



QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY¹

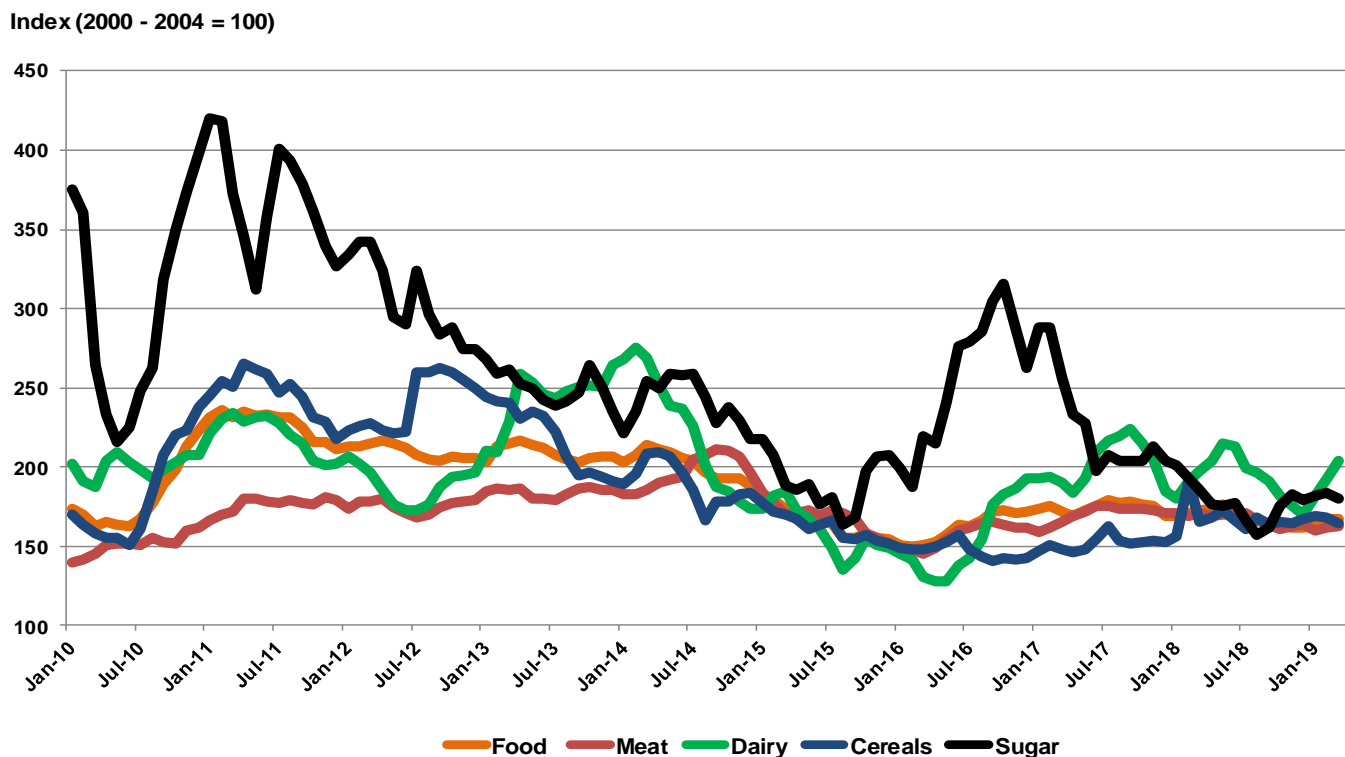
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1st Quarter 2019

¹ A publication of Milk SA prepared by the MPO and SAMPRO

1. INTERNATIONAL MARKET

FIGURE 1: FAO FOOD PRICE INDICES, JANUARY 2010 – MARCH 2019

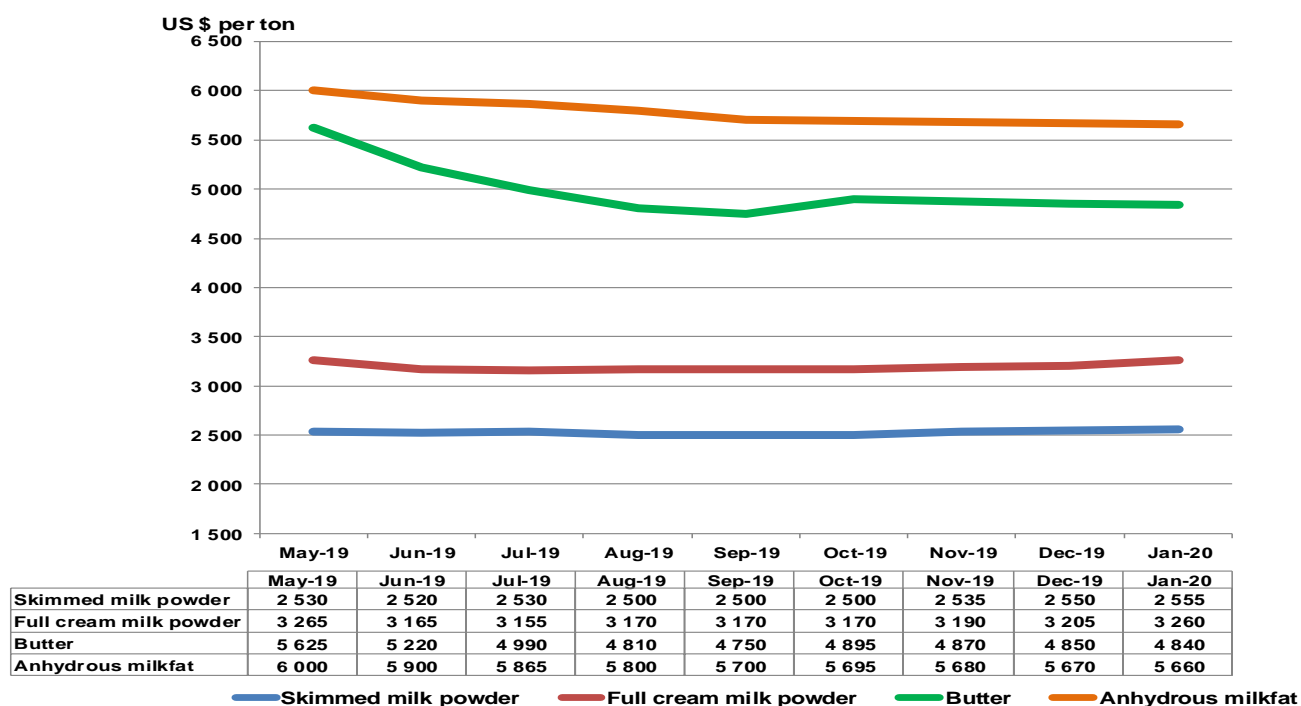


Source: FAO Food price index, 2019

The price index of food and the other foodstuff in figure 1 started to increase since middle 2016 (except sugar), as the world economy started with an expansive cycle that resulted in an increased demand for food. There are shorter cycles evident within the different time series that are food type specific. The sugar price spike was a result of adverse weather conditions in South America that created a shortage on the world market. The high volatility of the sugar market is clearly visible in the figure while the meat market exhibits a lower volatility compared to all the other foodstuffs.

The dairy index shows strong growth since the middle of 2016. There are shorter cycles during this period and currently dairy prices are trending upwards with the butter price leading the pack. In December 2018 the dairy product price index was 170 points and increased to 204.3 points in March 2019. Increased dairy product prices are underpinned by increased import demand due to the seasonal decline in milk production in Oceania leading to the tightening of export availability from Oceania. The decline in milk production in Oceania is exacerbated by the drought in Australia. In the EU milk supply fell behind the level of the previous year providing further impetus to increased dairy prices. Milk production in most other important dairy exporting countries are also lagging behind or are stagnant.

