



QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY¹

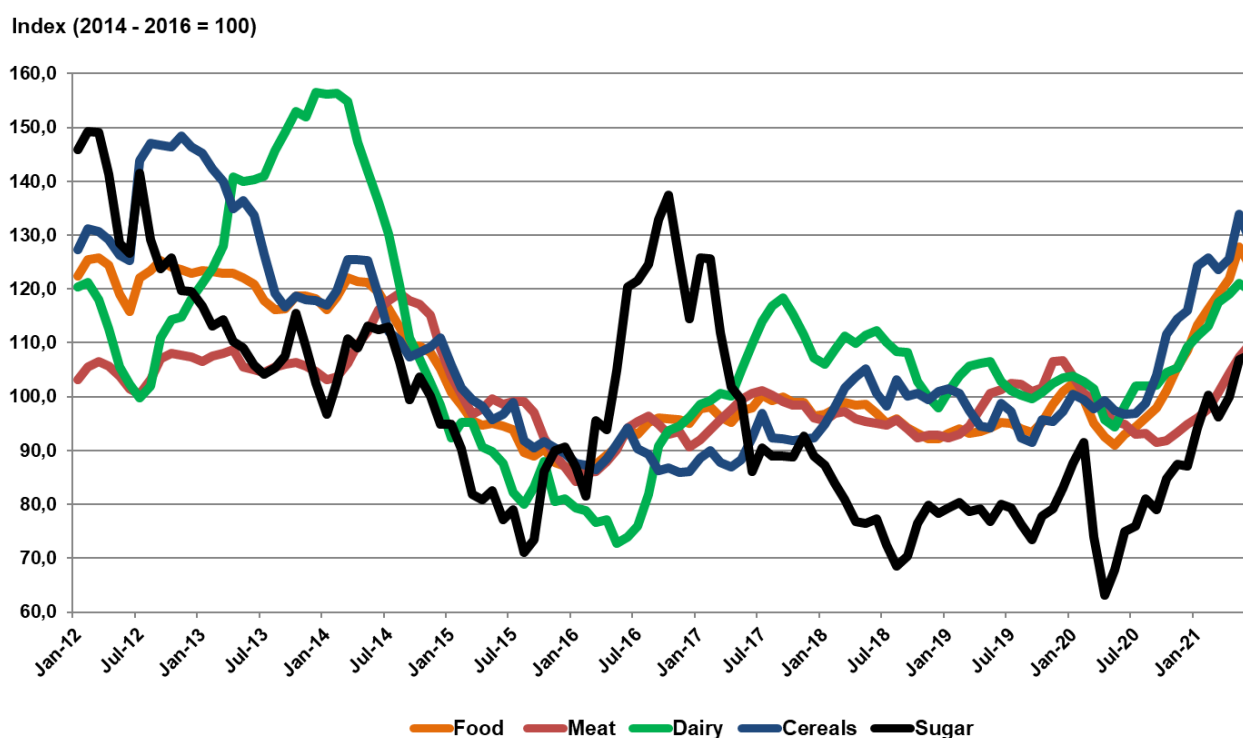
The information in this document is from sources deemed to be correct. Milk SA, the MPO and SAMPRO are not responsible for the results of any decisions taken on the strength of this information.

Second 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 – JUNE 2021



Source: FAO Food price index, July 2021

The FAO Food Price Index (FFPI) averaged 124.6 points in June 2021, down 3.2 points (2.5 percent) from May, but still 31.5 points (33.9 percent) higher than its level in the same period last year. **The decline in June marked the first drop in the FFPI following twelve consecutive monthly increases.** The drop in June reflected declines in the prices of vegetable oils, cereals and, to a lesser degree, dairy prices, which more than offset generally higher meat and sugar quotations.

