmers' yields have yet to be noticeably affected due to the dry, hot summer conditions. However, corn and bean production forecasts are increasingly bearish, which will increase pressure on U.S. farmers, and likely add to already increasing operational costs at the farm level for South American dairy farmers, where feedstuff and fertilizer prices have continually moved higher in recent years. Reports covering 2021 dairy powder exports were generally underwhelming from Argentinian and Uruguayan market reports, while Brazil's import figures also remained bearish. That said, Algeria continues to remain a strong importer from both Argentina and Uruguay.

Secondary Sourced Information:

At the GDT event 301, skim milk powder prices across all contracts averaged \$4,051, an increase of 2.1 percent from the previous event.

At the GDT event 301, whole milk powder prices across all contract periods averaged \$4,324 per metric ton, up 5.8 percent from the previous event.

SKIM MILK POWDER

Prices rose slightly on the top end of the range for skim milk powder (SMP). Contacts say South American SMP values, although slowly increasing, are still lagging global price points due to a number of factors from trading agreements, economic seesawing, and shipping hurdles. These factors are also keeping stocks in storage. Late 2021 reports of SMP exports from Uruguay were up year-over-year, but down from the previous month. Brazilian importing figures also remain in the red. Still, some areas relay domestic demand is keeping SMP and other dairy powders tied up at least through March 2022. Near term market tones remain in question.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder

Price Range - 1.25% Butterfat; \$/MT: 3,250 - 3,650

WHOLE MILK POWDER

Whole milk powder (WMP) pricing ticked higher on global demand. Late 2021 reports for exports from Argentina were somewhat bullish when compared with most of the past year, as a majority of their WMP moved into Algeria. Brazilian imports continue to underwhelm, due to a growing amount of logistical and economic factors in the country. Uruguay's export reports from the end of 2021 remained lackluster regarding volume amounts, but higher price points aided in financial comparisons to previous years. Moving forward into Q1 and the rest of 2022, WMP market tones are uncertain as logistical and economic hardships continue to materialize, despite strength in global demand.

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

Price Range - 26% Butterfat; \$/MT: 3,650 - 3,750