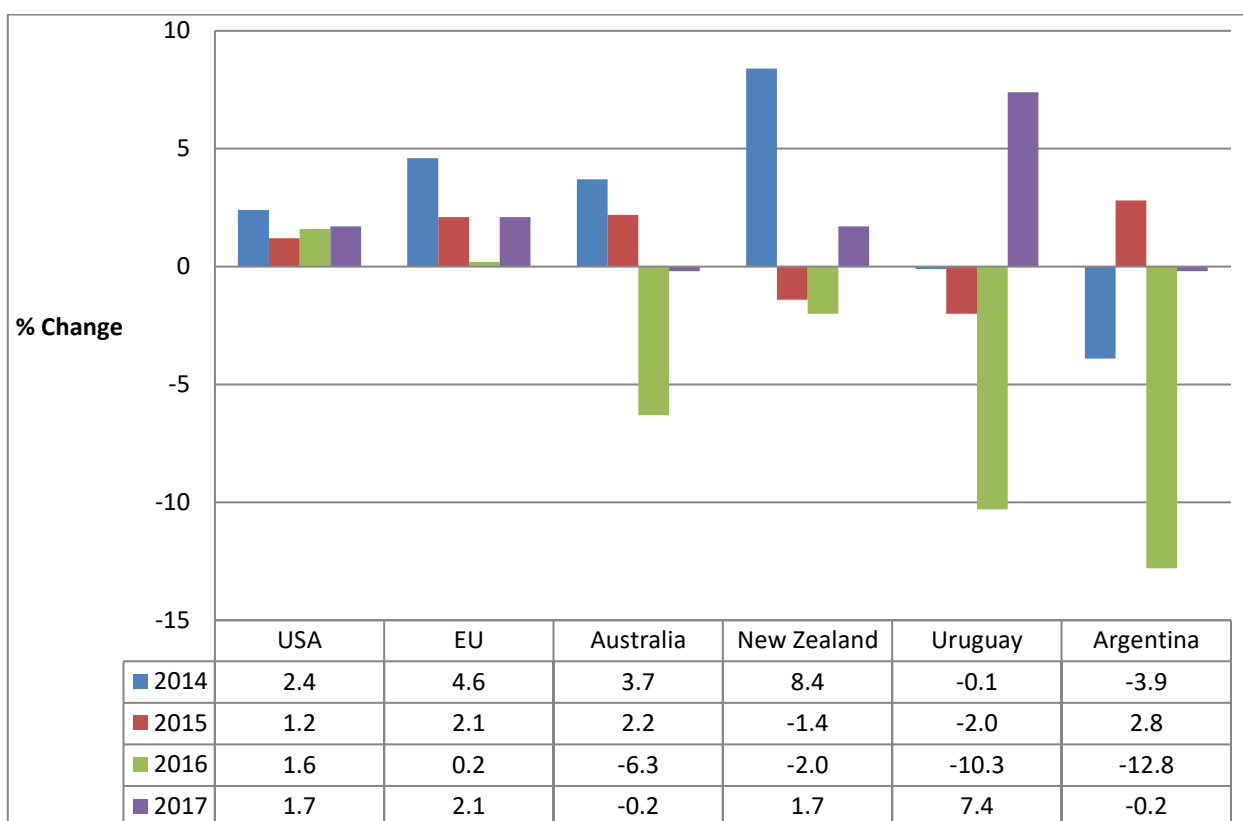
FIGURE 2: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX) ON 29 April 2019: May 2019 – Jan 2020



Source: NZX Futures, April 2019

The New Zealand Future Exchange reflects stable prices for skimmed milk powder (SMP) and for full cream milk powder (FMP) over the next 9 months. Both anhydrous milk fat and butter are declining over the same period with butter declining from US \$5 625/t to US \$4 840/t (14%) and anhydrous milk fat from US \$6 000/t to US \$5 660/t (6%). The current mood in the market is that both butter and anhydrous milk fat is in good supply and that the exorbitant prices of 2017 and 2018 are something of the past.

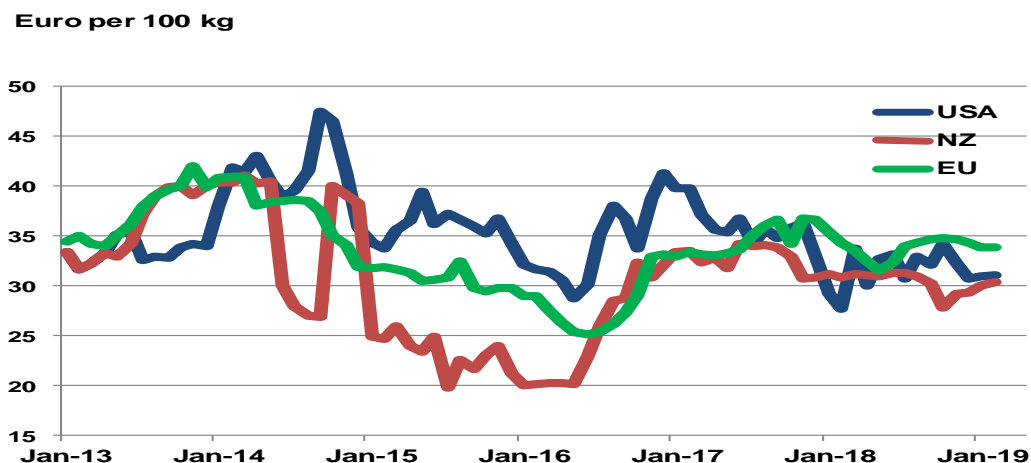
FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2014 – 2017



Source: CNIEL, January 2018

The growth in unprocessed milk production in the USA, EU, New Zealand and Argentina is clearly on a downward trend since 2014. The same trend is detected in Uruguay bar 2017.

FIGURE 4: PRODUCER PRICES OF UNPROCESSED MILK IN THE EU, USA AND NEW ZEALAND IN EURO PER 100 KG, JANUARY 2013 - FEBRUARY 2019