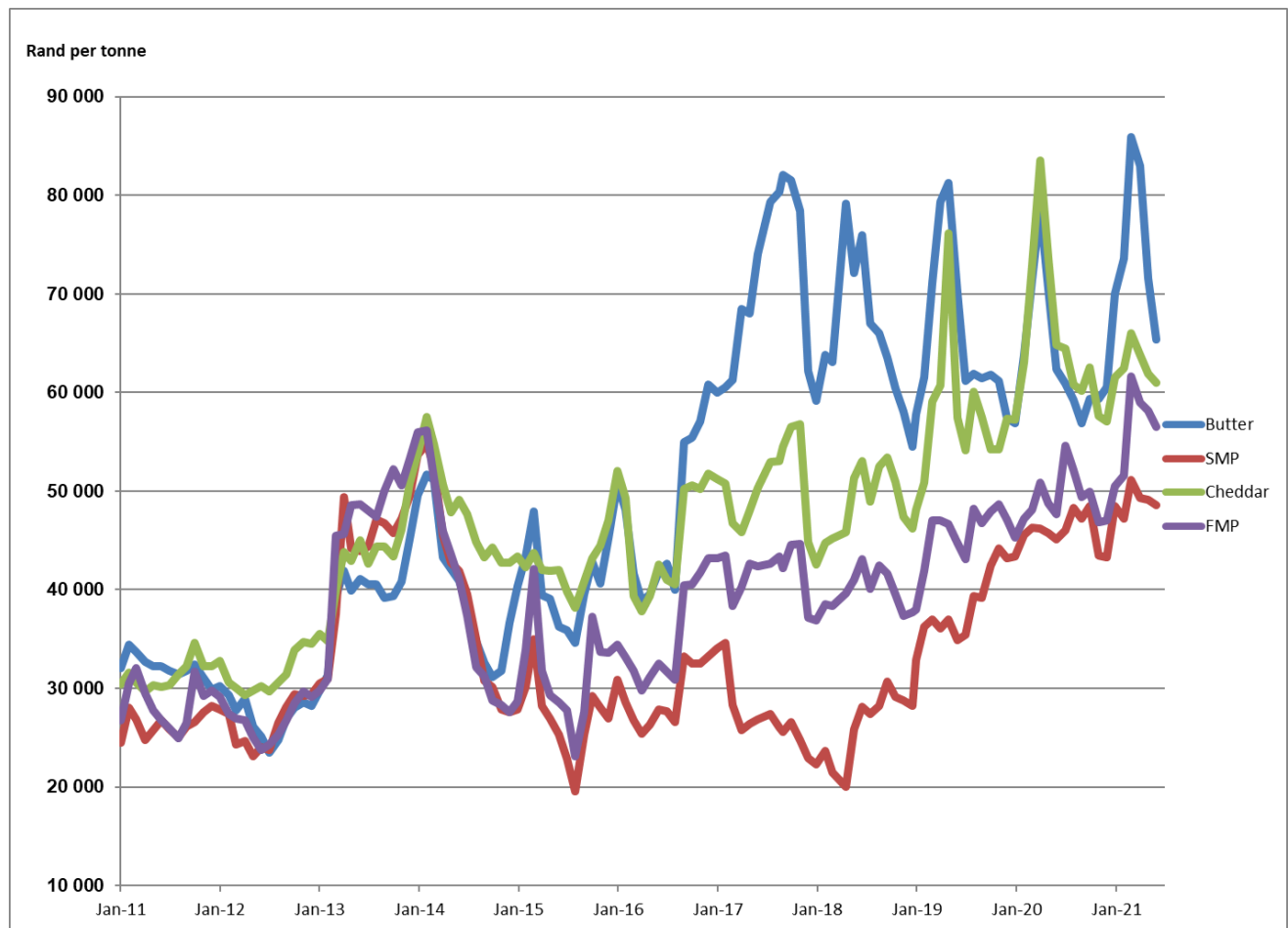
The FAO Dairy Price Index averaged 119.9 points in June, down 1.2 points (1.0 percent) from May, **ending twelve months of uninterrupted increases.** At this level, the index value stood 21.6 points (22.0 percent) above its value in the corresponding month last year.

