



QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY¹

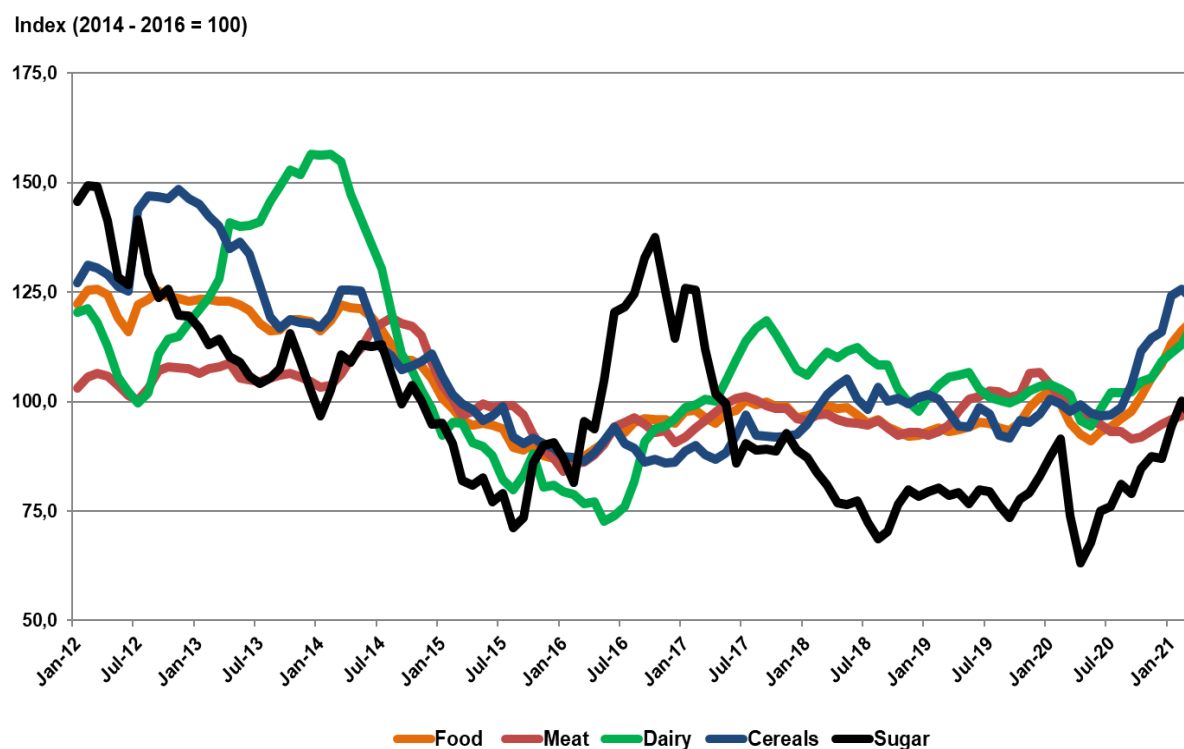
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First Quarter 2021

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

1. INTERNATIONAL MARKET

FIGURE 1a: Food and Agricultural Organisation (FAO) FOOD PRICE INDICES, JANUARY 2012 – MARCH 2021



Source: FAO Food price index, April 2021

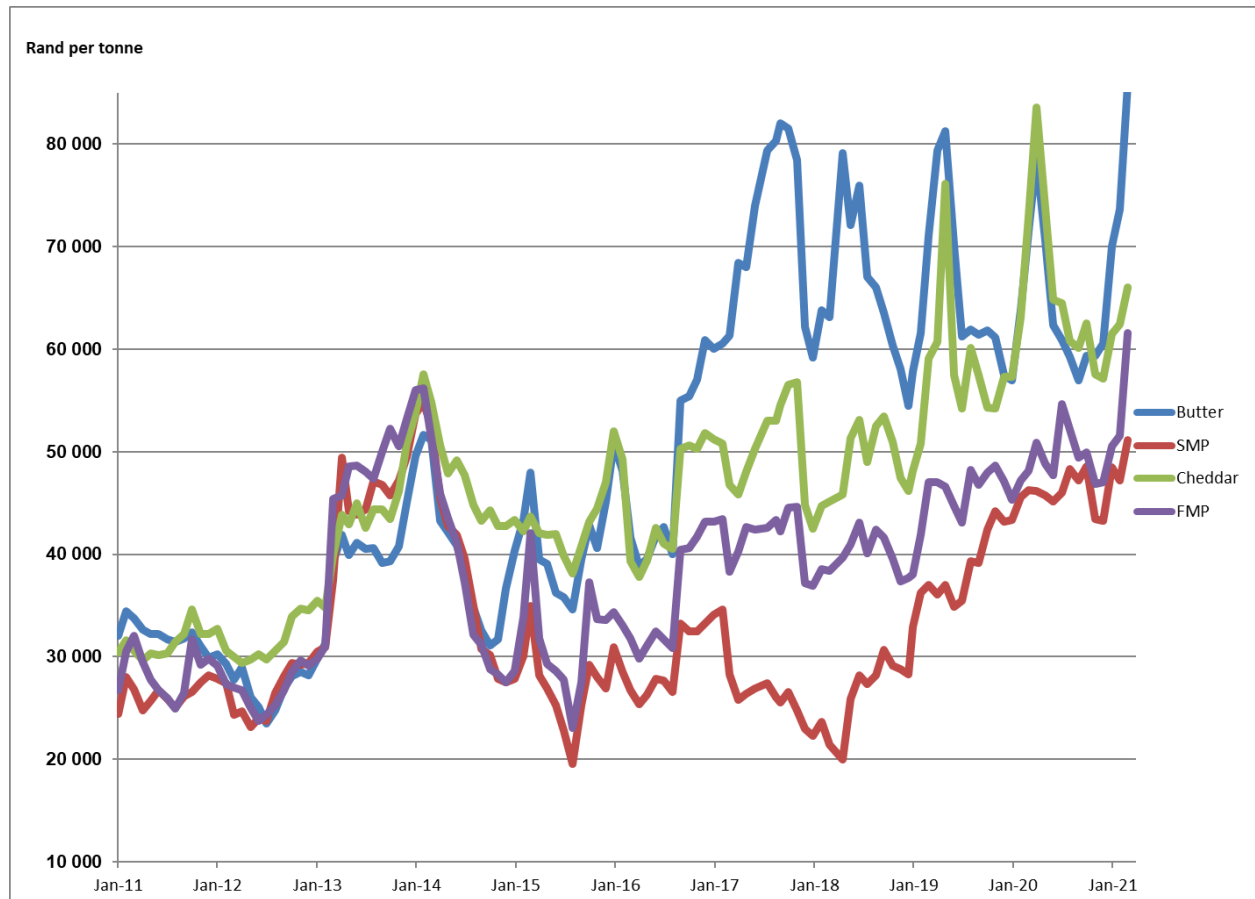
The FAO Food Price Index (FFPI) averaged 118.5 points in March 2021, 2.4 points (2.1 percent) higher than in February 2021. The increase marked the tenth consecutive monthly rise in the value of the FFPI to its highest level since June 2014. The increase was led by strong gains in meat and dairy sub-indices, while those of cereals and sugar subsided.

The FAO Dairy Price Index averaged 117.4 points in March, up 4.4 points (3.9 percent) from February 2021, rising for the tenth consecutive month and lifting the index to nearly 16 percent above its value in the corresponding month last year. In March 2021, international butter prices rose, mainly underpinned by somewhat tight supplies in Europe due to a slow start to its milk production season and increased internal demand in anticipation of a foodservice sector recovery. Milk powder prices also rose, supported by a surge in imports in Asia, especially China, due to concerns over possible short-term sourcing challenges amidst seasonally declining milk production in Oceania and scarce shipping container availability in Europe and North America. By contrast, cheese prices fell slightly for a third consecutive month due to limited demand for spot supplies.

The FAO Cereal Price Index averaged 123.6 points in March 2021, down 2.2 points (1.7 percent) from February, ending the eight-month rising trend, but still 25.9 points (26.5 percent) above its March 2020 level. The FAO Meat Price Index averaged 98.9 points in March 2021, up 2.2 points (2.3 percent) from February 2021, continuing the upward trend

for the sixth consecutive month, but still stood slightly (0.5 percent) below its value a year ago. The FAO Sugar Price Index averaged 96.2 points in March 2021, down 4 points (4.0 percent) from February 2021, marking the first decline after sharp increases registered in the previous two months. Sugar quotations remained, however, more than 30 percent above their levels in the corresponding period of last year, underpinned by concerns over tight global supplies in 2020/21.