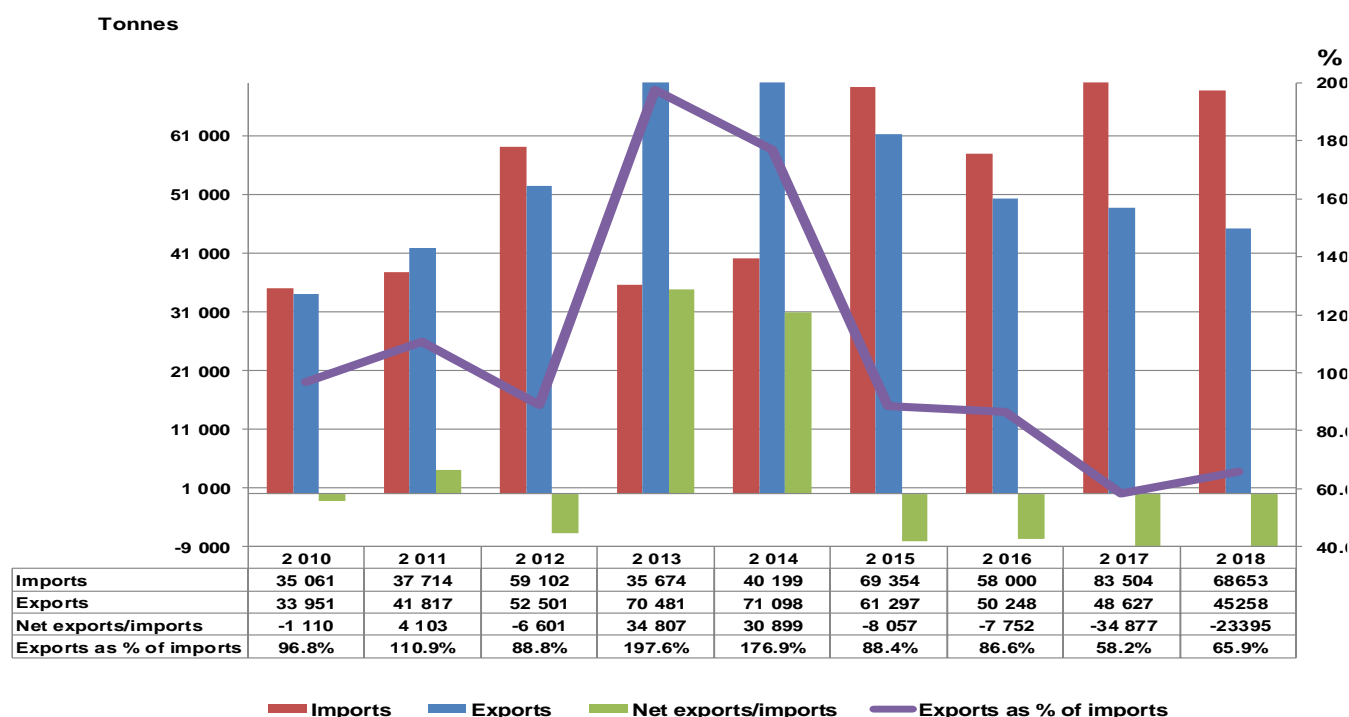
Source: LTO Nederland, April 2019

Producer prices in the USA, EU and New Zealand decreased from mid-2014 to April 2016. Since then prices in the USA, EU and New Zealand improved but it remained lower than the high levels achieved in particular months of 2014. There was a marked convergence of producer prices since middle 2017 similar to the situation at the beginning of 2013. This convergence is continuing in 2019 with producer prices staying within the 30 to 35 euros per 100kg price band. Producer price volatility has decreased since the middle of 2017 which could be a sign of market forces being allowed to play a more significant role to determine market signals.

2. SOUTH AFRICAN DAIRY MARKET

Import and export figures from SARS are supplied by SAMPRO.

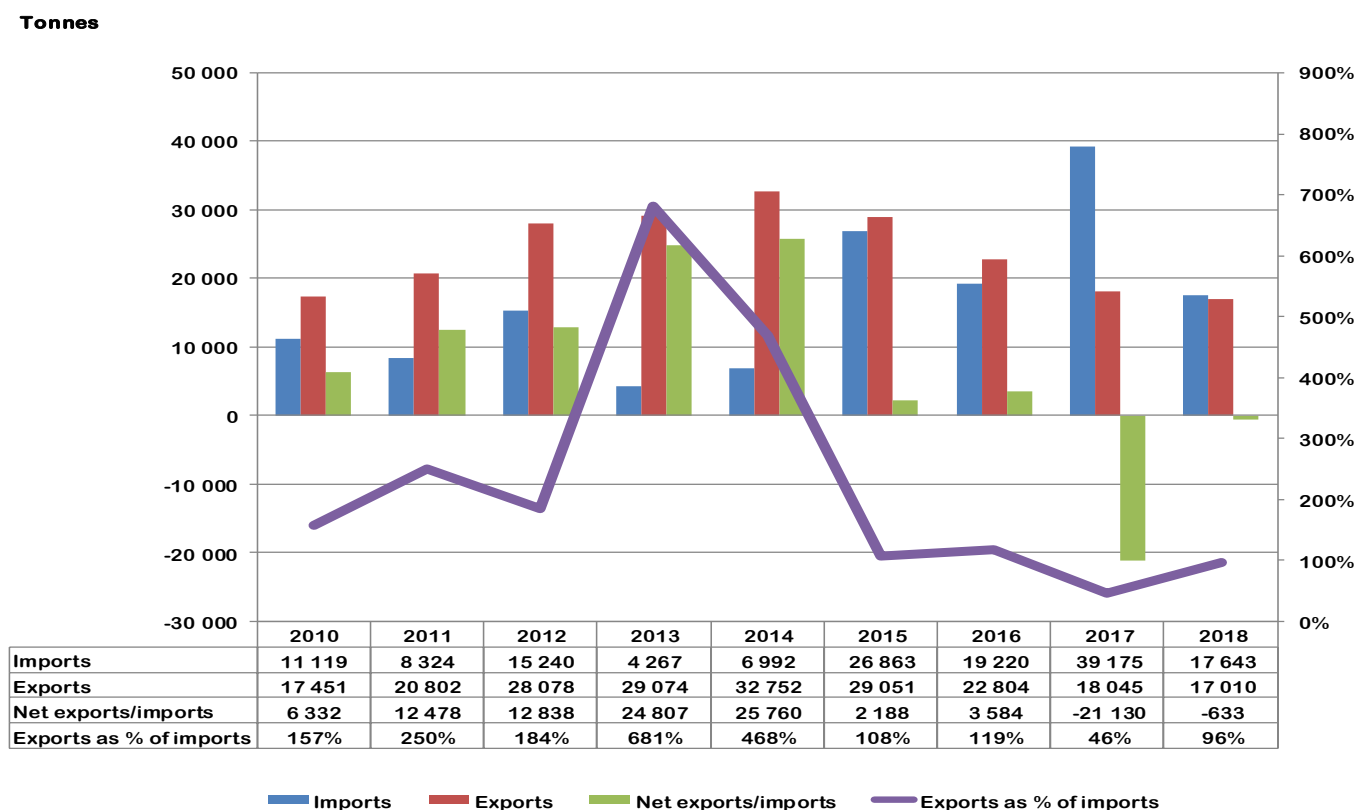
FIGURE 5: TOTAL SOUTH AFRICAN IMPORTS AND EXPORTS OF DAIRY PRODUCTS, 2010 – 2018



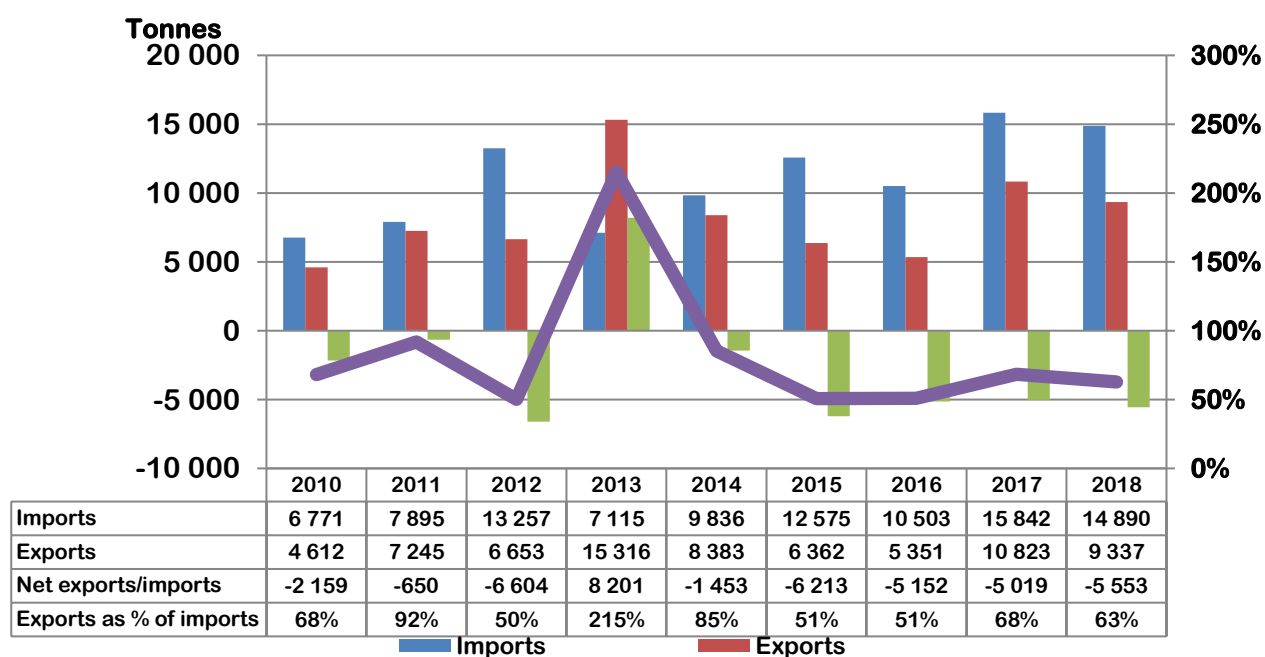
The information regarding imports and exports by South Africa of dairy products in 2018, showed that:

- The mass of imports of dairy products in 2018 was 17.7 percent lower than in 2017. The decrease from 2017 to 2018 is due to the decrease in imports of three of the six categories of dairy products.
- The mass of exports of dairy products in 2018 was 6.9 percent lower than in 2017. The decrease from 2017 to 2018 is due to the decrease in exports of three of the six categories of dairy products.
- The average f.o.b. export prices in January to December 2018, of three of the six different categories of dairy products, are higher than in 2017.
- The mass of imports and exports in 2018, showed that South Africa was a nett importer of milk and cream (04.01), concentrated milk (04.02), whey (04.04), butter (04.05) and cheese (04.06) and a nett exporter of buttermilk and yoghurt (04.03).
- The pattern of import and export during each year (import and export per month during the year) differs from year to year. In the second half of 2018, the mass of imports of five of the six types of dairy products, was lower than in the first half of 2018 while in the second half of 2017, the mass of imports of two of the six types of dairy products was lower than in the first half of 2017. The mass of sales by South Africa to the other members of the Southern African Customs Union was in 2018, higher than the mass of South African exports of the dairy products concerned.

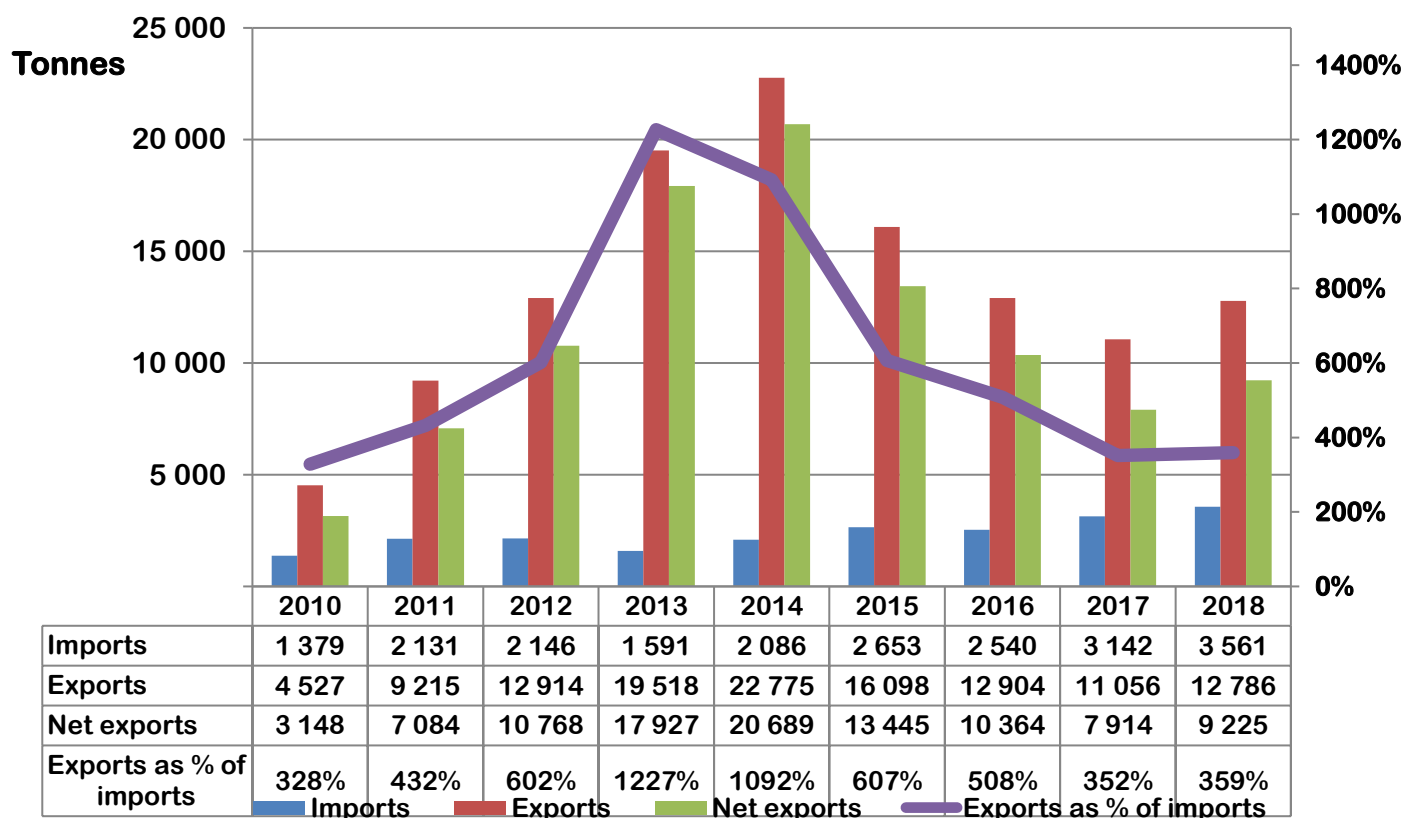
**FIGURE 6: SOUTH AFRICAN IMPORTS AND EXPORTS OF MILK AND CREAM (04.01),
2010 – 2018**