The FAO Cereal Price Index averaged 129.4 points in June, down 3.5 points (2.6 percent) from May but still 32.7 points (33.8 percent) above its June 2020 value. **After reaching their highest level in May since January 2013, international maize prices dropped by 5.0 percent in June, yet remained over 72 percent higher than in the same period last year.** Maize prices in Argentina fell with increased supplies from recent harvests as a result of higher-than-earlier expected yields. Despite drought damage, ongoing harvests also put downward pressure on maize prices in Brazil. In the United States of America, maize prices fell towards the end of the month as rainfall improved crop conditions in some areas.

The FAO Meat Price Index averaged 109.6 points in June, up 2.2 points (2.1 percent) from its revised value for May, continuing the increases for the ninth consecutive month and placing the index 15.6 percent above the corresponding month last year, but still 8.0 percent below its peak reached in August 2014.

The FAO Sugar Price Index averaged 107.7 points in June, up slightly by 0.9 points (0.9 percent) from May, marking the third consecutive monthly increase and reaching a new multi-year high. Uncertainties over the impact of unfavourable weather conditions on crop yields in Brazil, the world's largest sugar exporter, exerted upward pressure on prices.

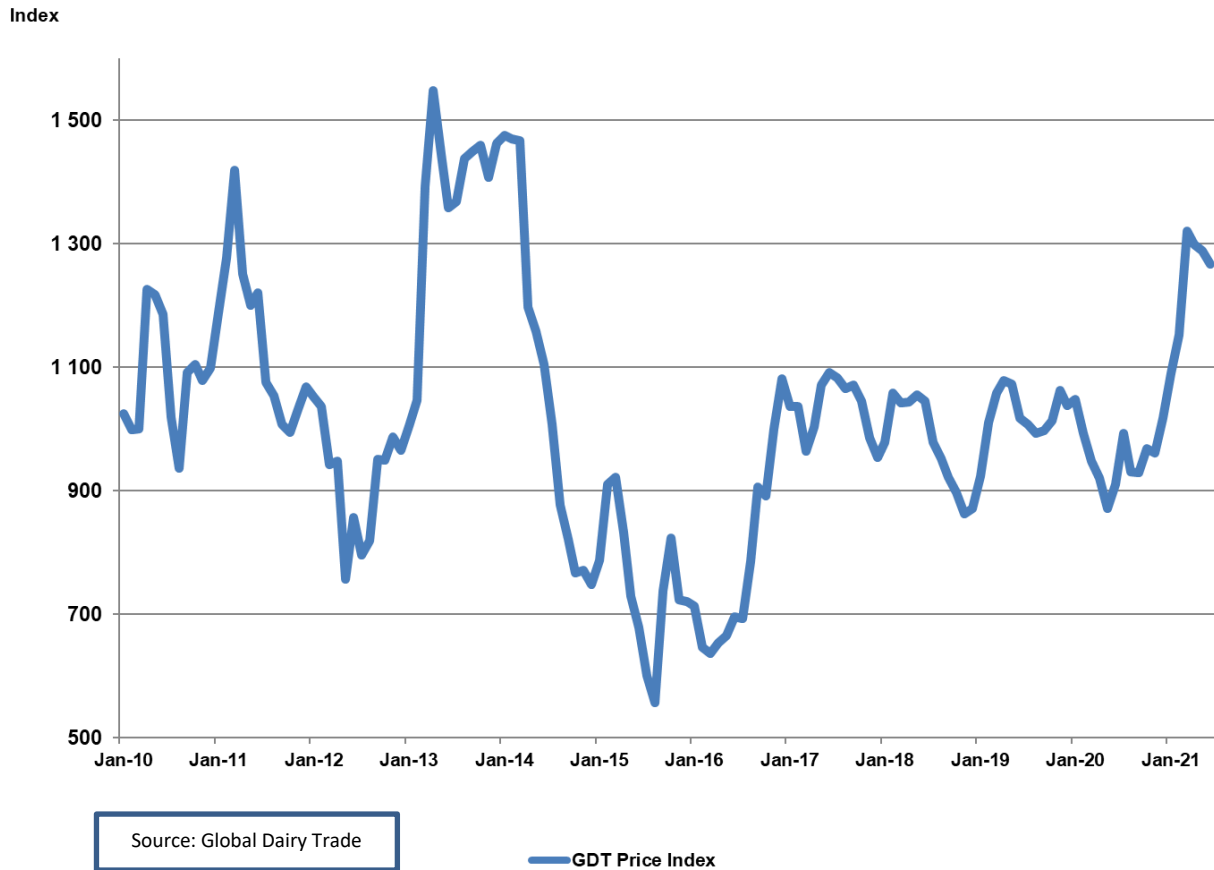
FIGURE 1b: International Dairy Product Prices: Jan 2011 – June 2021