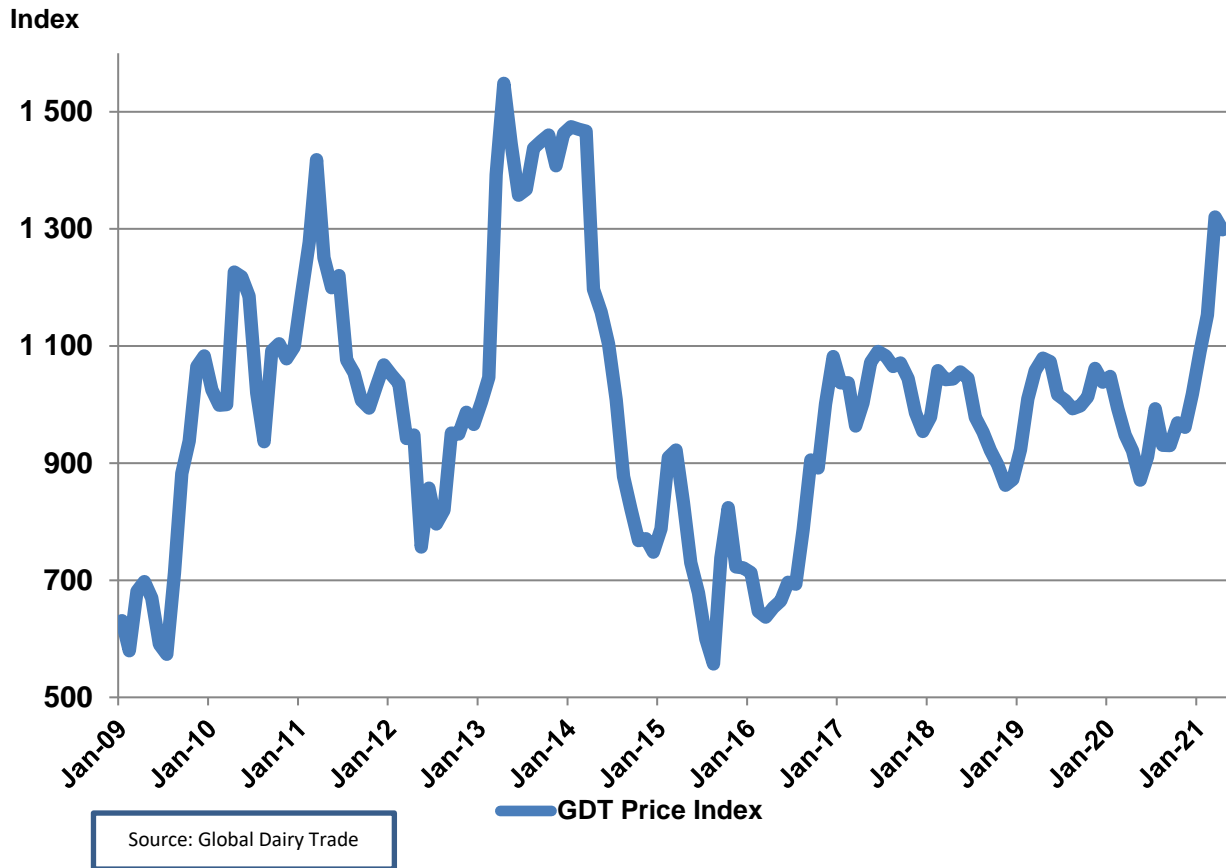
FIGURE 1b: International Dairy Product Prices: Jan 2011 – March 2021



Source: USDA

Three of the dairy product prices being monitored in the graph above increased with double digits from March 2020 to March 2021. The price of butter up 20%, skimmed milk powder (SMP) up 11% and full cream milk powder (FMP) up 28% on the corresponding month of the previous year. The price of cheddar bucked the trend, decreasing with 10% in March 2021 compared to March 2020. The price increases would have been more severe if it was not for the Rand exchange rate strengthening against the USD with 10,4% over the same period. In USD terms the increases in the dairy product prices over the same period were even more pronounced, butter up 34%, SMP up 23%, Cheddar up 1% and FMP up 43%. The market is uneasy regarding current stock levels, shipping capacity and the risk of further movement restrictions as the pandemic continues.

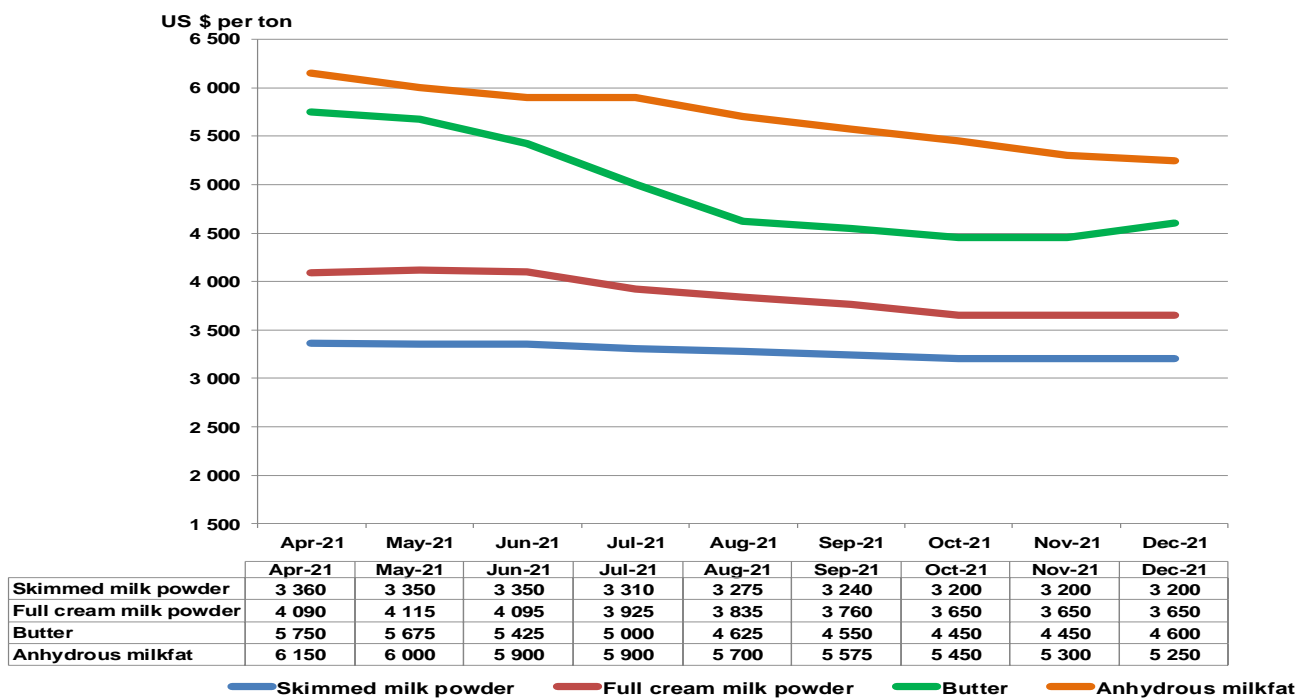
FIGURE 2a: Global dairy trade-weighted price index. Jan 2009 – March 2021



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 March 2020. According to this index international prices (USD) did Zig-Zag from May to August 2020 with the index showing indication of a change in the wavelength and frequency regarding price movement. This usually indicates nervousness in the market when unknown variables are introduced which could relate to the influence of the worldwide pandemic. In September 2020 the index started with an upward trend. The March 2021 index is 39,3% higher than the corresponding month in the previous year. The index is confirming the trends in the United States Department of Agriculture (USDA) data and the data in the FAO report.

