



QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY¹

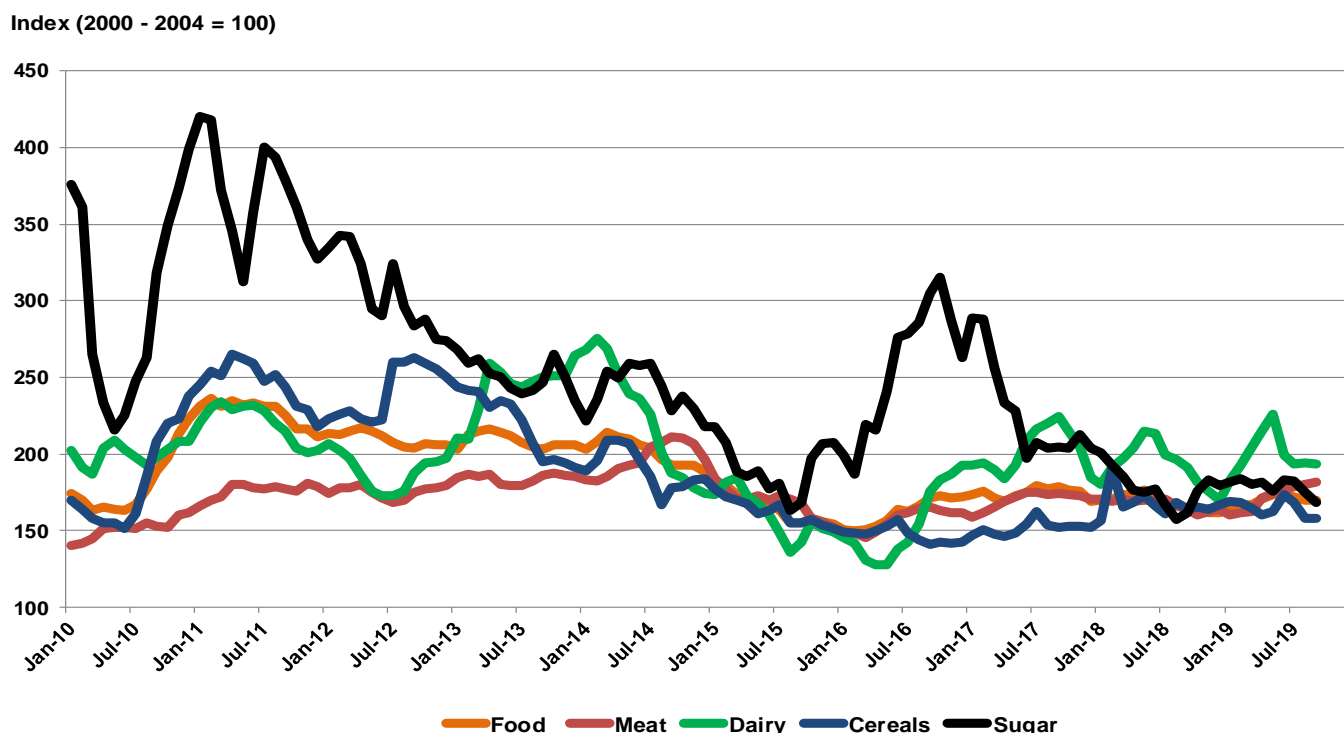
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3 rd Quarter 2019

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

1. INTERNATIONAL MARKET

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

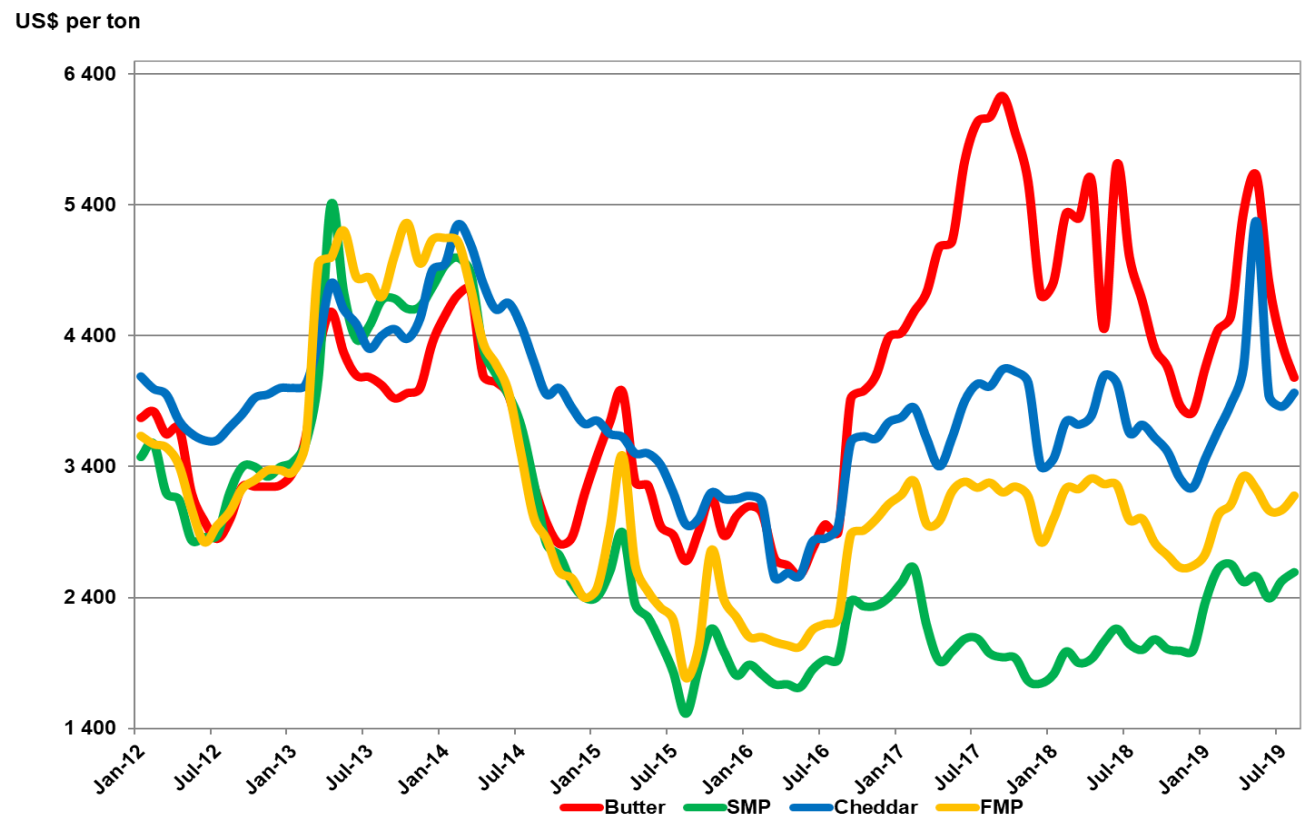


Source: FAO Food price index, 2019

Since January 2018 the indices for the different foods reflected in the above graph started moving sideways with the exception of dairy foods that continued a cyclical movement which started in January 2017.