Source: USDA

Three of the dairy product prices being monitored in the graph above increased from June 2020 to June 2021. The price of butter up 4,8%, skimmed milk powder (SMP) up 7,6% and full cream milk powder (FMP) up 18,6% on the corresponding month of the previous year. The price of cheddar bucked the trend, decreasing with 5,9% in June 2021 compared to June 2020. The price increases would have been more severe if it was not for the Rand exchange rate strengthening against the USD with 18,6% over the same period. In USD terms the increases in the dairy product prices over the same period were even more pronounced: butter up 29%, SMP up 32%, Cheddar up 15% and FMP up 46%. However, it is significant to note that the butter price in USD terms decreased with 19% from the peak in April 2021.

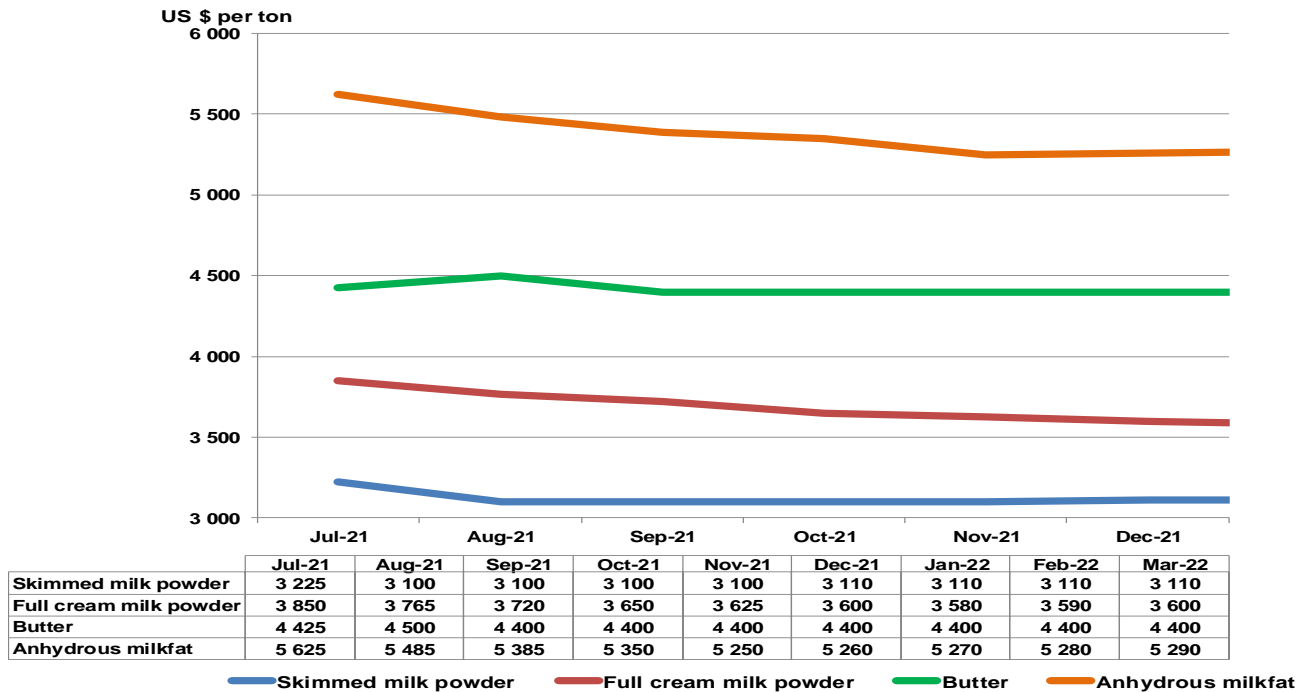
FIGURE 2a: Global dairy trade-weighted price index. Jan 2010 – June 2021



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 June 2021. 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 index peaked in March 2021 at 1321 index points, but started to decline thereafter. In June 2021 the index declined to 1268 index points, 4,0% lower than the March 2021 peak, but still 36% 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, that international dairy prices started to decline in recent months.