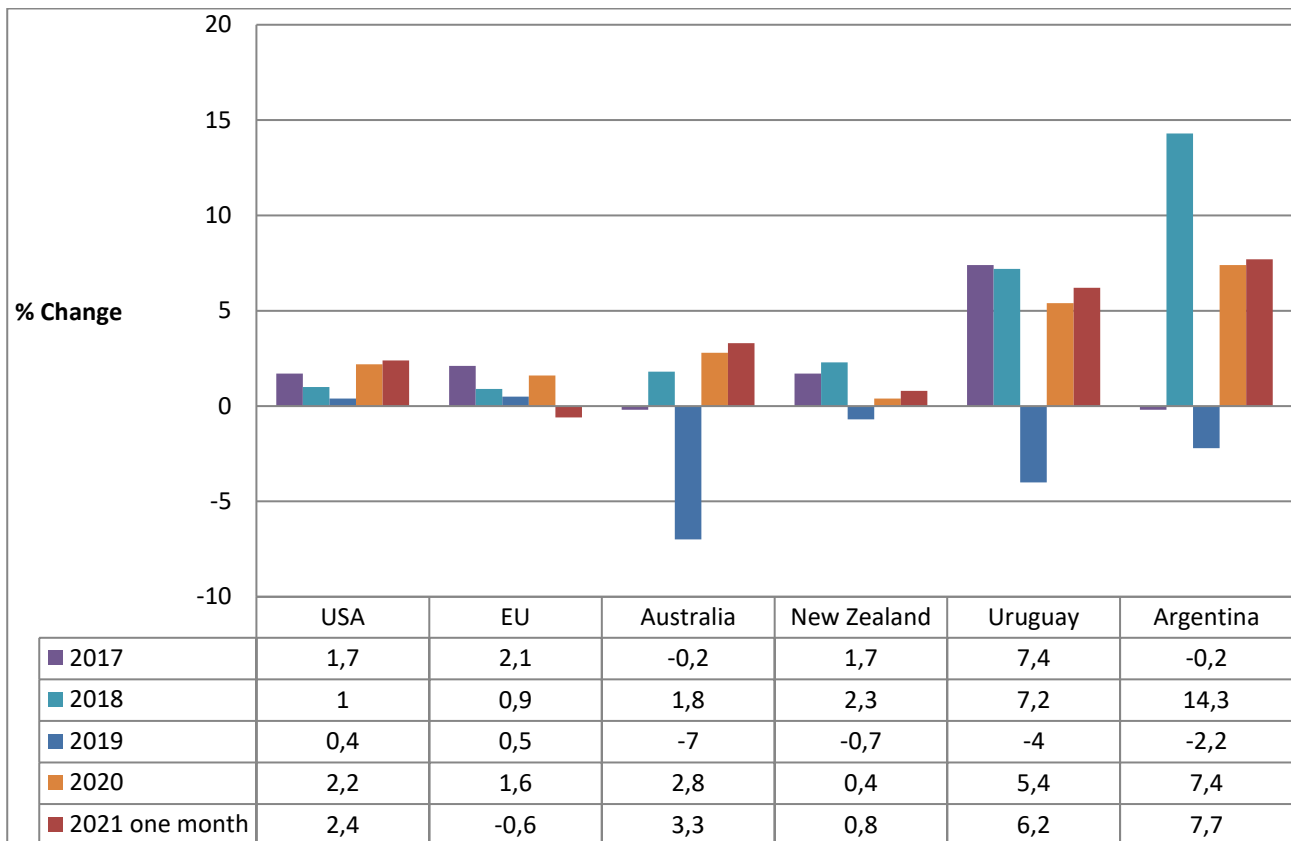
FIGURE 2b: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX): April 2021 – Dec 2021



Source: NZX Futures, April 2021

The New Zealand Future Exchange reflects downward movement for all the major dairy products included in the graph above. Skimmed milk powder prices indicate a slight downward trend during the above period, while the decline in the butter price is more pronounced at 20%.

FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2017 – 2021 (one month)

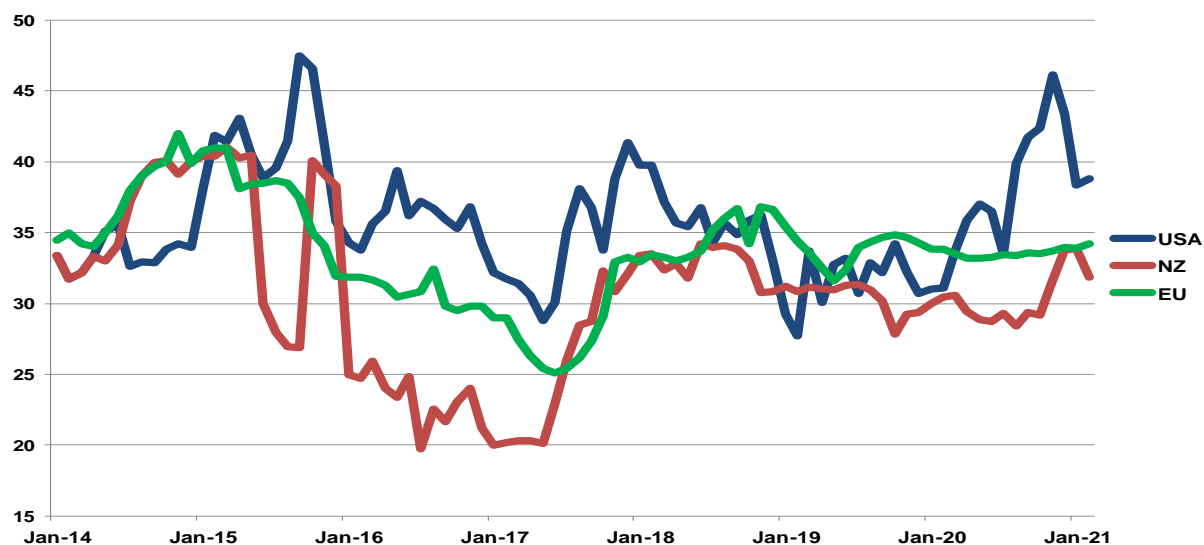


Source: CLAL, March 2020

Unprocessed milk production during 2020 increased if compared to 2019. All the major exporting countries/region show positive growth, with significant improvement in Argentina, Uruguay and Australia. Unprocessed milk prices started to improve in the third and fourth quarter of 2019 and the result can be seen in the higher production levels. For the first month of 2021 all the countries in the above graph are showing increased production except for the EU region indicating a slower start in 2021.

FIGURE 4: PRODUCER PRICES OF UNPROCESSED MILK IN THE EU, USA AND NEW ZEALAND IN EURO PER 100 KG, JANUARY 2014 – FEBRUARY 2021

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



Source: LTO Nederland, February 2021

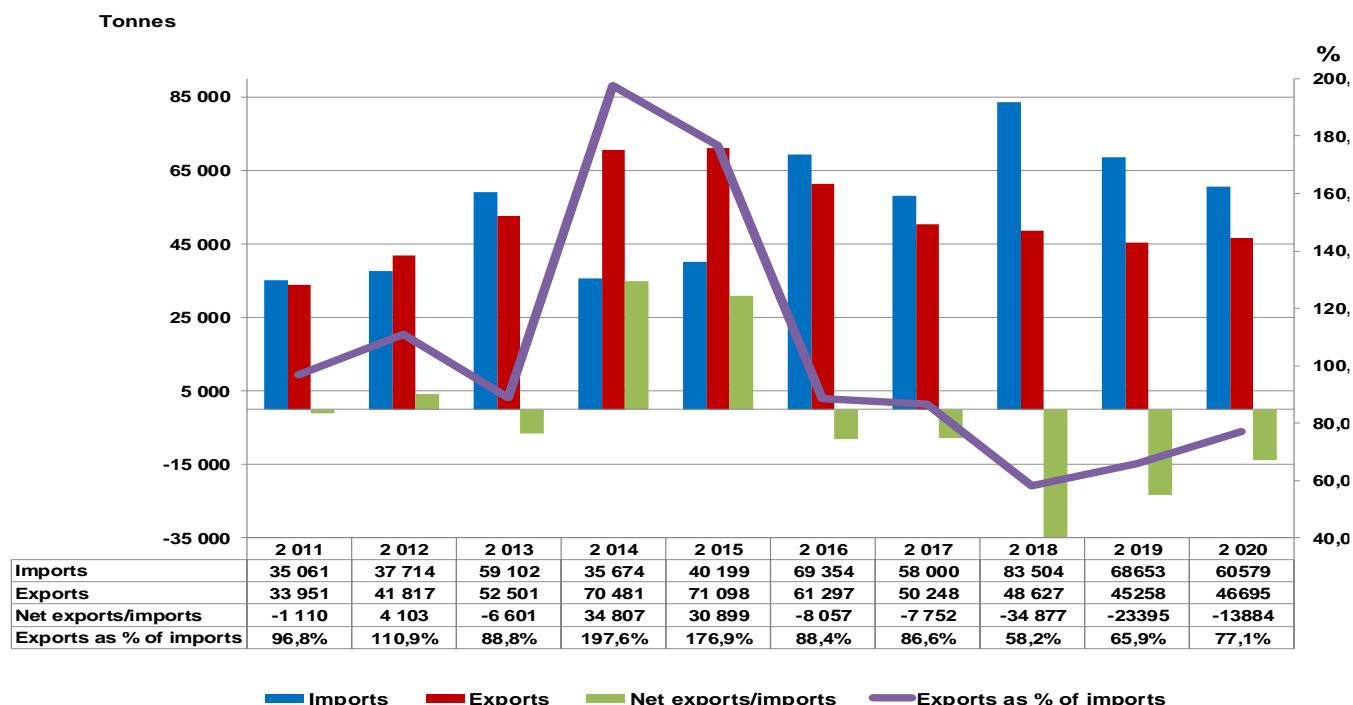
The price for unprocessed milk in the USA is showing wide fluctuations as a result of the fluctuations of cheese milk prices in the USA and the way the unprocessed milk price is calculated.

The average EU unprocessed milk price is 0,88% lower in February 2021 compared to February 2020 (from 3,42 Euro/kg to 3,39 Euro/kg) while for the same period the New Zealand unprocessed milk price is 8,80% higher at 3,46 Euro/kg up from 3,18 Euro/kg.