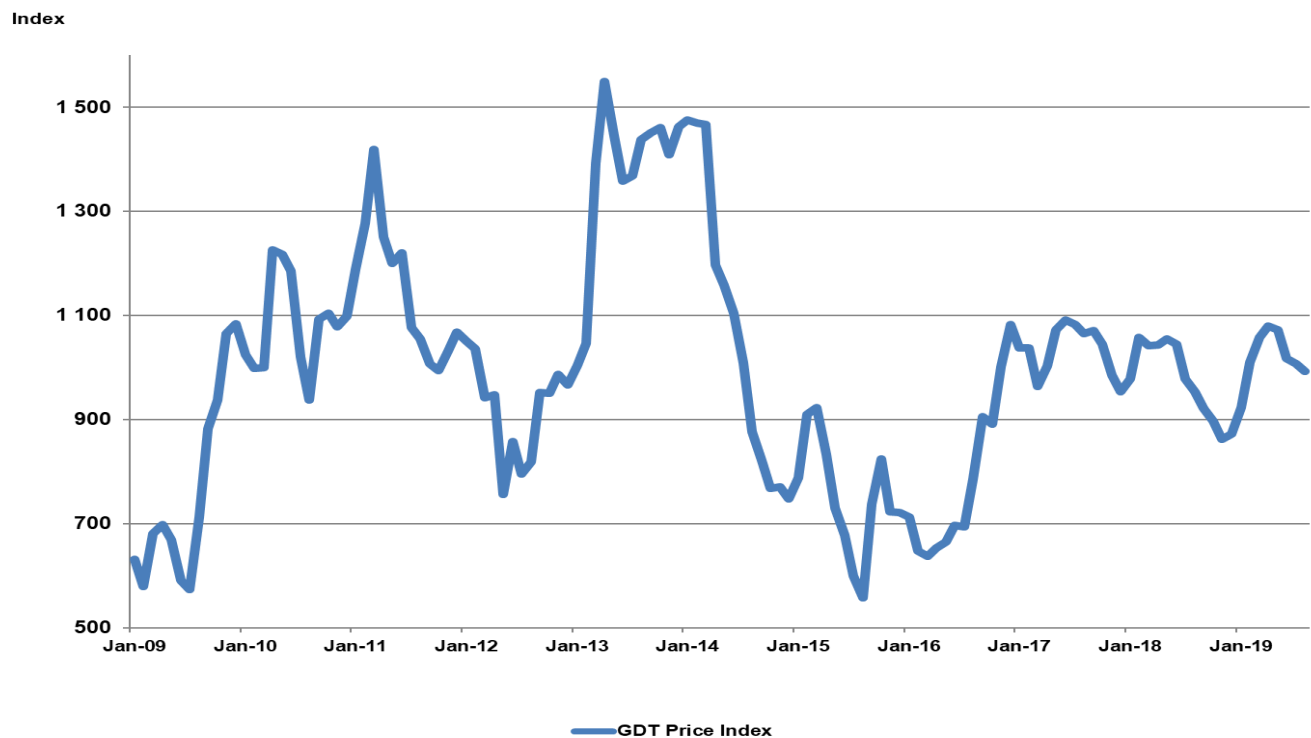
In December 2018 the dairy product price index was 170 points and increased to 204 points in March 2019. The upward trend continued in April with May peaking at 226 points while June pulled back to 199 points with July and August moving sideways. The upward trend from December 2018 to May 2019 was underpinned by increased international import demand amidst limited export availability on the back of the seasonal decline in milk production in 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. International import demand softened in June resulting in prices pulling back strongly but are still 15% higher than in December 2018. Figure 1b is reflecting dairy product prices.

FIGURE 1b: International Dairy Product Prices: Jan 2012 – Aug 2019



Source: USDA

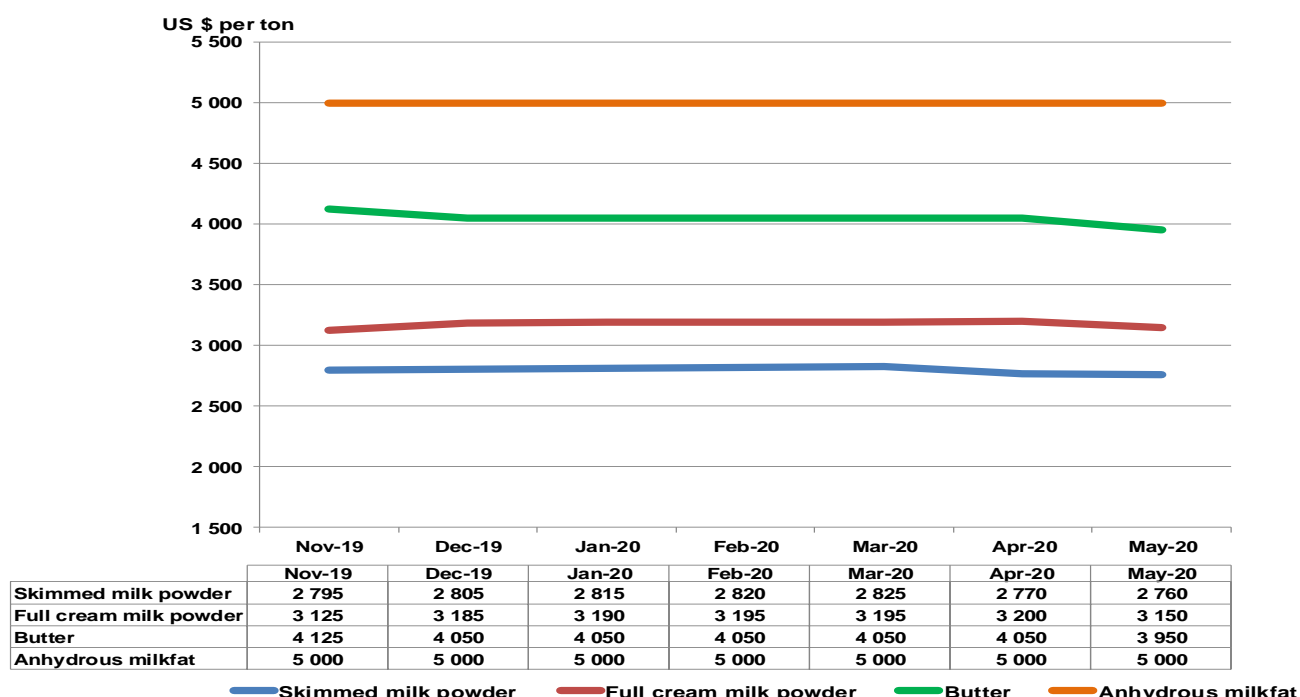
FIGURE 2a: Global dairy trade-weighted price index. Jan 2009 – Aug 2019



The Global Dairy Trade platform is an online auction through which large volumes of dairy products can be sold or bought. There are two trading events per month where people across the globe can enter bids or offers.

Figure 2a above shows the movement of the Global Dairy Trade (GDT) price index inclusive of August 2019. There is a clear price support level at 900 index points and a price resistance level at 1100 index points. The June price slowed down near the 1017 level and August came down to 993 points indicating a further loss in momentum.

FIGURE 2b: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX) ON 18 Oct 2019: Nov 2019 – May 2020