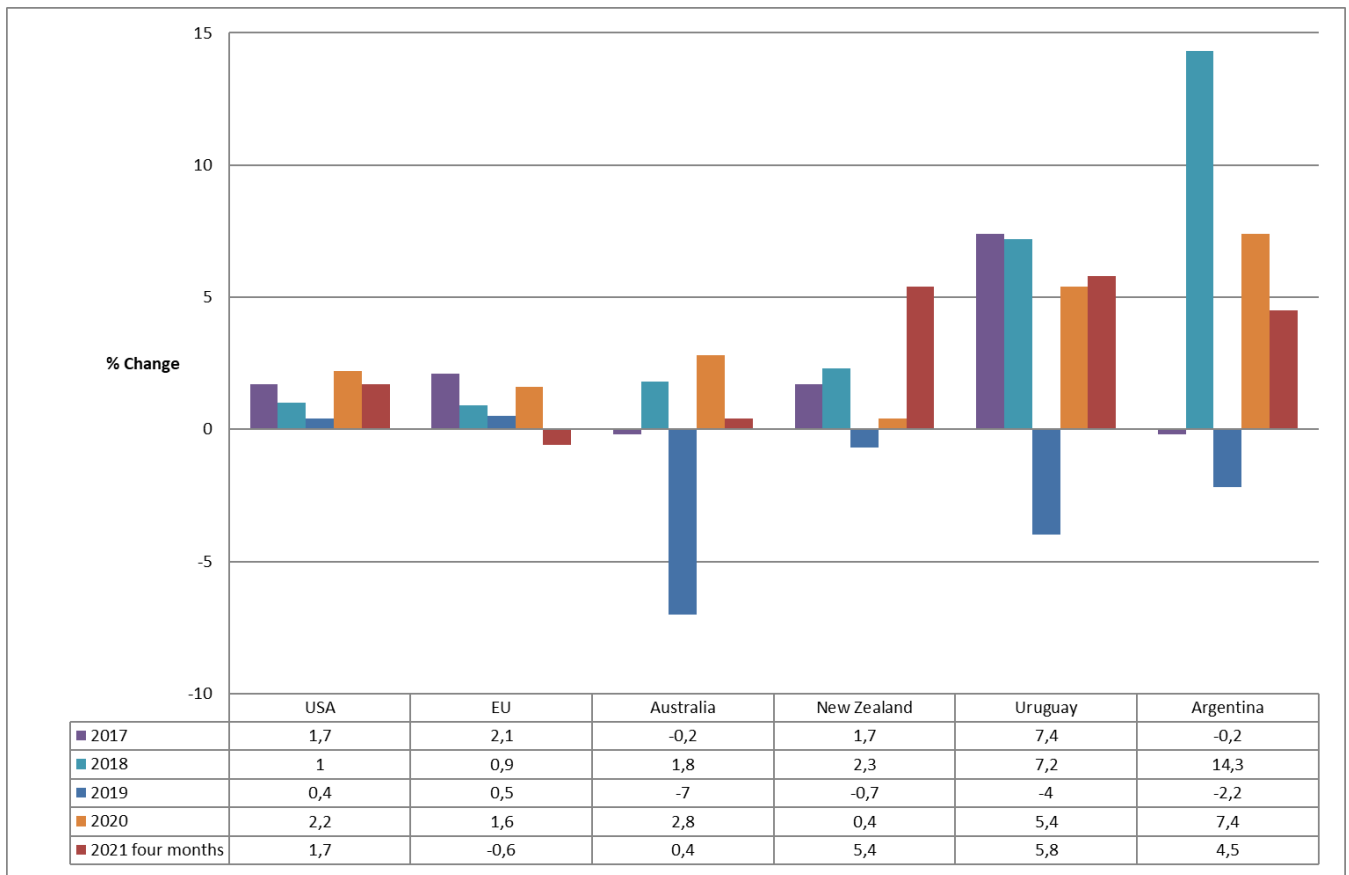
FIGURE 2b: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX): July 2021 – March 2022