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, 2011 – 2020



The information regarding imports and exports by South Africa of dairy products in 2020, showed that:

- The mass of imports of dairy products in 2020 was 11,8 percent lower than in 2019. The decrease from 2019 to 2020 is due to the decrease in imports of three of the six categories of dairy products.
- The mass of exports of dairy products in 2020 was 3,2 percent higher than in 2019. The increase from 2019 to 2020 is due to the increase in exports of four of the six categories of dairy products.
- The mass of imports and exports in 2020, showed that South Africa was a net importer of, concentrated milk (04.02), whey and whey powder (04.04), butter and milk fats (04.05) and cheese and curd (04.06) but a net exporter of milk and cream (04.01) and buttermilk and yoghurt (04.03).
- The mass of sales by South Africa to the other members of the Southern African Customs Union (Botswana, Namibia, Lesotho and Eswatini), in period 2020, of each of the six categories of dairy products, was higher than the mass of South African exports of the dairy products in the same period.

FIGURE 6: SOUTH AFRICAN IMPORTS AND EXPORTS OF MILK AND CREAM (04.01), 2011 – 2020

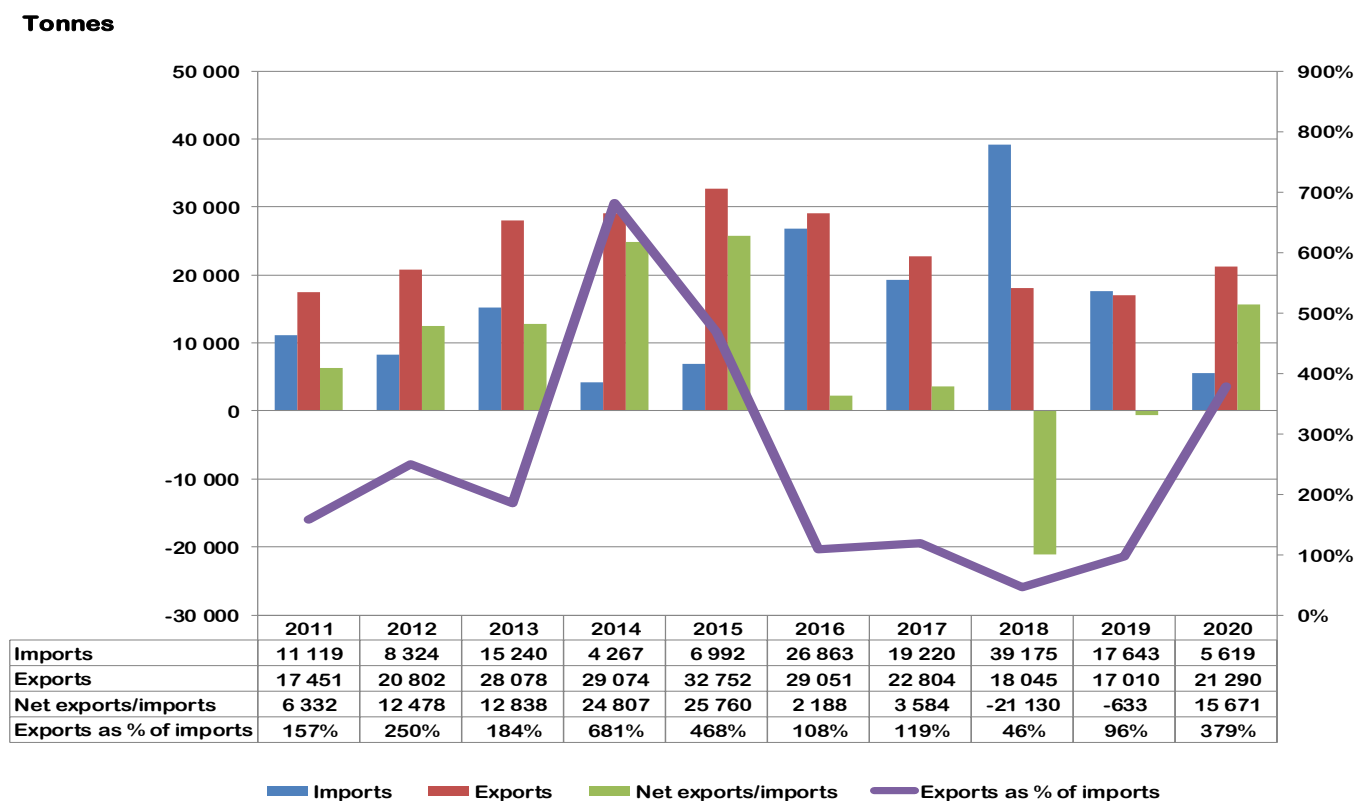


FIGURE 7: S.A. IMPORTS AND EXPORTS OF CONCENTRATED MILK, (04.02) 2011 – 2020

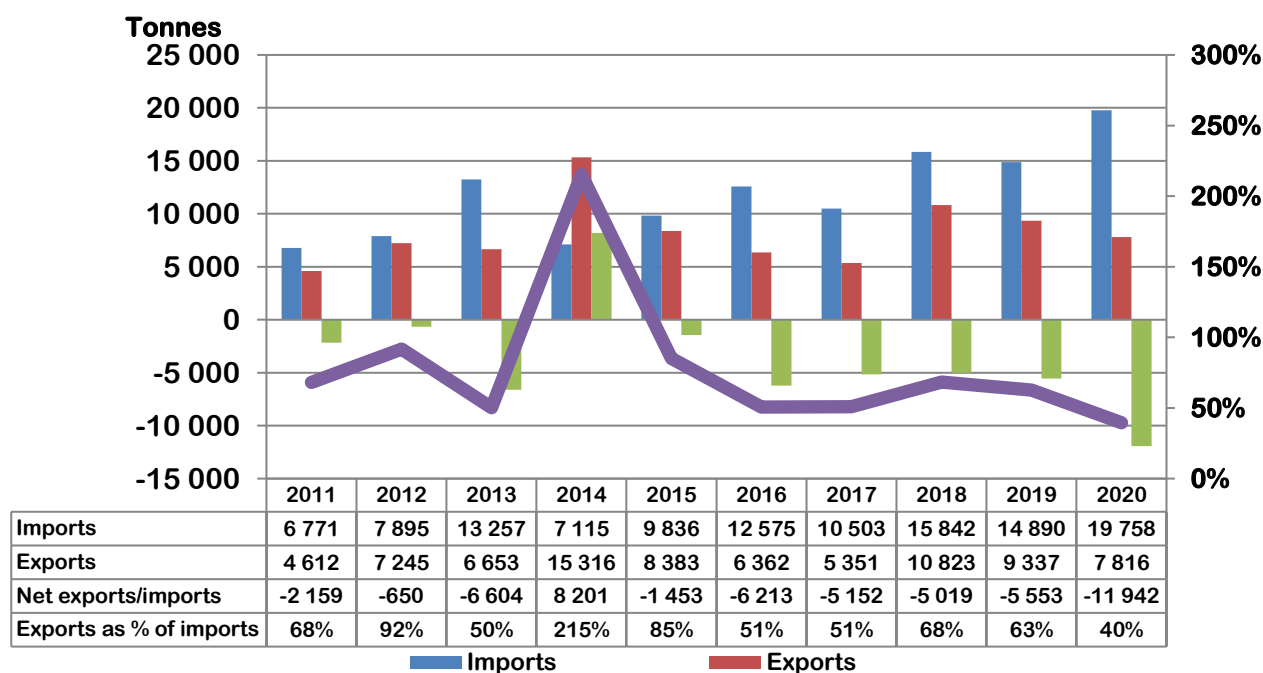


FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, (04.03) 2011 – 2020

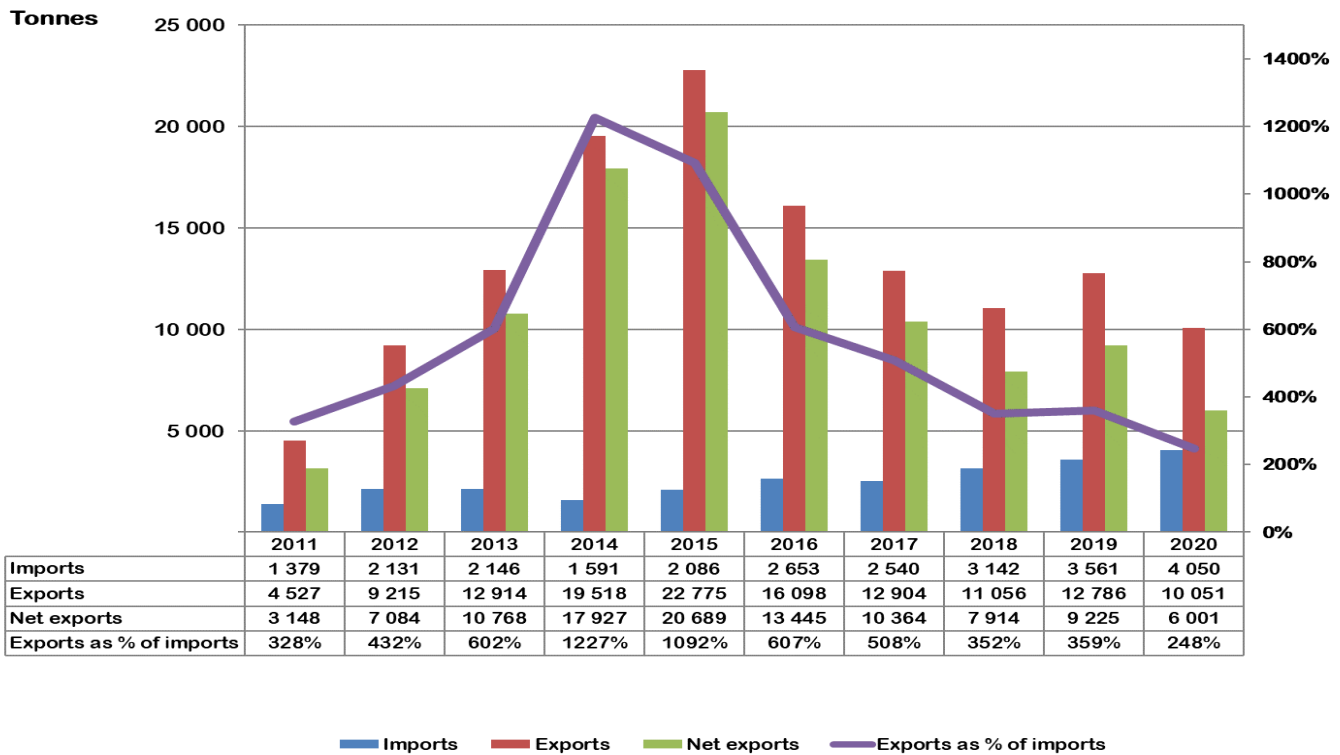


FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, (04.04) 2011 – 2020

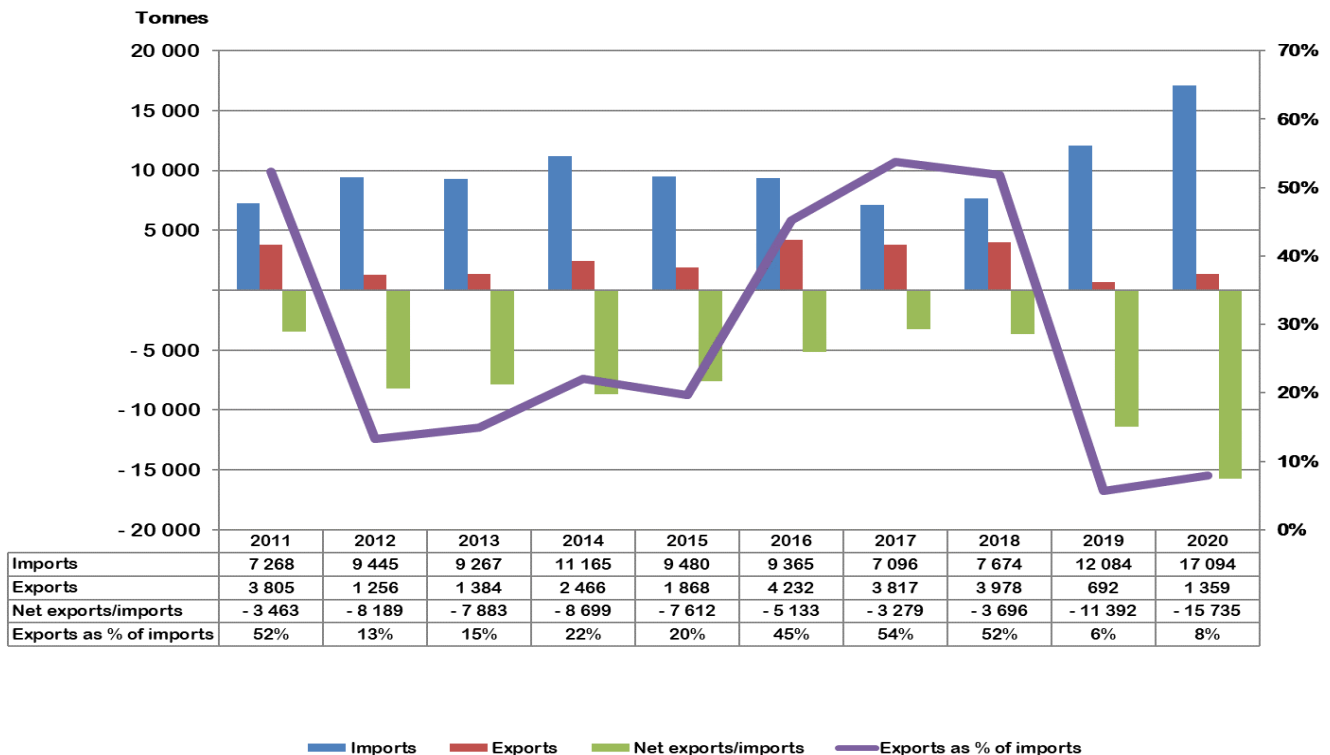


FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2011 – 2020

Tonnes

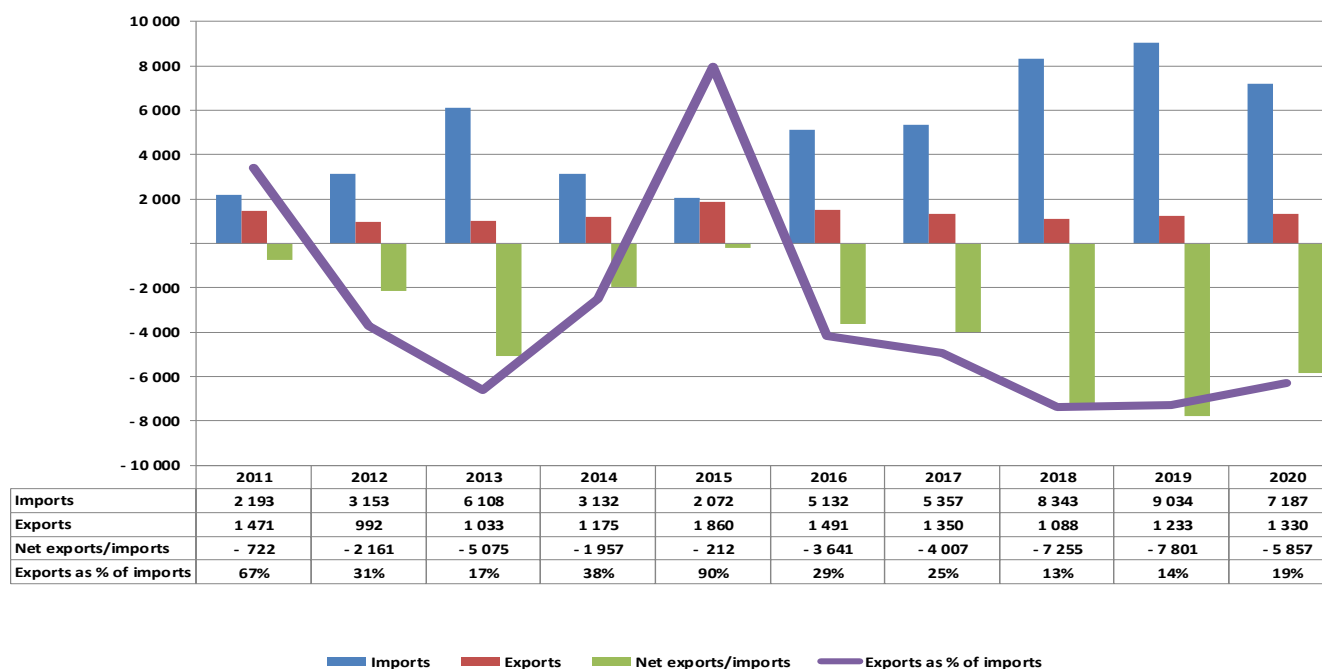


FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, (04.06) 2011 – 2020

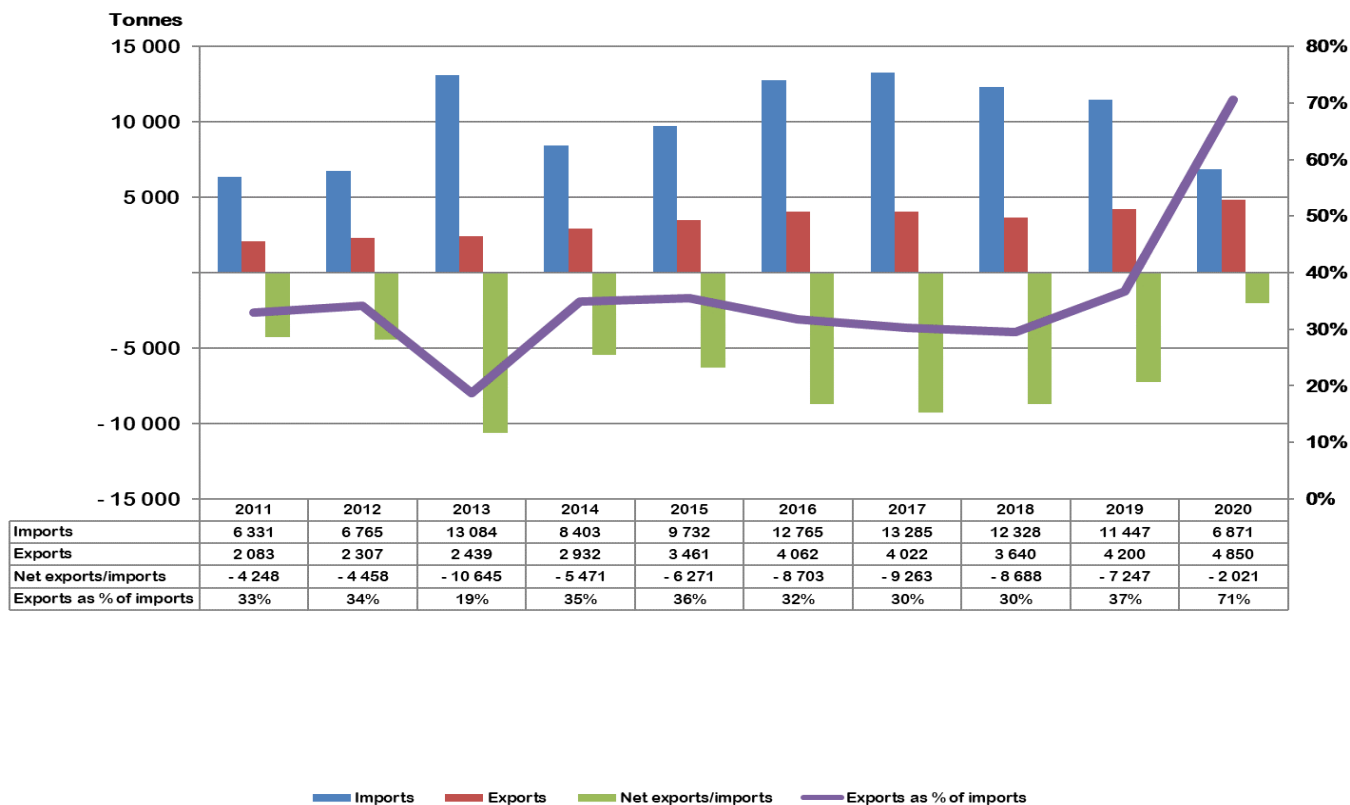


TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT FOB-PRICES FOR DAIRY PRODUCTS, 2016– 2020

Tariff heading	Description	Import price (R/kg)					Export price (R/kg)				
		2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
04.01	Milk & cream	7.44	7.65	8.00	8.95	10.32	10.18	10.93	11.20	11.30	12.23
04.02	Concentrated milk	32.94	32.31	30.84	36.49	46.22	37.00	41.51	36.56	36.97	46.98
04.03	Buttermilk & yoghurt	25.57	28.39	23.51	32.27	40.32	21.27	37.12	18.45	21.02	20.28
04.04	Whey	28.90	31.24	29.33	25.77	39.68	25.46	13.27	18.71	18.03	19.50
04.05	Butter	46.87	68.89	72.84	70.17	69.25	49.40	59.94	67.27	56.89	73.57
04.06	Cheese	57.21	62.19	62.92	69.85	79.19	51.99	60.86	53.15	56.25	58.17

Source: SARS as supplied to SAMPRO

The average free on board (F.O.B) export prices in 2020, of five of the six different categories of dairy products, are higher than in 2019, while for import F.O.B prices all categories are higher in 2020 compared to 2019.

TABLE 2: PERCENTAGE CHANGES IN THE RETAIL SALES QUANTITIES FROM THE YEAR JANUARY 2019 TO DECEMBER 2019, TO THE YEAR JANUARY 2020 TO DECEMBER 2020, AND CHANGES IN THE RETAIL PRICES FROM DECEMBER 2019 TO DECEMBER 2020 OF SPECIFIC DAIRY PRODUCTS

PRODUCT	CHANGE IN RETAIL SALES QUANTITY	CHANGE IN RETAIL PRICES
	PERCENT	PERCENT
FRESH MILK	-7.9	2.8
LONG LIFE MILK (UHT MILK)	9.9	4.3
FLAVOURED MILK	-10.6	4.7
YOGHURT	9.1	2.2
MAAS	6.2	1.0
PRE-PACKAGED CHEESE	14.8	3.8
CREAM CHEESE	2.2	9.4
BUTTER	8.2	11.1
CREAM	11.2	2.2

Source: Nielsen figures supplied by SAMPRO