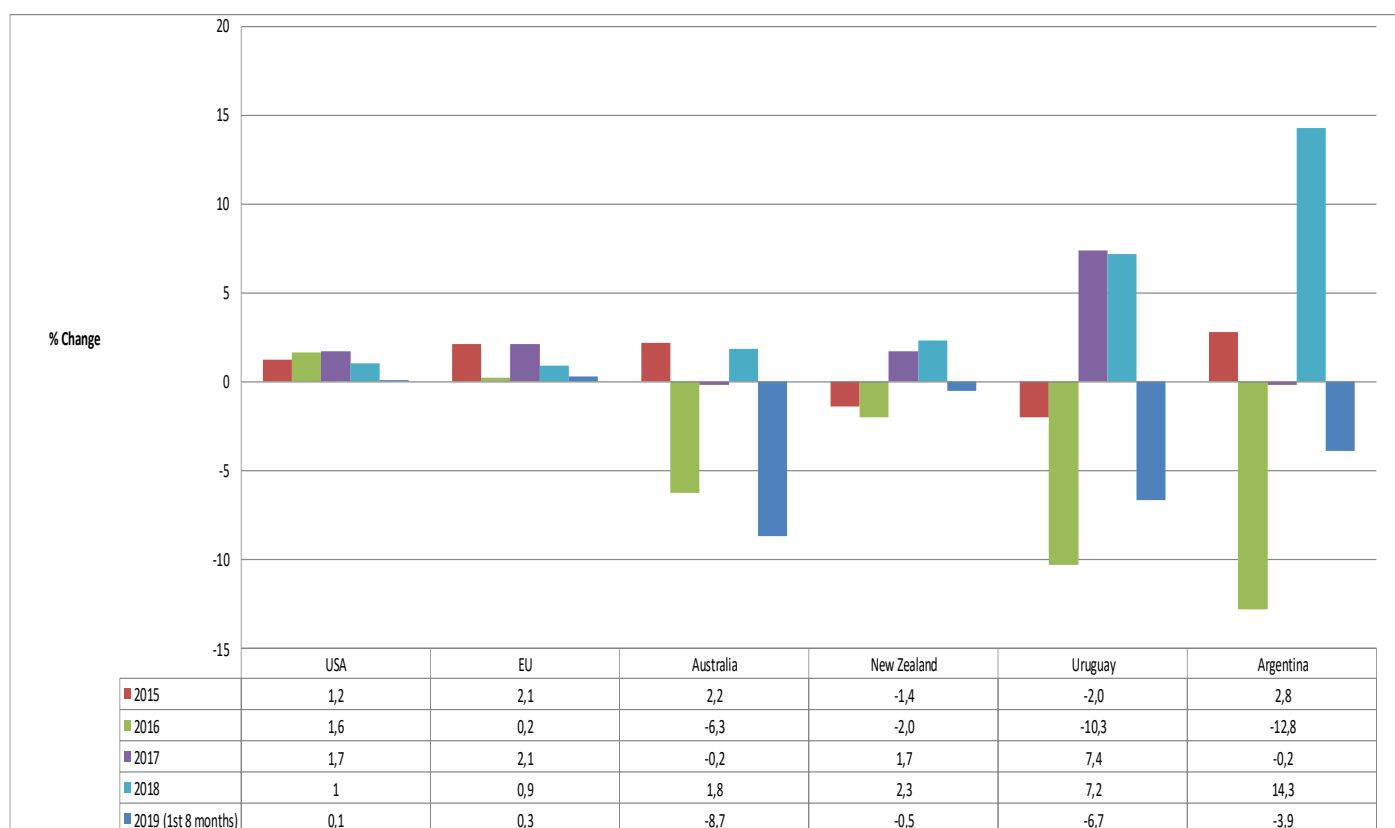


Source: NZX Futures, Oct 2019

The New Zealand Future Exchange reflects stable prices for skimmed milk powder (SMP) with the prices softening slightly in April 2020 while full cream milk powder (FMP) and Anhydrous milk fat are flat over the period reviewed. The price of butter is declining over the period dropping to just below 4000USD per ton May 2020.

International stock levels are a mixed bag of growth and decline. Butter stock levels in the US are 4.9% higher than a year ago while the EU butter stock level is the same as a year ago. Skimmed milk powder (SMP) stock levels in the US is 4% down compared to year ago while the EU stock is 100% down with the intervention stock being depleted. Cheese stock levels in the US is marginally higher at 0.2% compared to a year ago.

FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2015 – 2019 (1st 8 months)



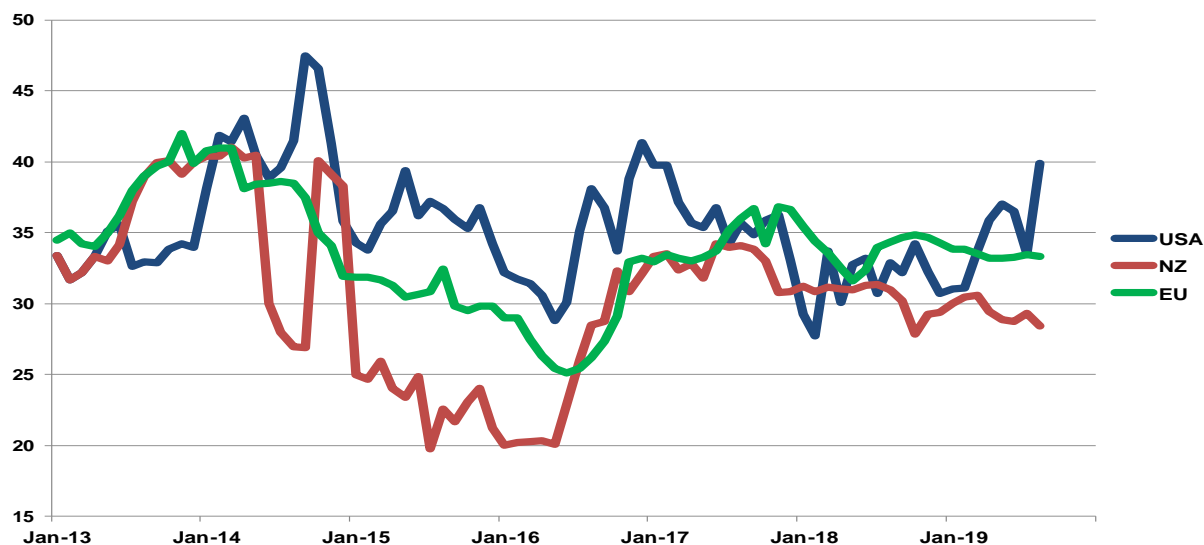
Source: CLAL, Oct 2019

Growth in unprocessed milk production in Oceania, Uruguay and Argentina was strong in 2018 with the USA and EU growing rather slowly.

The first eight months in 2019 compared to the first eight months of 2018 is a picture of negative growth to zero growth to very little growth in the major dairy exporting countries. The climatic conditions in the different countries are contributing to the negative growth picture while the declining trend in producer prices for some parts of 2018 coupled with the relative low level of some of these prices during 2018 and 2019 also played a role. These prices are illustrated in figure four.

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

Euro per 100 kg (4.2%fat and 3.4% proteien)



Source: LTO Nederland, Oct. 2019

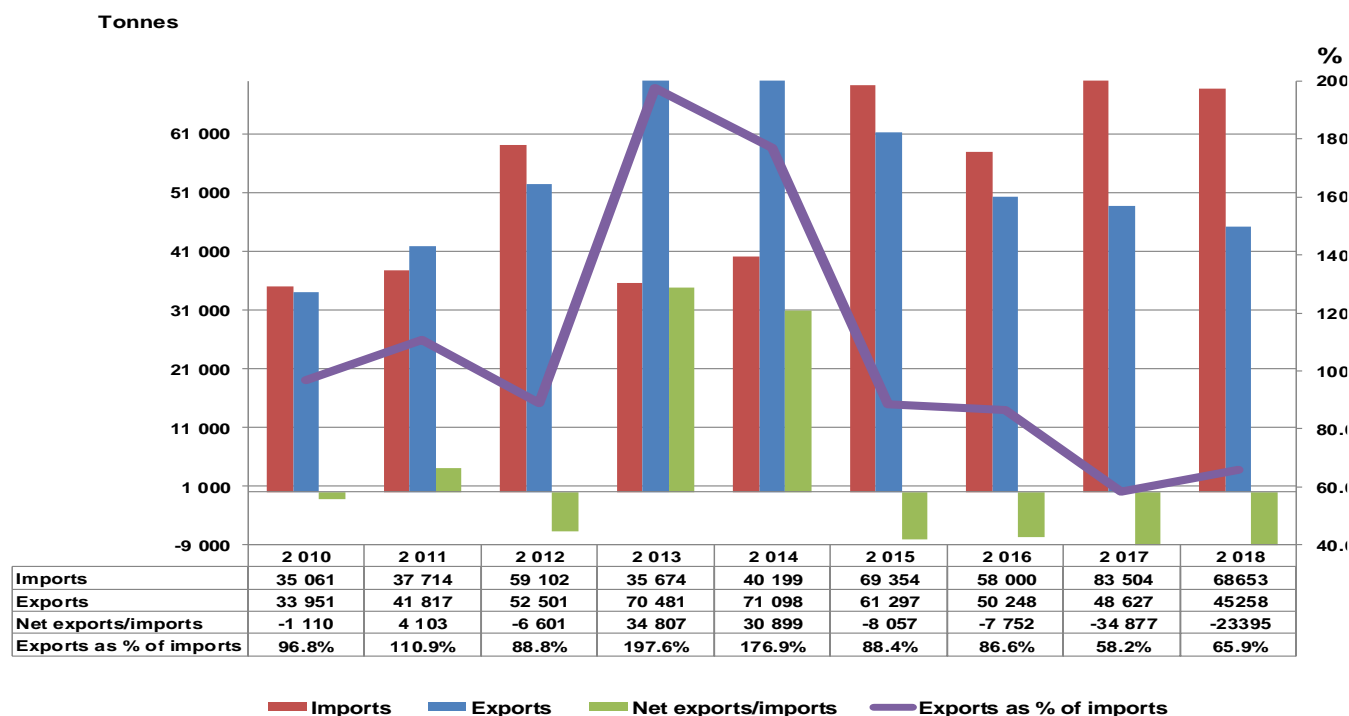
There was a marked convergence of producer prices since middle 2017 similar to the situation at the beginning of 2013. This convergence continued in 2019 with producer prices staying within the 30 to 35 Euros per 100kg price band. Producer price volatility has decreased since the middle of 2017 which could be a sign of market forces being allowed to play a more significant role to determine market signals.

Since the beginning of 2018 USA producer prices are on an upward trend with prices shooting through 35 Euros per 100kg in March 2019 and at the end of August hugging 40 Euros per 100kg. The very low growth in unprocessed milk production clearly fuelling the upward trend. Producer prices in the EU have been moving sideways since the beginning of 2019 while New Zealand prices have been declining and are below 30 Euros per 100 kg despite negative growth in unprocessed milk production in New Zealand.