Source: NZX Futures, July 2021

The New Zealand Future Exchange reflects downward movement for all the major dairy products included in the graph above, with the exception being butter moving sideways. Skimmed milk powder prices indicate a slight downward trend during the above period, while the decline in the anhydrous milkfat and full cream milk powder are more pronounced, decreasing with 6,0% and 7,0% respectively.

FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2017 – 2021 (first four months of every year)

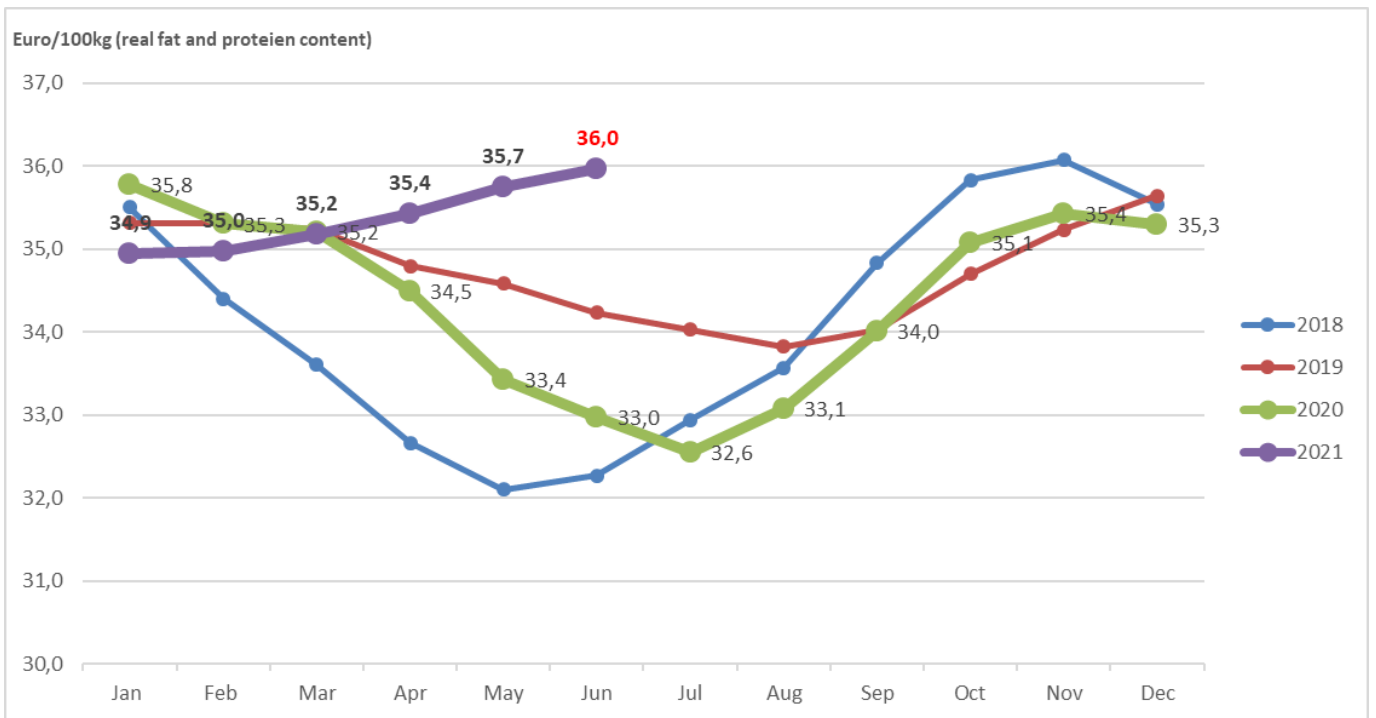


Source: CLAL, July 2021

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 four months of 2021 all the countries in the above graph are showing increased production when comparing the first four months of each reflected year in the above table, except for the EU region indicating a slower start in 2021.