The average retail prices of all 9 products were higher in December 2020, than in December 2019. In the year which ended in December 2020, the retail sales prices of four of the nine dairy products that increased, were lower than the inflation rate of 3.3 percent, and the retail sales quantities of 7 of the 9 dairy products were from 2,2 to 14.8 percent higher than in the previous year, but the sales quantities of 2 of the 9 dairy products were lower than in the previous year.

Fresh and long-life milk (UHT) (Unflavoured and unsweetened milk) utilize approximately 47.00 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	Sales in the month of December 2020 versus the sales in the month of November 2020	Sales in the 3 months from October 2020 to December 2020 versus the sales in the 3 months from October 2019 to December 2019	Sales in the 6 months from July 2020 - December 2020 versus the sales in the 6 months from July 2019 to December 2019	Sales in the 9 months from April 2020 to December 2020 versus the sales in the 9 months from April 2019 to December 2019	Sales in the 12 months from January 2020 to December 2020 versus the sales in the 12 months from January 2019 to December 2019
	percent		percent		percent
Fresh Milk	-9.4	-9.3	-9.1	-9.0	-7.9
UHT milk	6.9	5.7	7.3	9.3	9.9
Flavoured milk	-8.1	-7.2	-10.4	-11.7	-10.6
Yoghurt	8.4	5.9	6.2	9.6	9.1
Maas	1.1	1.8	3.3	5.7	6.2
Pre-packaged cheese	13.4	10.2	10.8	15.0	14.8
Cream cheese	1.1	-0.6	-0.5	3.1	2.2
Butter	-3.2	1.7	6.7	10.6	8.2
Cream	4.6	7.7	11.0	14.7	11.2

Source: Nielsen as supplied by SAMPRO

In the year which ended in December 2020, the retail sales quantities of two of the nine dairy products were from 7.9 and 10.6 percent lower than in the year which ended in December 2019, while the retail sales quantities of seven dairy products were from 2.2 to 14.8 percent higher than in the year that ended in December 2019.