2. SOUTH AFRICAN DAIRY MARKET

Import and export figures from SARS are supplied by SAMPRO.

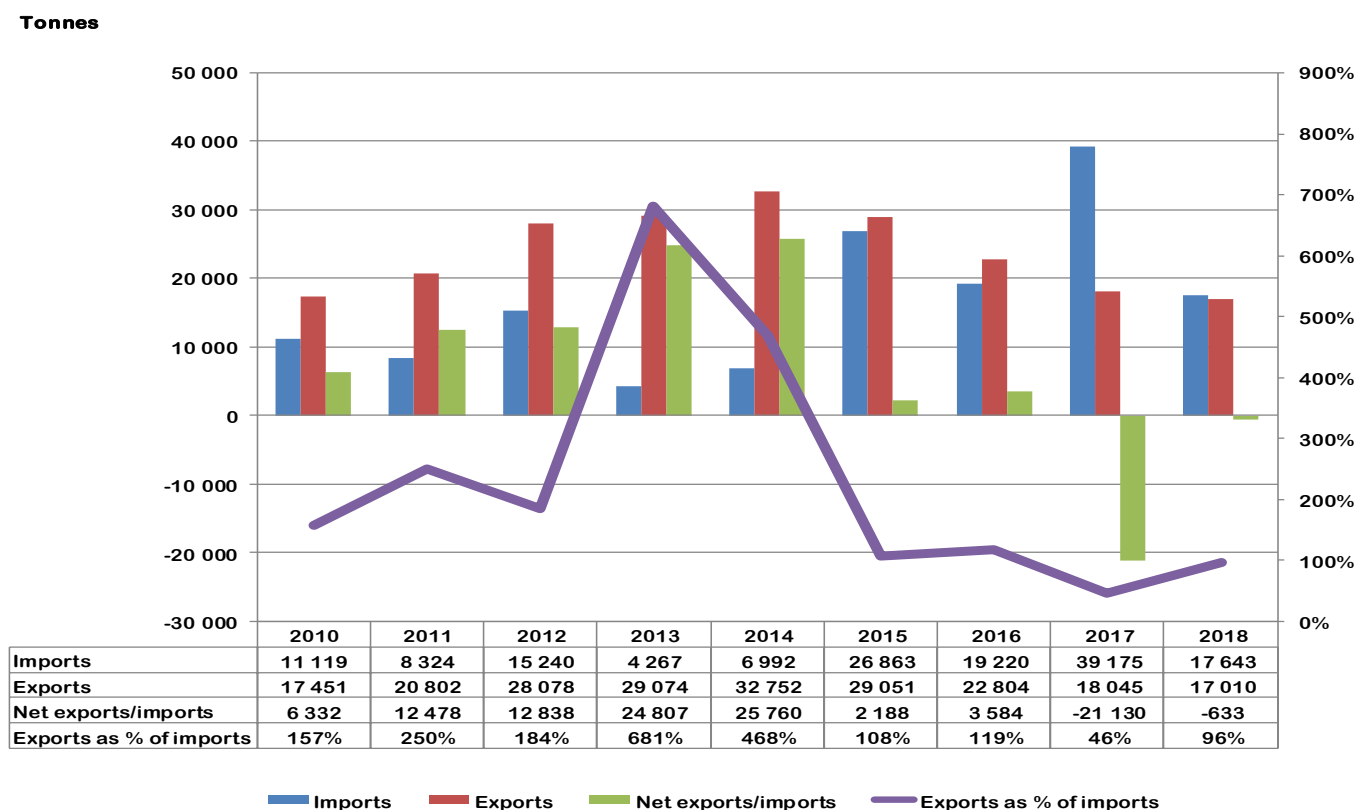
FIGURE 5: TOTAL SOUTH AFRICAN IMPORTS AND EXPORTS OF DAIRY PRODUCTS, 2010 – 2018



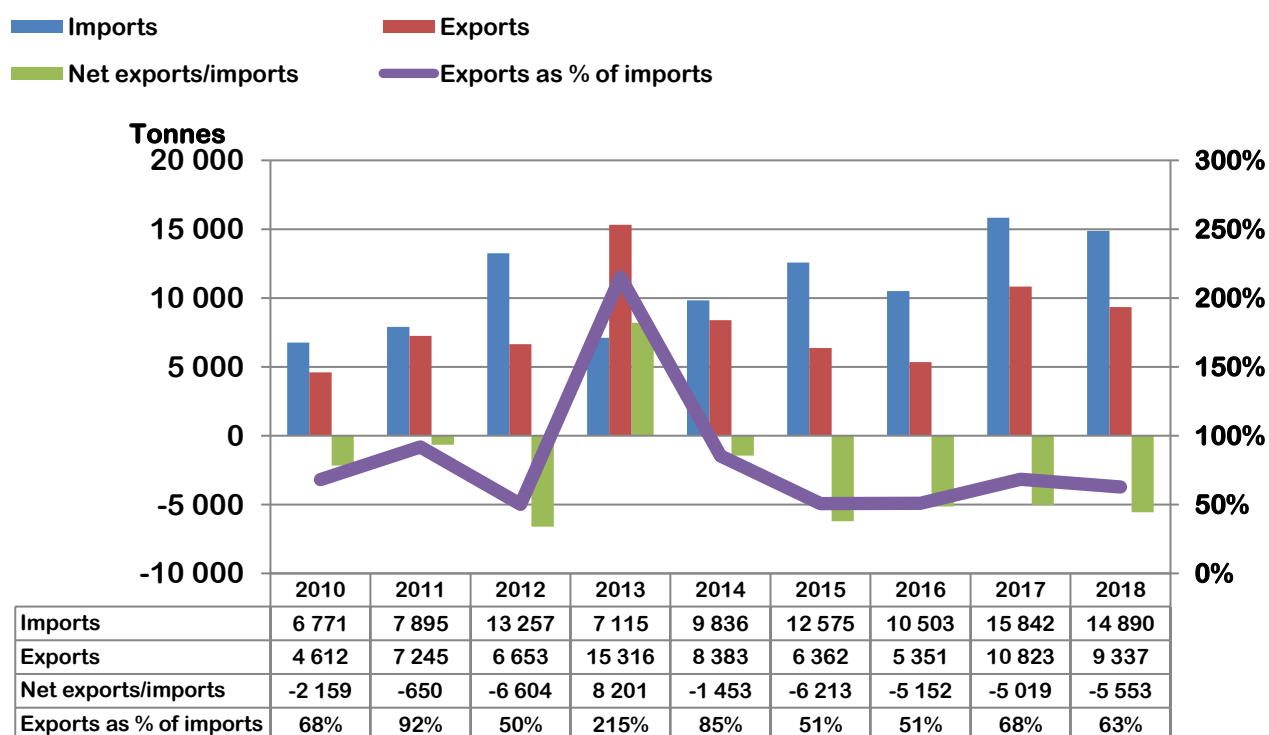
The information regarding imports and exports by South Africa of dairy products in 2018, showed that:

- 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 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**