**FIGURE 7: SOUTH AFRICAN IMPORTS AND EXPORTS OF CONCENTRATED MILK, (04.02)
2010 – 2018**



**FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT,
(04.03) 2010 – 2018**



**FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER,
(04.04) 2010 – 2018**

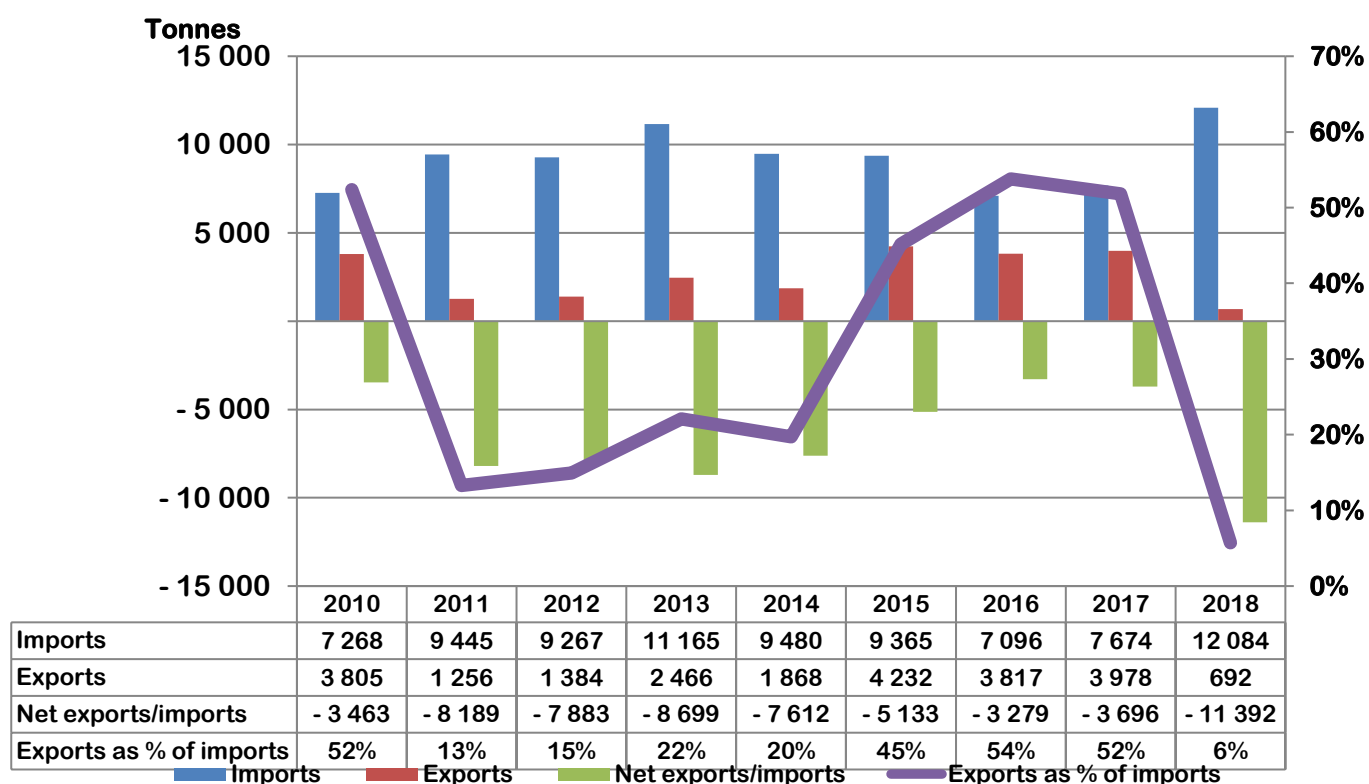


FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2010 – 2018

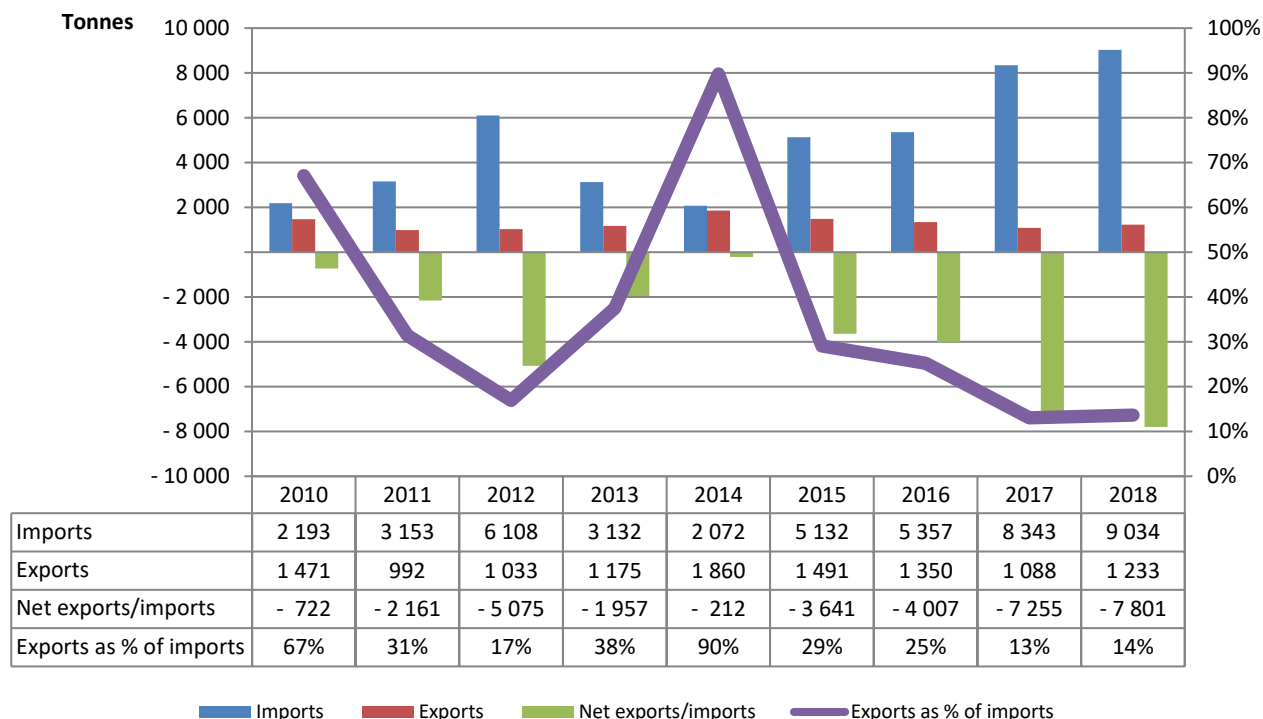


FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, (04.06) 2010 – 2018

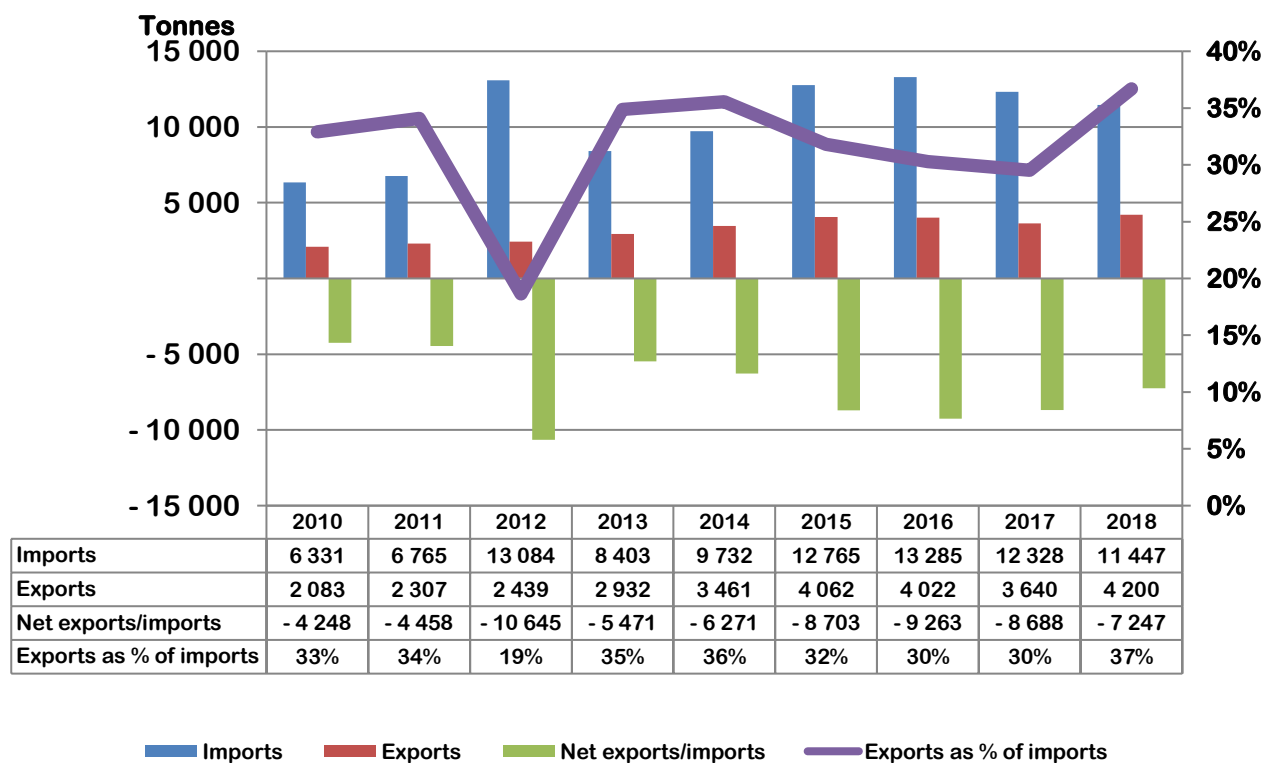


TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT FOB-PRICES FOR DAIRY PRODUCTS, 2014– 2018