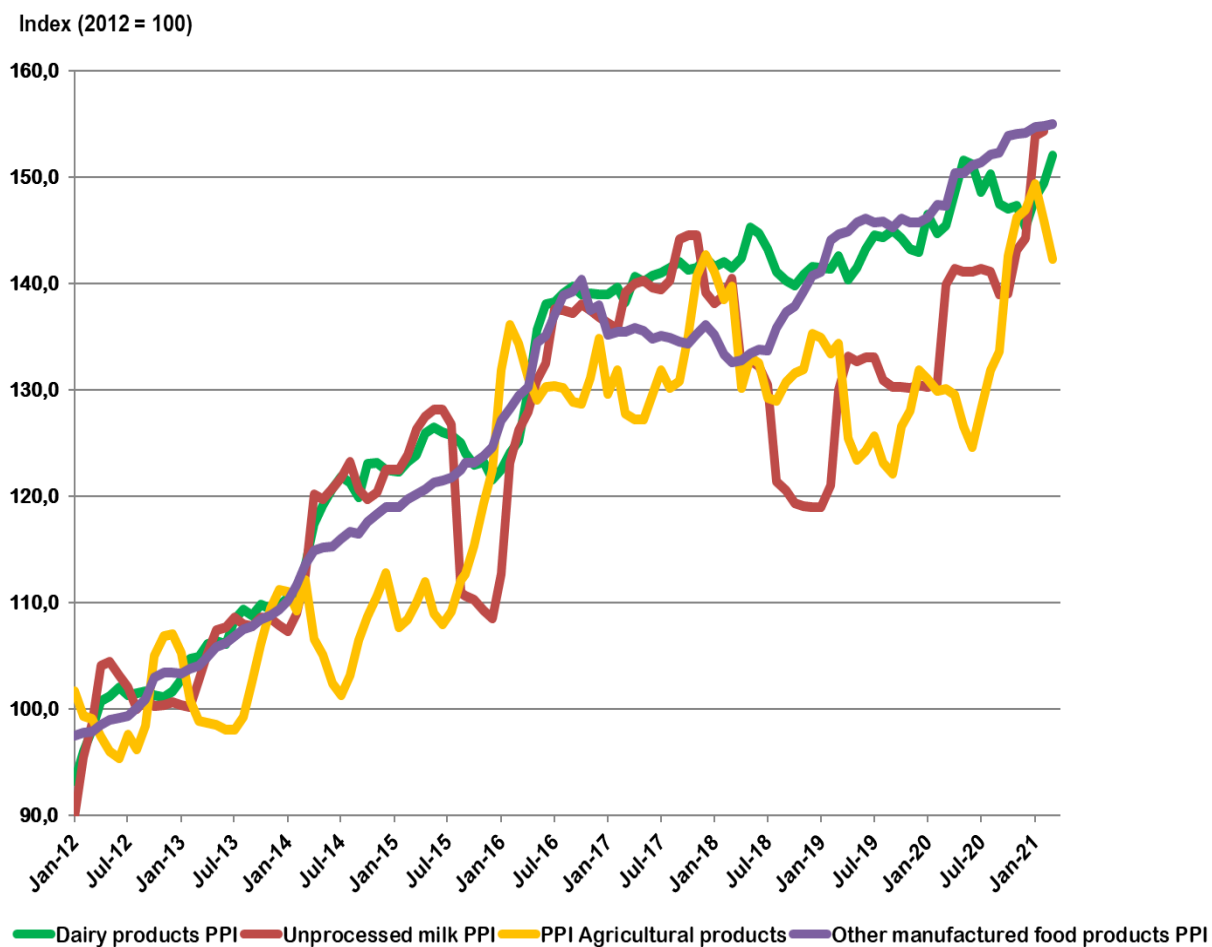
TABLE 4: CHANGES IN THE RETAIL PRICES OF CERTAIN DAIRY PRODUCTS

PRODUCT	December 2020 versus November 2020 (1 month ago)	December 2020 versus September 2020 (3 months ago)	December 2020 versus June 2020 (6 months ago)	December 2020 versus March 2020 (9 months ago)	December 2020 versus December 2019 (12 months ago)	December 2020 versus June 2019 (18 months ago)	December 2020 versus December 2018 (24 months ago)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
FRESH MILK	1.0	1.3	0.6	1.6	2.8	4.9	8.9
UHT MILK	2.1	0.4	-1.3	4.7	4.3	5.8	16.4
FLAVOURED MILK	9.6	1.7	-0.6	3.6	4.7	6.1	10.4
YOGHURT	0.8	-0.7	1.0	-0.05	2.2	0.2	3.6
MAAS	-2.7	-1.6	-3.1	-2.8	1.0	0.9	3.0
PRE-PACKAGED CHEESE	1.9	1.7	1.6	1.6	3.8	5.3	6.5
CREAM CHEESE	3.0	3.8	3.7	8.5	9.4	11.4	14.6
BUTTER	4.6	1.2	1.7	0.1	11.1	8.4	11.1
CREAM	4.5	3.0	2.8	2.9	2.2	7.7	10.6

Source: Nielsen as supplied by SAMPRO

In the year which ended in December 2020, the retail sales prices of all nine dairy products increased with 1.0 to 11.1 percent. Six of the nine product prices increased with less than inflation.

FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, JANUARY 2012 – March 2021.



Source: Stats SA

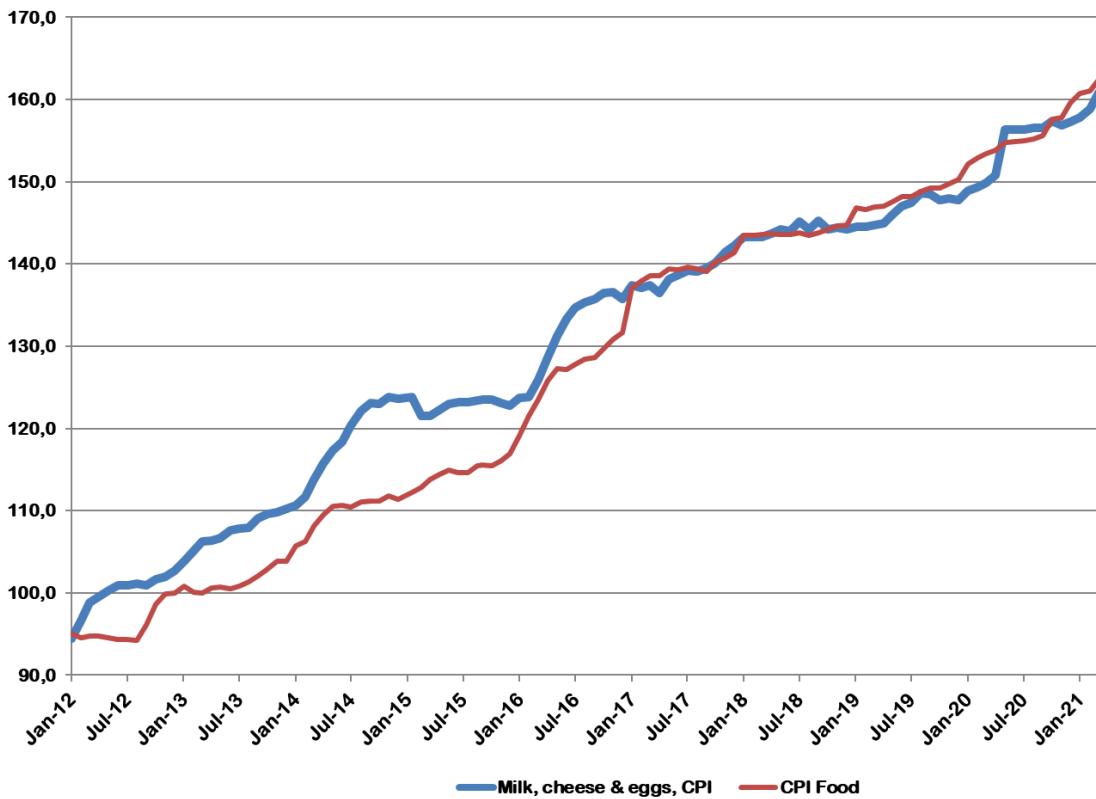
The PPI for other manufactured food products exhibit an upward trend since March 2018. There was some sideways movement from April 2019 to Dec 2019 with the upward trend continuing in 2020 and for the first three months of 2021. The index increased with 5.2% from March 2020 to March 2021.

The PPI for Agricultural products increased with 9,4% from March 2020 to March 2021.

The highest level of the PPI for Dairy products in 2019 was 145 index points (Sept), an increase of 2.5% but the index lost ground falling back with 1.4% in December 2019 to 143 index points. In 2020 the highest level of the index was 151.6 in May 2020, an increase of 6% from the December 2019 index level. The index trend reversed in the second half of 2020 and decreased with 4,2% from May 2020 to December 2020 to 145.3 points. The index increased with 1,6% from December 2019 to December 2020 which is significantly less than the index for agricultural products and the index of manufactured food products. The index increased with 4,5% from March 2020 to March 2021.

The PPI for unprocessed milk started to increase from February 2020 from 130.3 index points to 144.3 points in December 2020, an increase of 10,6%. It should be noted that the index lagged the other indices for a prolonged period and that the intrinsic value of the percentage increase will differ between the different indices. The index increased with 18,1% from February 2020 to February 2021 to a level higher than that of the PPI for agricultural products.

FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – March 2021

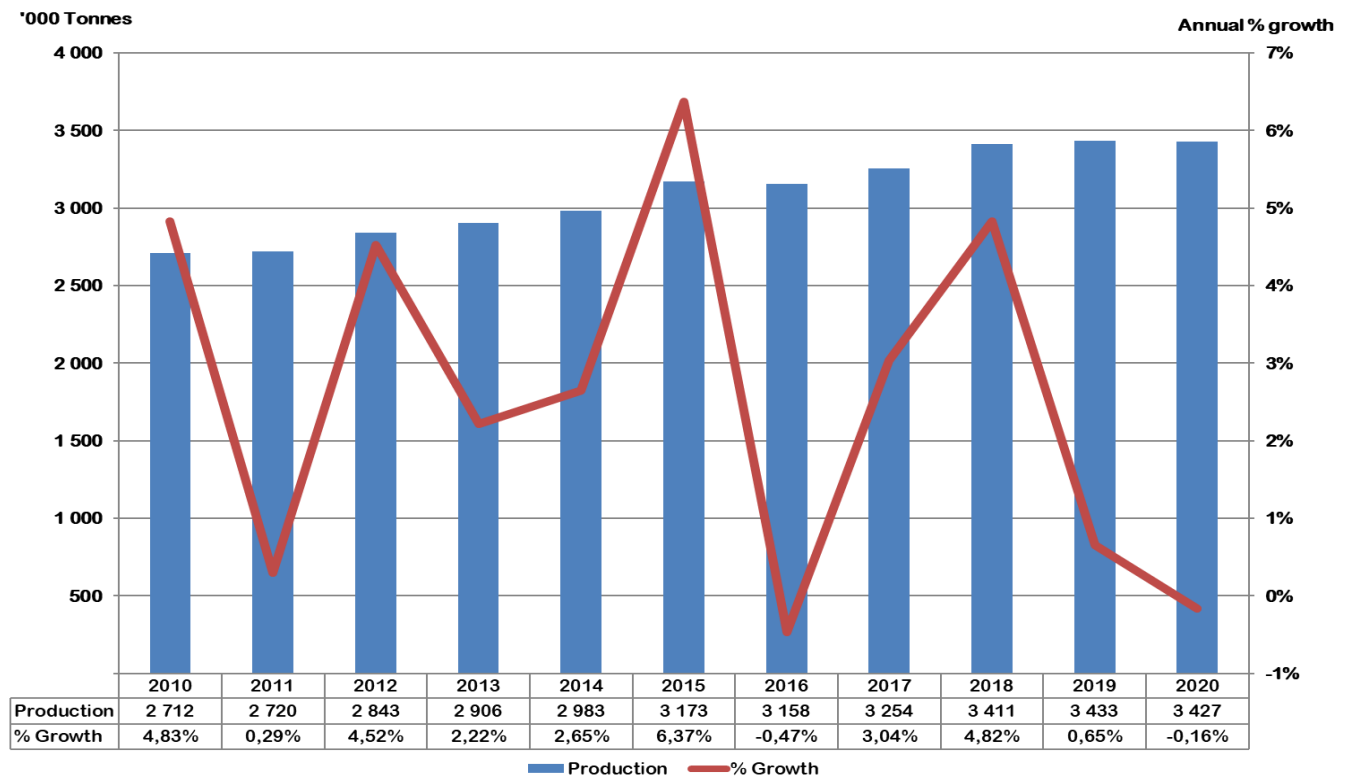


Source: Stats SA

The CPI for food started to increase in February 2019, and continued on this trend through 2019 and for 2020. The index increased with 8.8% from 146.6 index points in February 2019 to 159.6 points in December 2020. The increase from December 2019 (150.3) to December 2020 (159.6) was 4.9%. The index increased with 5,9% from March 2020 to March 2021.

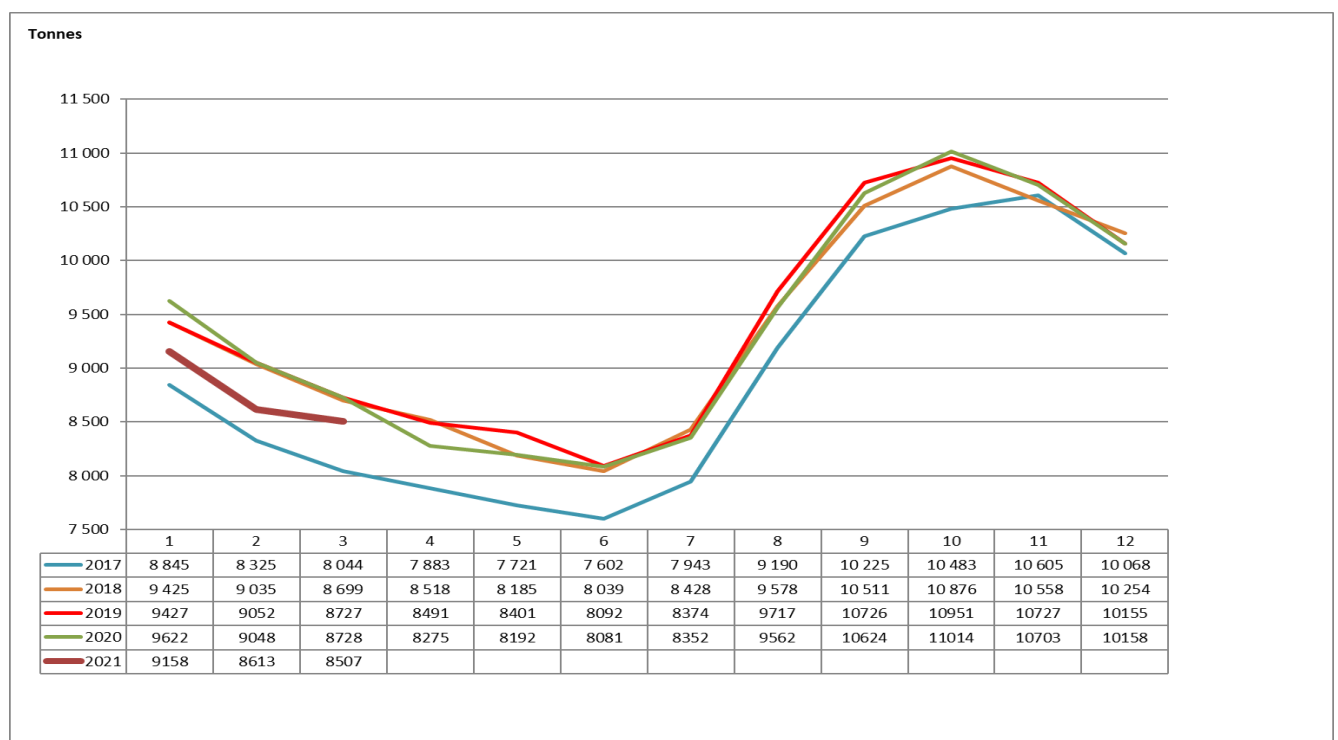
The CPI for milk, cheese and eggs increased with 8.8% from February 2019 (144.5) to December 2020 (157.3), exactly the same percentage as the CPI for food. The increase from December 2019 (147.8) to December 2020 (157.3) was 6.4%. This percentage increase is moderately higher than the CPI for food. The index increased with 7,3% from March 2020 to March 2021.

FIGURE 14: ANNUAL SOUTH AFRICAN UNPROCESSED MILK PURCHASES, 2010 – 2020



Source: Milk SA

FIGURE 15: SOUTH AFRICAN UNPROCESSED MILK PURCHASES DAILY AVERAGE PER MONTH, JANUARY 2017 – MARCH 2021



Source: Milk SA; Feb and March 2021 = Milk SA estimates.

TABLE 5: CUMULATIVE UNPROCESSED MILK PURCHASES (Tonnes), 2016 – 2020

Month	2016	2017	2018	2019	2020
January	264 711	274 208	292 171	292 222	298 287
February	505 147	507 314	545 148	545 682	560 678
March	752 227	756 690	814 832	816 208	831 233
April	987 280	993 180	1 070 368	1 070 927	1 079 473
May	1 223 556	1 232 517	1 324 102	1 331 360	1 333 417
June	1 454 086	1 460 583	1 565 269	1 574 114	1 575 855
July	1 694 009	1 706 830	1 826 534	1 833 695	1 834 773
August	1 964 790	1 991 715	2 123 446	2 134 907	2 131 205
September	2 260 473	2 298 450	2 438 789	2 456 699	2 449 933
October	2 574 398	2 623 438	2 775 933	2 796 179	2 791 371
November	2 869 392	2 941 589	3 092 669	3 117 985	3 112 446
December	3 158 446	3 253 682	3 410 536	3 432 802	3 427 335

Source: Milk SA.

During 2020, 3 427 335 tonnes of unprocessed milk were purchased, which is 0.16% less than in 2019.

Synopsis

Three of the four international dairy product prices being monitored (in Rand terms) from USDA data increased with double digits from March 2020 to March 2021. The price of butter up 20%, skimmed milk powder (SMP) up 11% and full cream milk powder (FMP) up 28% on the corresponding month of the previous year. The price of cheddar bucked the trend, decreasing with 10% in March 2021 compared to March 2020. The price increases would have been more severe if it was not for the Rand exchange rate strengthening against the USD with 10,4% over the same period. In USD terms the increases in the dairy product prices over the same period were even more pronounced, butter up 34%, SMP up 23%, Cheddar up 1% and FMP up 43%. The market is uneasy regarding current stock levels, shipping capacity and the risk of further movement restrictions as the pandemic continues.

Five of the six major dairy exporting countries/regions increased unprocessed milk production in January 2021 compared to the same month in the previous year with the exception of the EU, who started slower.

Growth in the quantity of dairy sales for the products being monitored are solid, with the exception of fresh milk and flavoured milk registering negative growth for all the time periods being measured. In the year which ended in December 2020, the retail sales prices of all nine dairy products increased with 1.0 to 11.1 percent. Six of the nine product prices increased with less than inflation.

The PPI for Other Manufactured Food Products increased with 5,2% from March 2020 to March 2021. Over the same period, the PPI for Agricultural Products increased with 9,4% and the PPI for Dairy Products with 4,5%. The PPI for Unprocessed Milk increased with 18,1% from February 2020 to February 2021.

Daily unprocessed milk purchases in 2021 for the first three months (last two months preliminary) is the lowest if compared to the same months for the past three years.

The document was compiled by Bertus van Heerden with input from:	Project Manager, Milk SA Project – Economies and Markets
Nico Fouché	CEO: Milk SA
Alwyn Kraamwinkel	CEO: SAMPRO
De Wet Jonker	Business Economist: SAMPRO