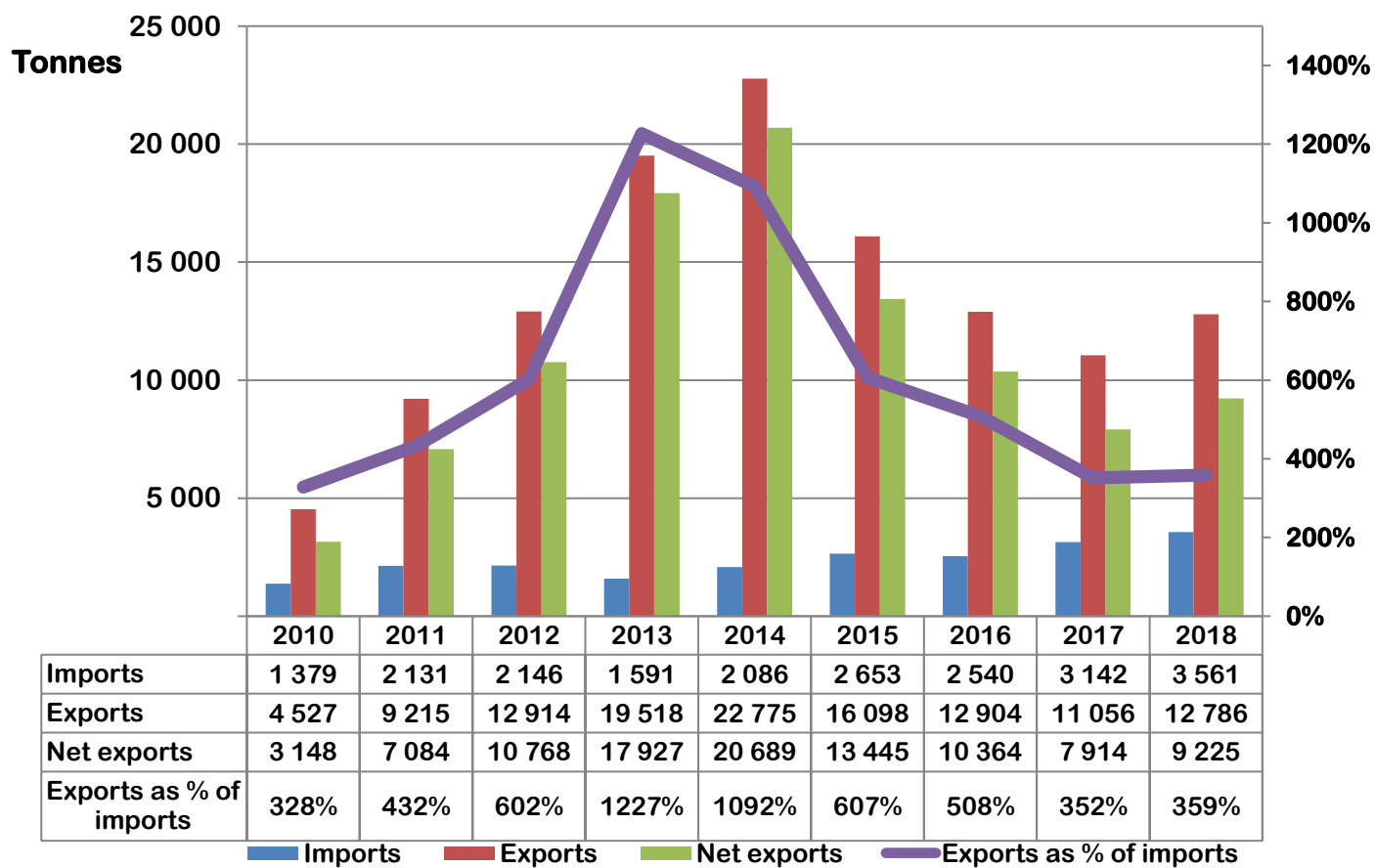


FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, (04.04) 2010 – 2018

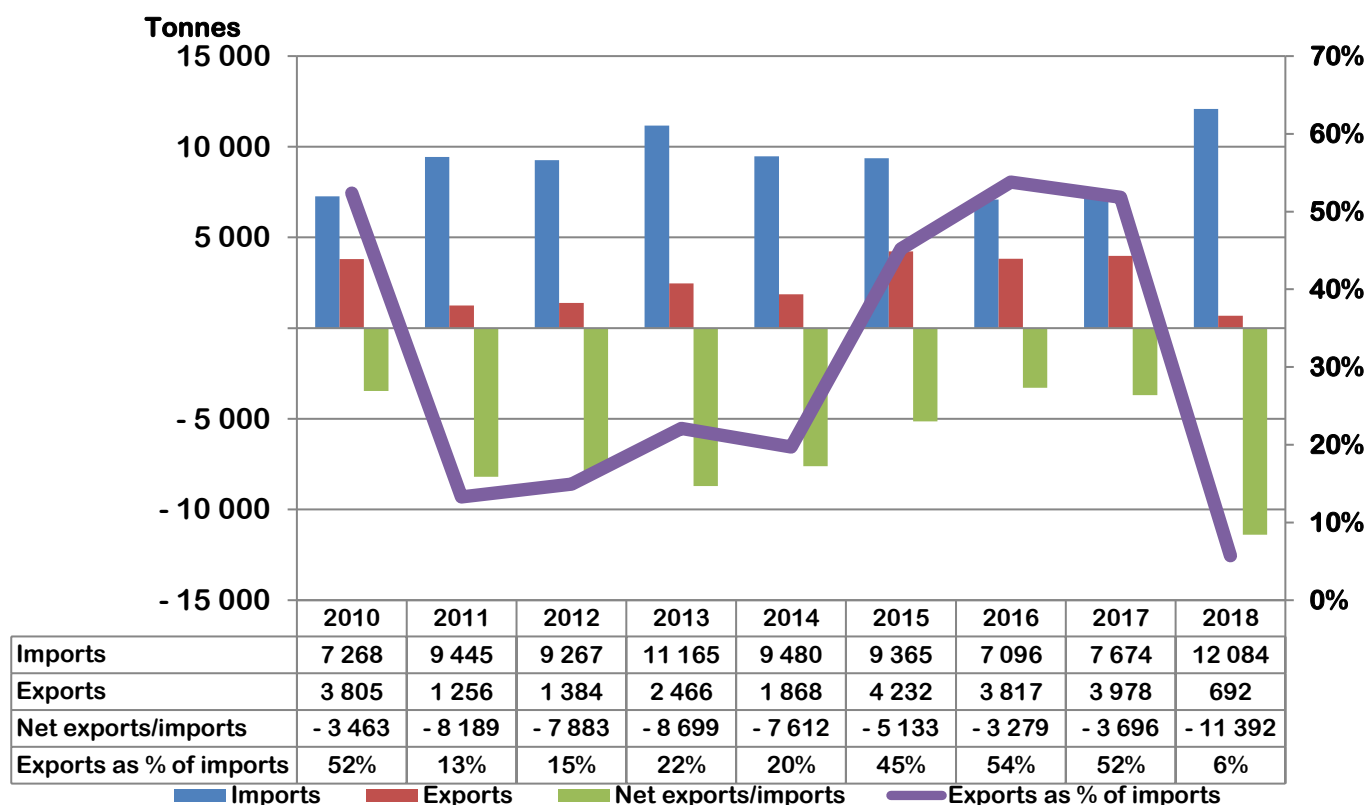
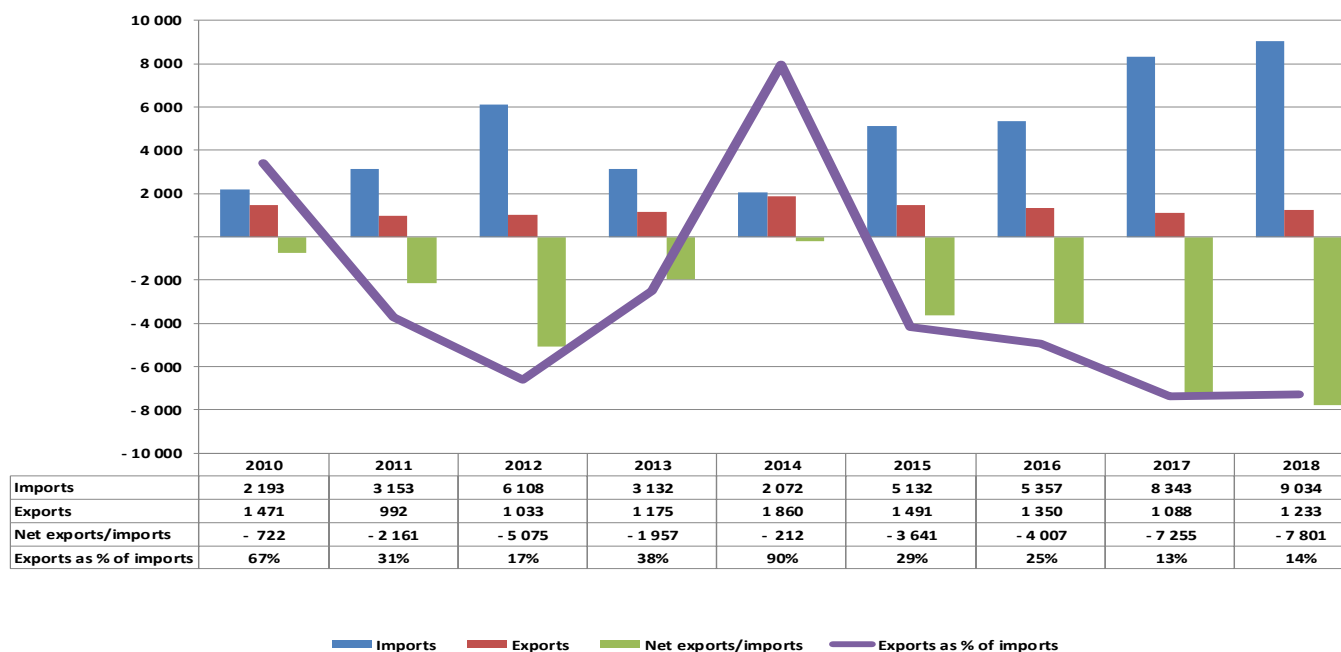


FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2010 – 2018

Tonnes



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

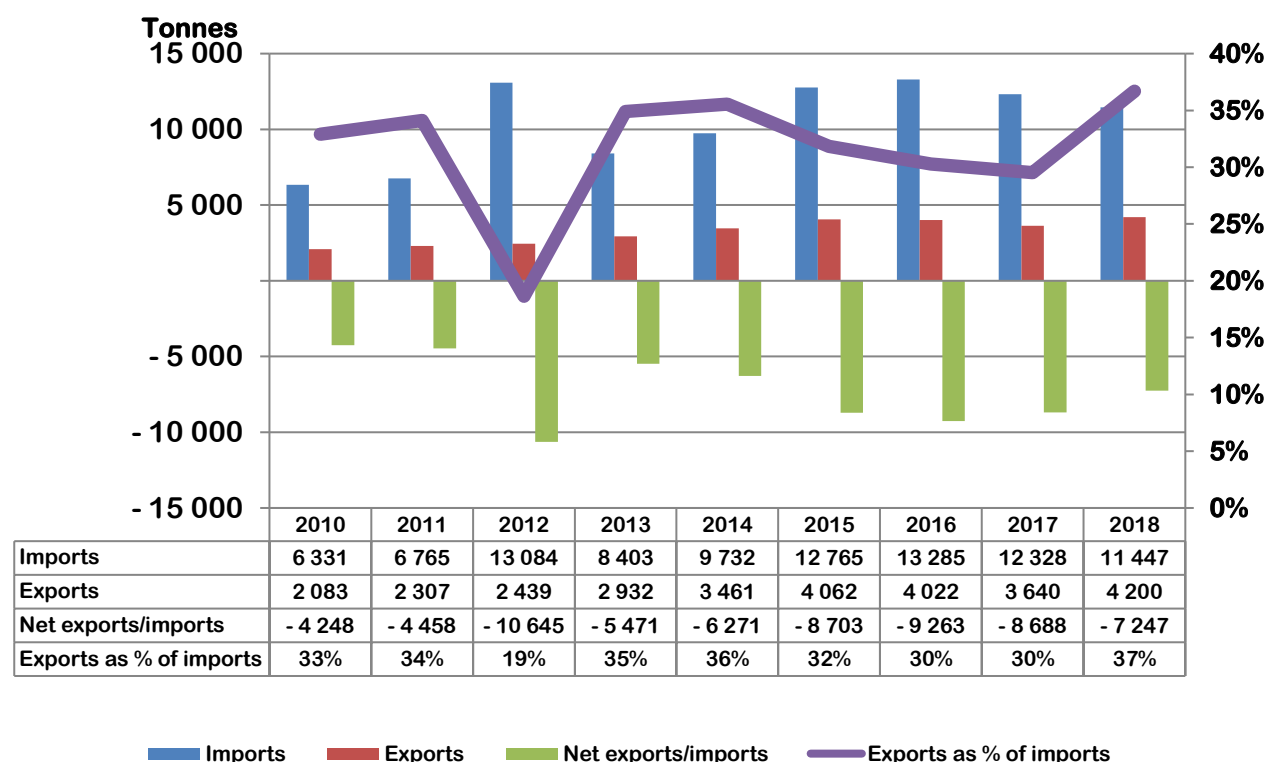


TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT FOB-PRICES FOR DAIRY PRODUCTS, 2014– 2018

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

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.

TABLE 2: PERCENTAGE CHANGE IN RETAIL SALES QUANTITIES FOR MAJOR DAIRY PRODUCTS FOR THE 12 MONTH PERIOD FROM JULY 2017 TO JUNE 2018 COMPARED TO THE 12 MONTH PERIOD FROM JULY 2018 TO JUNE 2019 AND THE CHANGE IN RETAIL PRICES FROM JUNE 2018 TO JUNE 2019

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-4.5	2.0
Long-life milk (UHT)	10.8	10.1
Flavoured milk	6.0	7.4
Yoghurt	8.2	2.9
Maas	22.3	-1.1
Pre-packaged cheese	5.6	1.3
Cream cheese	-1.0	2.6
Butter	7.0	-5.00
Cream	-2.0	7.6

Source: Nielsen figures supplied by SAMPRO

In the period that ended in June 2019, the retail sales quantities of six of the nine dairy products were higher than in the previous period. The retail prices of seven of the nine dairy products, increased from June 2018 to June 2019.

Unflavoured and unsweetened milk utilize approximately 54.00 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 (%)				
	June 19 vs June 18	Jan - Jun 19 vs Jan- Jun 18	Jan19-Jun19 vs Jan18-Jun18	Oct18-Jun19 vs Oct17-Jun19	July18 – Jun19 vs July17 – Jun18
Fresh milk	-2.9	-3.4	-2.8	-4.4	-4.5
UHT milk	-8.4	-0.04	5.6	9.5	10.8
Flavoured milk	-3.8	1.6	3.5	5.6	6.0
Yoghurt	6.4	7.4	9.2	9.3	8.2
Maas	18.5	24.9	23.8	23.6	22.3
Pre-packaged cheese	6.1	6.4	6.2	4.8	5.6
Cream cheese	1.4	-0.36	-0.47	-0.13	-1.03
Butter	1.6	6.0	7.8	7.4	7.0
Cream	-4.4	-3.0	-1.81	-1.8	-2.0

Source: Nielsen as supplied by SAMPRO

In the one month, three months, six months, nine months and 12 months periods which ended in June 2019, the retail sales quantities of fresh milk were lower than in the same periods of 2018. The driver of the negative trend in fresh milk is the changing profile of the traditional consumer, the profile of new consumers and the decrease in the gap between the retail price of fresh milk and UHT-milk which took place in the last number of years. Cream cheese gained some ground in the one-month period while cream lost ground in all the period of 2019 compared to the same periods of 2018.

Four of the nine dairy products, namely yoghurt, maas, prepacked cheese and butter recorded increased sale quantities in each of the different periods mentioned in table 3 and the increase in the respect of maas, was exceptionally high. Notable is that although the retail sales quantities of UHT-milk in the year which ended in June 2019 was 10.8% higher than in the previous year, the retail sale quantities of UHT-milk in June 2019, and in the three months which ended in June 2019, were lower than in the same months of 2018.