Tariff heading	Description	Import price (R/kg)					Export price (R/kg)				
		2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
04.01	Milk & cream	8.50	7.65	7.44	7.65	8.00	9.45	10.30	10.18	10.93	11.20
04.02	Concentrated milk	42.62	30.92	32.94	32.31	30.84	30.04	30.97	37.00	41.51	36.56
04.03	Buttermilk & yoghurt	42.09	28.06	25.57	28.39	23.51	19.97	18.76	21.27	37.12	18.45
04.04	Whey	34.82	31.98	28.90	31.24	29.33	14.85	10.51	25.46	13.27	18.71
04.05	Butter	48.13	39.56	46.87	68.89	72.84	40.37	40.66	49.40	59.94	67.27
04.06	Cheese	61.70	54.94	57.21	62.19	62.92	46.11	45.50	51.99	60.86	53.15

Source: SARS as supplied to SAMPRO

TABLE 2: PERCENTAGE CHANGE IN RETAIL SALES QUANTITIES FOR MAJOR DAIRY PRODUCTS FOR THE 12 MONTH PERIOD FROM JANUARY 2017 TO DECEMBER 2017 COMPARED TO THE 12 MONTH PERIOD FROM JANUARY 2018 TO DECEMBER 2018 AND THE CHANGE IN RETAIL PRICES FROM DECEMBER 2017 TO DECEMBER 2018

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-5.2	1.1
Long-life milk (UHT)	14.5	-4.1
Flavoured milk	5.8	3.9
Yoghurt	3.1	0.4
Maas	15.9	-6.6
Pre-packaged cheese	6.8	2.3
Cream cheese	-4.5	-0.3
Butter	1.5	-2.7
Cream	-2.8	3.2

Source: Nielsen figures supplied by SAMPRO

In the period that ended in December 2018, the retail sales quantities of three of the nine dairy products were lower than in the previous period. The retail prices of five of the nine dairy products, increased from December 2017 to December 2018.

The total estimated retail sales quantity of unflavoured and unsweetened milk (fresh and long-life milk) in the period which ended in December 2018 is 6.3 percent higher than in the previous period. Unflavoured and unsweetened milk utilize approximately 51.6 percent of the total unprocessed milk production in South Africa.

Changes in sales quantities and prices during the period in table 2 did not change at the same rate. This situation is illustrated in Table 3 and Table 4.

TABLE 3: CHANGES IN THE QUANTITIES OF RETAIL SALES OF CERTAIN DAIRY PRODUCTS

Product	Change in quantities of sales compared to same period previous year (%)				
	Dec 18 vs Dec 17	Oct - Dec 18 vs Oct - Dec 17	Jul - Dec 18 vs Jul - Dec 17	Apr - Dec 18 vs Apr - Dec 17	Jan - Dec 18 vs Jan - Dec 17
Fresh milk	-10.2	-7.4	-6.1	-5.2	-5.2
UHT milk	8.6	17.9	16.1	14.9	14.5
Flavoured milk	2.4	8.8	8.0	6.1	5.8
Yoghurt	8.1	9.6	7.1	4.8	3.1
Maas	23.9	23.2	20.7	18.8	15.9
Pre-packaged cheese	-4.3	2.4	5.1	6.9	6.8
Cream cheese	-1.2	0.1	-1.9	-3.0	-4.5
Butter	-2.4	6.7	6.1	4.1	1.5
Cream	-3.5	-3.5	-3.1	-2.7	-2.8

Source: Nielsen as supplied by SAMPRO

In the one month, three months, six months, nine months and 12 months periods which ended in December 2018, the retail sales quantities of fresh milk and cream were lower than in the same periods of 2017. Butter lost some ground only in the one-month period where after sales quantities increased compared to the same periods of 2017. In the case of fresh milk the driver is the changing profile of the traditional consumer and the profile of new consumers.

In the one month, three-month, six-month, nine-month and 12-month period that ended in December 2018 both UHT milk and maas achieved phenomenal growth in quantities sold spanning from 23.9% to 8.6% growth. Prepacked cheese is also gaining market share while cream cheese and cream are losing ground.

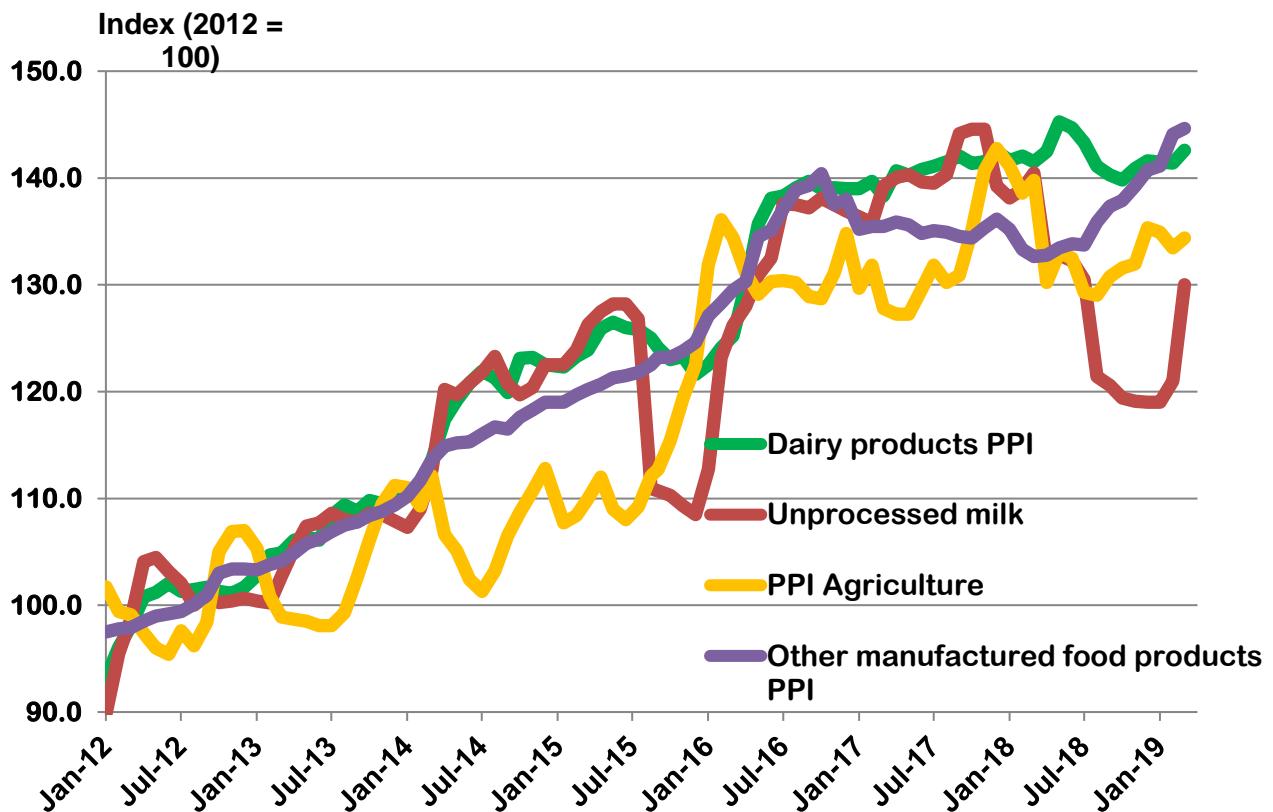
TABLE 4: CHANGES IN THE RETAIL PRICES OF CERTAIN DAIRY PRODUCTS

Product	Change in retail prices compared to same period previous year (%)				
	Dec 18 vs Nov 18	Dec 18 vs Sep 18	Dec 18 vs June 18	Dec 18 vs March 17	Dec 18 vs Dec 17
Fresh milk	0.2	0.6	-1.5	-0.7	1.1
UHT milk	4.4	0.5	0.7	-3.4	-4.1
Flavoured milk	6.3	-1.9	0.0	2.5	3.9
Yoghurt	2.3	-1.0	-1.4	-2.2	0.4
Maas	1.0	-1.6	-3.9	-6.6	-6.6
Pre-packaged cheese	1.7	4.1	1.6	1.5	2.3
Cream cheese	0.2	-1.8	-2.1	2.4	-0.3
Butter	4.3	-1.2	-3.5	-6.8	-2.7
Cream	4.5	2.5	5.2	5.6	3.2

Source: Nielsen as supplied by SAMPRO

From December 2017 to December 2018 the prices of 4 of 9 products decreased with maas registering a decrease of 6.6%, UHT milk 4.1% and Butter 2.7%. Overall the table mostly register decreased prices or marginal increases.

FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, JANUARY 2012 – March 2019.

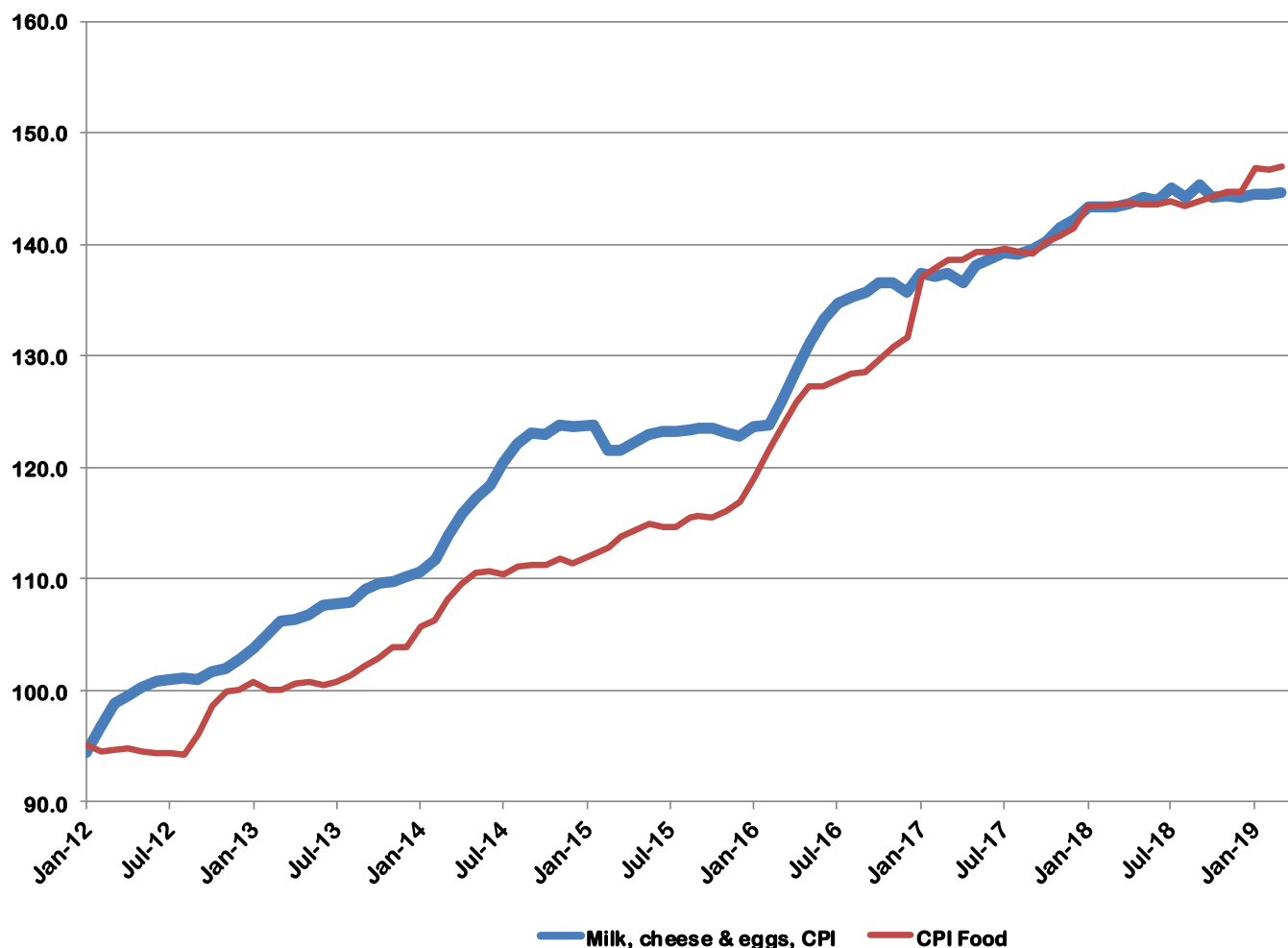


Source: Stats SA

The above graph indicates that all the product prices were on an upward trend since Jan 2012 with short negative cycles occurring in some of the indices. However, the price of unprocessed milk started a downward trend since November 2017 breaking away from the other indices. The producer price of milk took a beating in 2018 but bounced back in 2019 with the index increasing from 119 points in December 2018 to 130 points in March 2019 (+9.2%).

The increased field crop prices, coupled with the higher producer price for unprocessed milk and horticultural exports would be the main drivers for the upward tick in the PPI for agriculture since February 2019.

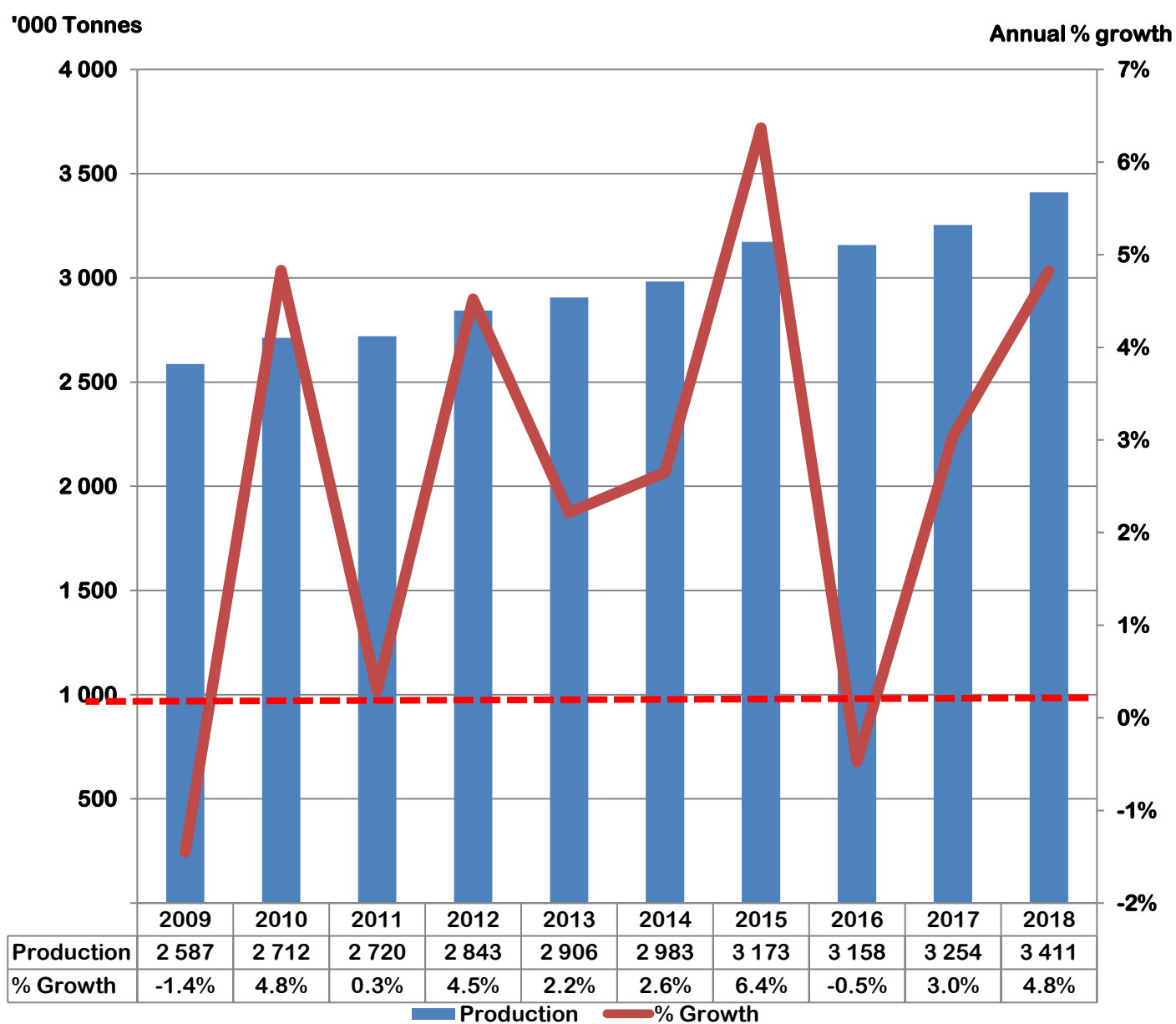
FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – MARCH 2019