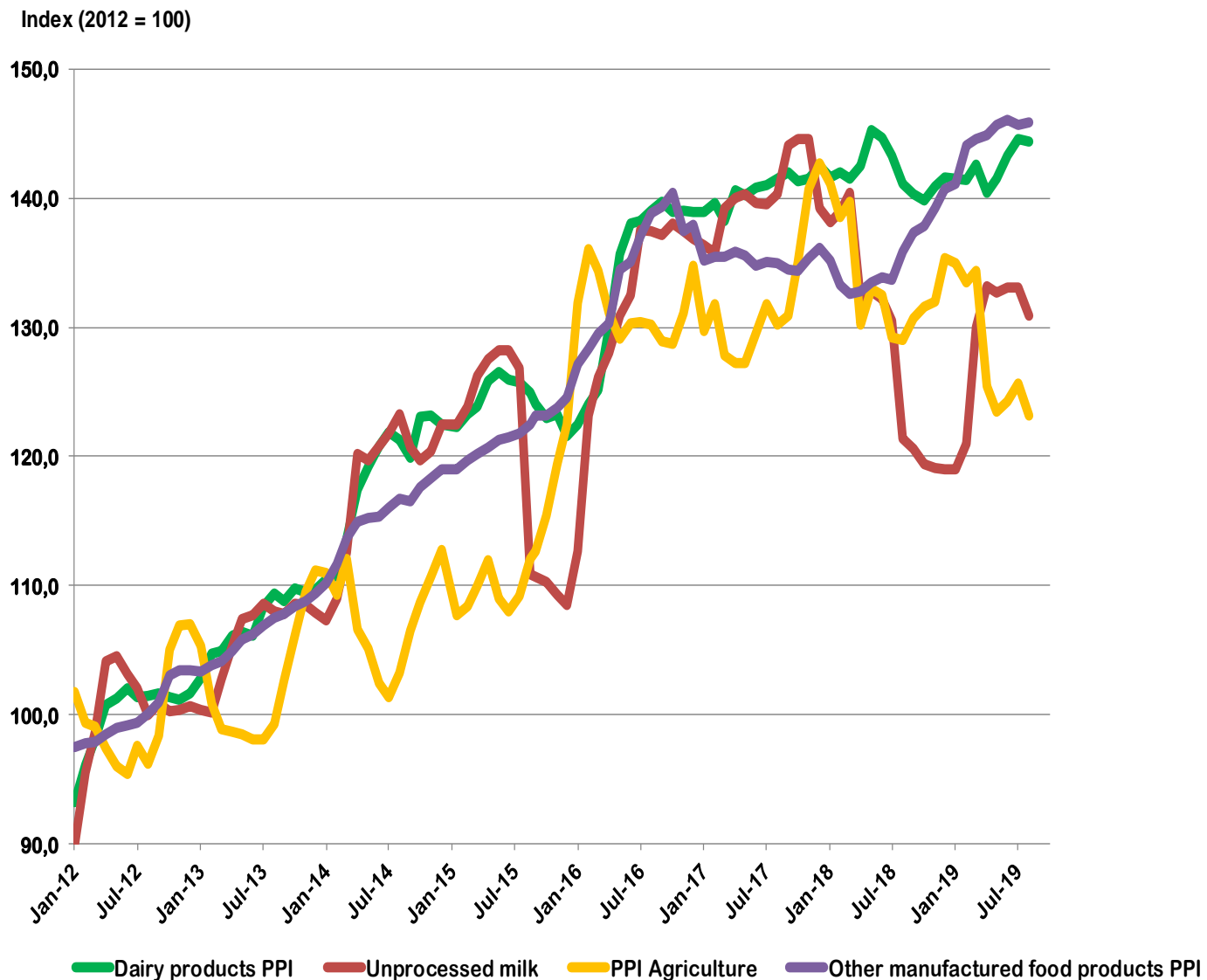
TABLE 4: CHANGES IN THE RETAIL PRICES OF CERTAIN DAIRY PRODUCTS

Product	Change in retail prices compared to same period previous year (%)				
	June 19 vs May 19	June 19 vs March 18	June 19 vs Dec 18	June 19 vs Sept 18	June 19 vs June 18
Fresh milk	1.0	2.1	3.6	4.1	2.0
UHT milk	3.3	5.6	9.3	9.9	10.8
Flavoured milk	3.6	3.3	8.0	6.3	7.4
Yoghurt	-1.0	0.7	4.2	3.3	2.9
Maas	0.8	1.4	2.9	1.2	-1.1
Pre-packaged cheese	-1.3	-0.5	0.4	3.8	1.3
Cream cheese	-0.7	3.1	5.3	3.1	2.6
Butter	2.4	-1.4	-1.6	-2.7	-5.0
Cream	1.4	4.3	2.3	4.8	7.6

Source: Nielsen as supplied by SAMPRO

From June 2018 to June 2019 the prices of two of the nine products decreased with butter registering a decrease of 5.0% and maas 1.1%. With the exception of the prices of UHT-milk, flavoured milk and cream, the retail prices recorded in table 4 registered decreases or marginal increases. It should also be noted that the increase of 10.8% of the retail price of UHT-milk from June 2018 to June 2019, was from a low base as the increase from December 2017 to June 2019, was only 4.9%.

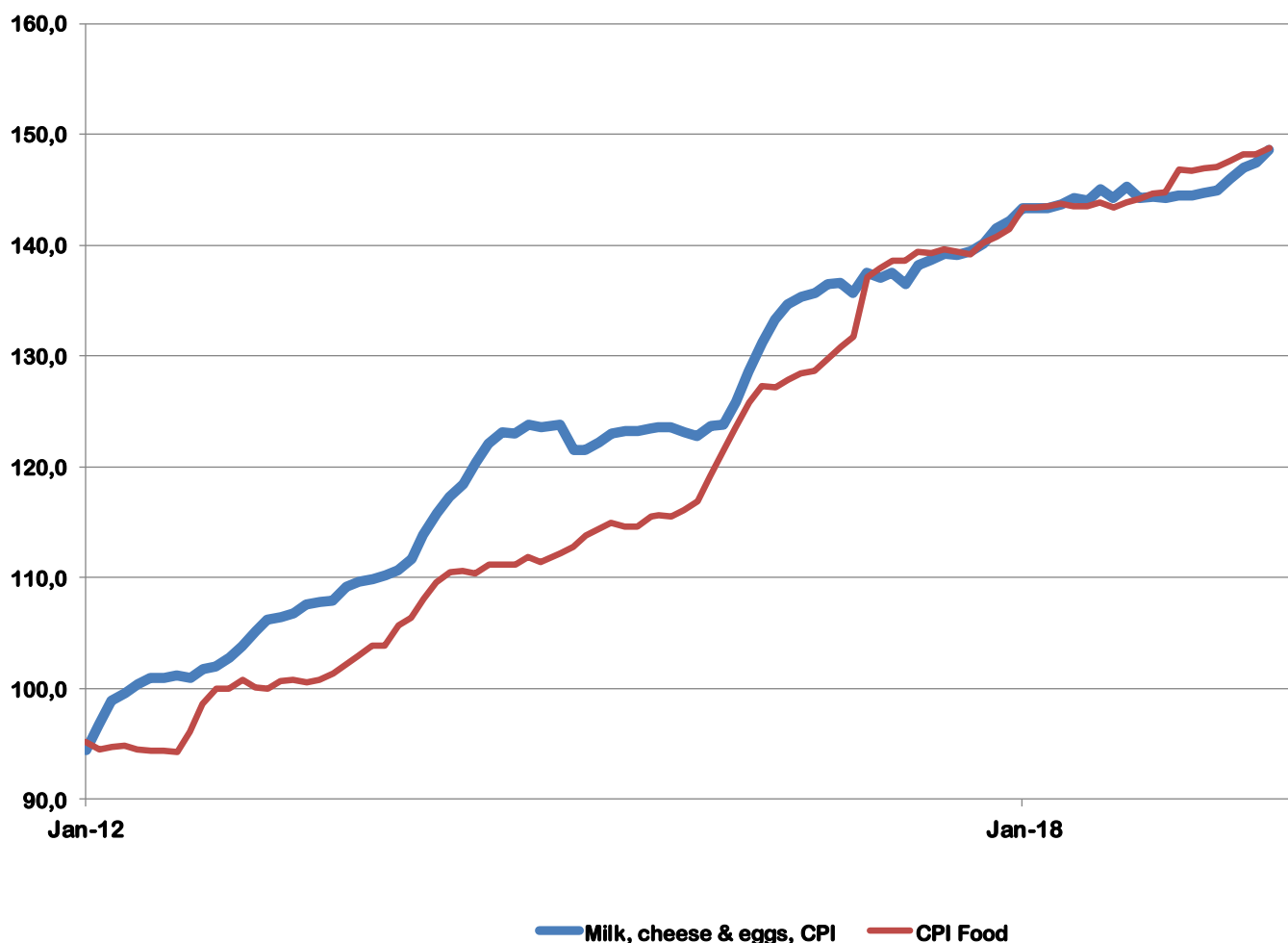
FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, JANUARY 2012 – Aug 2019.



Source: Stats SA

The above graph indicates that all the product prices were on an upward trend since January 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 indices improved further in April 2019 to 133 points, moved sideways in May through July and declined to 130.9 points in August.

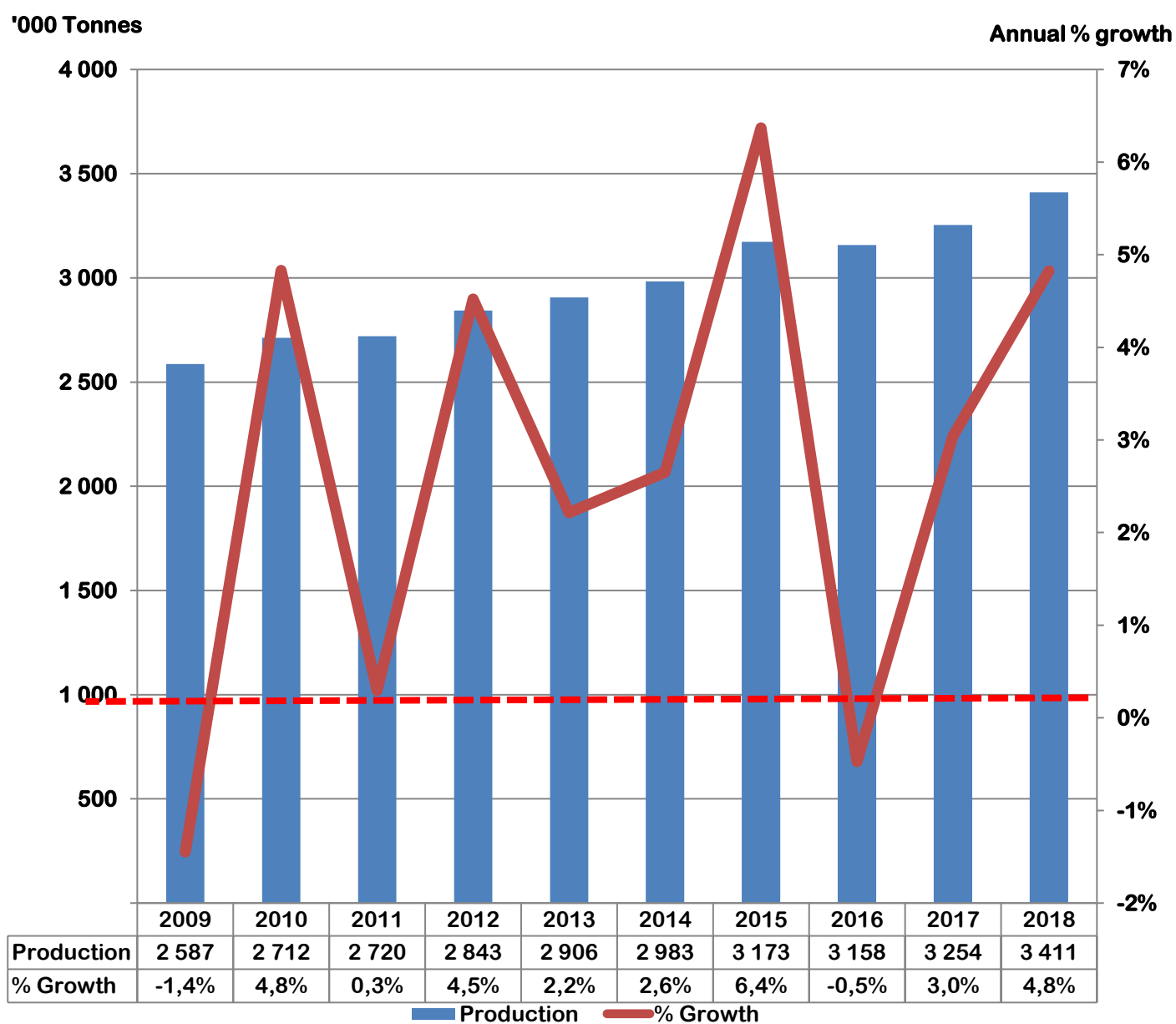
FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – Aug 2019



Source: Stats SA

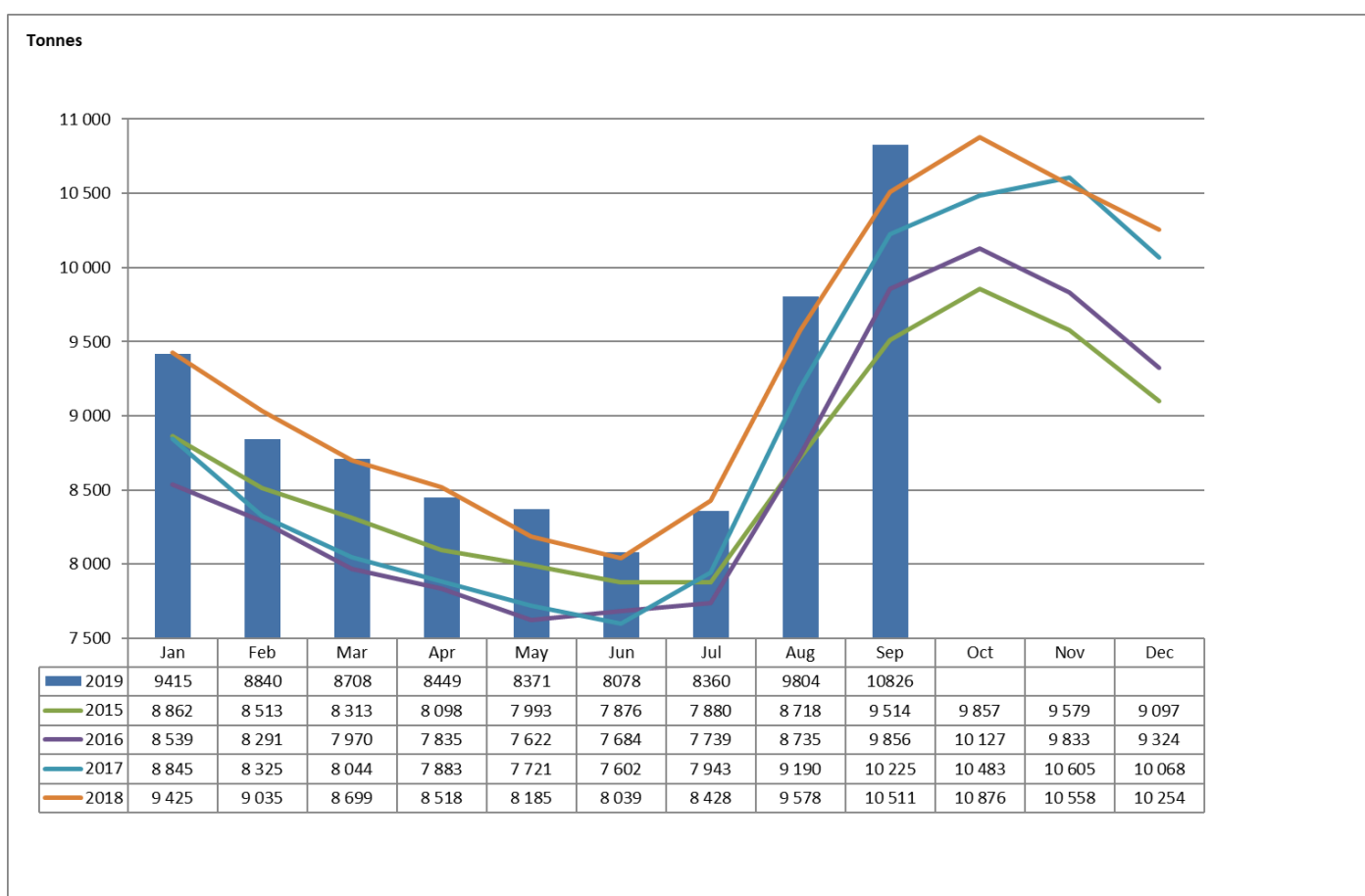
The CPI for milk, cheese and eggs in January 2019 edged below the CPI for food suggesting a pricing strategy that enabled many dairy products to gain and or maintain market share despite consumer disposable income being eroded by increased administered product prices and a weak economy. The gap between the Food CPI and the CPI for milk, cheese and eggs has reduced lately with the indices now being at the same level in August 2019 suggesting margin squeeze at retail product level (milk, cheese and eggs). Table 2 above illustrates 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 – SEPTEMBER 2019



Source: Milk SA; *Aug and Sep 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	539 406
March	770 769	752 227	756 690	814 832	809 357
April	1 013 700	987 280	993 180	1 070 368	1 062 817
May	1 261 478	1 223 556	1 232 517	1 324 102	1 322 326
June	1 497 744	1 454 086	1 460 583	1 565 269	1 564 655
July	1 742 039	1 694 009	1 706 830	1 826 534	1 823 780
August	2 012 295	1 964 790	1 991 715	2 123 446	2 127 702
September	2 297 713	2 260 473	2 298 450	2 438 789	2 452 484
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. May and June 2019 = estimated.

During 2018, 3 410 536 tonnes of unprocessed milk were purchased, 4.8% more than in 2017.

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

- 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 sustainability of unprocessed milk production which is performing relatively stable thus far.
- Weather conditions in South Africa.
- The performance of the SA economy.

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