Source: Stats SA

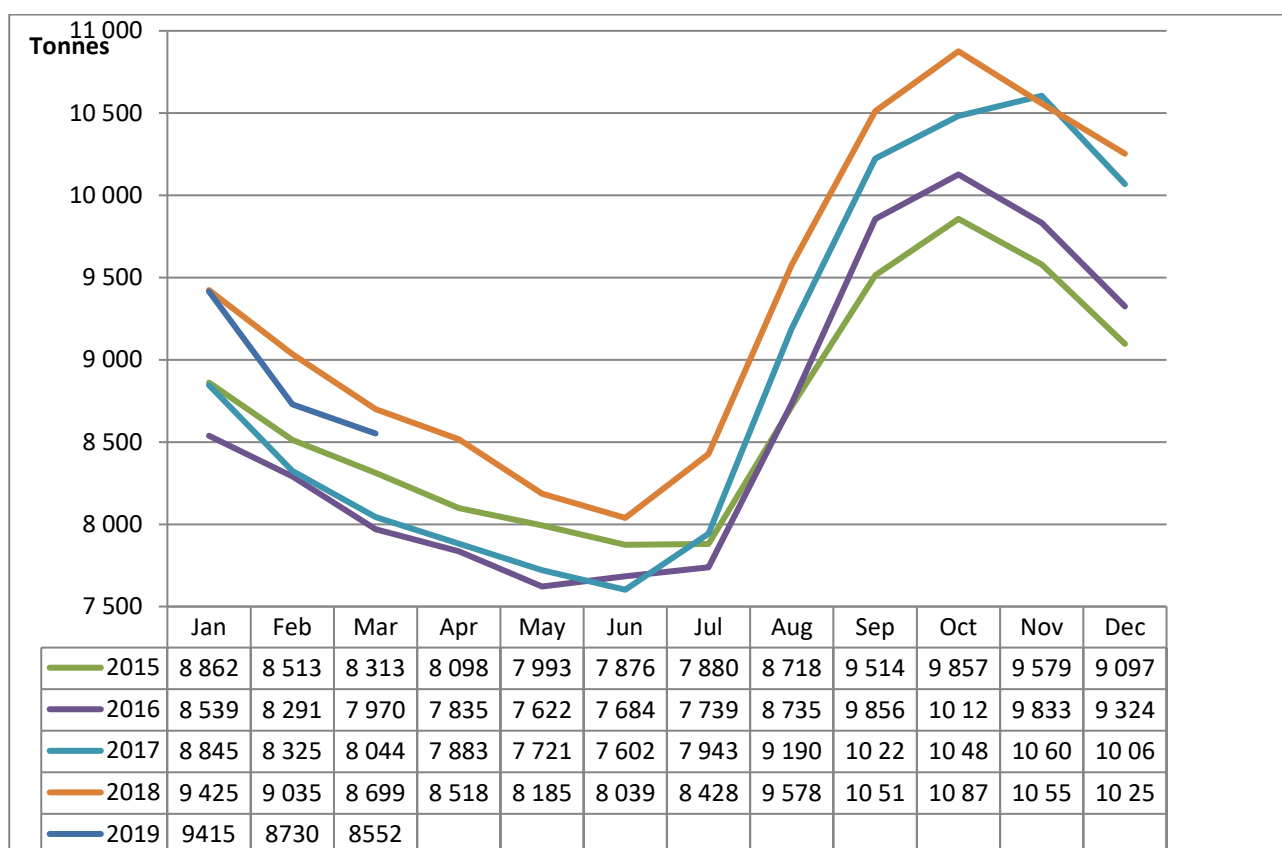
Price increases in the collective food market and the combined prices of milk, cheese and eggs have basically come to a standstill at the end of 2018. Since then the CPI for milk, cheese and eggs moved sideways while the CPI for food started ticking up since the beginning of 2019. The CPI for milk, cheese and eggs edged slightly below the CPI for food indicating a well-managed pricing strategy that enabled many dairy products to gain market share despite consumer disposable income being eroded by increased administered product prices and a weak economy. Table 2 above illustrate the interplay between quantities sold and price changes for dairy products.

**FIGURE 14: ANNUAL SOUTH AFRICAN UNPROCESSED MILK PURCHASES,
2009 – 2018**



Source: Milk SA

FIGURE 15: SOUTH AFRICAN UNPROCESSED MILK PURCHASES DAILY AVERAGE PER MONTH, JANUARY 2015 – MARCH 2019



Source: Milk SA; *February and March 2019 = Milk SA estimates.

TABLE 5: CUMULATIVE UNPROCESSED MILK PURCHASES (Tonnes), 2015 – 2019

Month	2015	2016	2017	2018	2019
January	274 707	264 711	274 208	292 171	291 873
February	513 058	505 147	507 314	545 148	536 309
March	770 769	752 227	756 690	814 832	801 417
April	1 013 700	987 280	993 180	1 070 368	
May	1 261 478	1 223 556	1 232 517	1 324 102	
June	1 497 744	1 454 086	1 460 583	1 565 269	
July	1 742 039	1 694 009	1 706 830	1 826 534	
August	2 012 295	1 964 790	1 991 715	2 123 446	
September	2 297 713	2 260 473	2 298 450	2 438 789	
October	2 603 272	2 574 398	2 623 438	2 775 933	
November	2 890 637	2 869 392	2 941 589	3 092 669	
December	3 172 656	3 158 446	3 253 682	3 410 536	

Source: Milk SA statistics. February and March 2019 = estimated.

During 2018, 3 410 536 tonnes of unprocessed milk were purchased, 4.82% more than in 2017.

The performance of the South African dairy industry over the next three to five months will be shaped especially by:

- Climatic conditions, especially rainfall during the remainder of the 2018/2019 summer. Adverse climatic conditions e.g. early frost in the grain producing areas could reduce yield leading to increased grain prices. A significant percentage of maize planting took place late in the season.
- Dynamic and objective information flow between the different role players in the value chain to enable informed decisions and a high level of responsiveness in the value chain.
- The availability of electricity.
- International dairy prices remaining at the current level of reduced volatility.
- The SA economy not suffering a major shock.