FIGURE 4: WEIGHTED AVERAGE PRODUCER PRICE OF UNPROCESSED MILK IN THE EU (excluding UK). January 2018 – June 2021 (last month estimate)



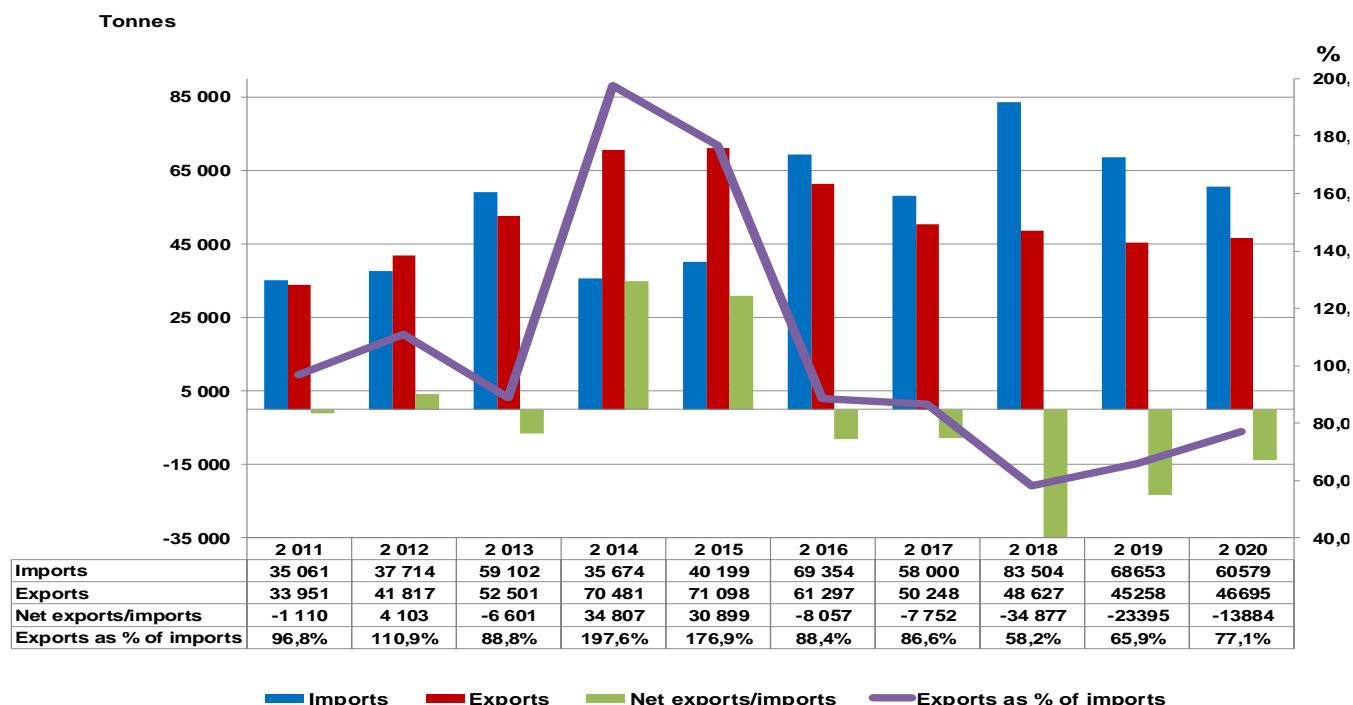
Source: European Commission, July 2021

The weighted average EU price for unprocessed milk price in June 2021 is 9.1% higher compared to the June 2020 price. From January 2021 to June 2021 the price increased from 34.9 Euros/100kg to 36 Euros per 100Kg, an increase of 3.1%. The 2021 trend of the producer price of unprocessed milk is different from the trend in the previous three years.

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

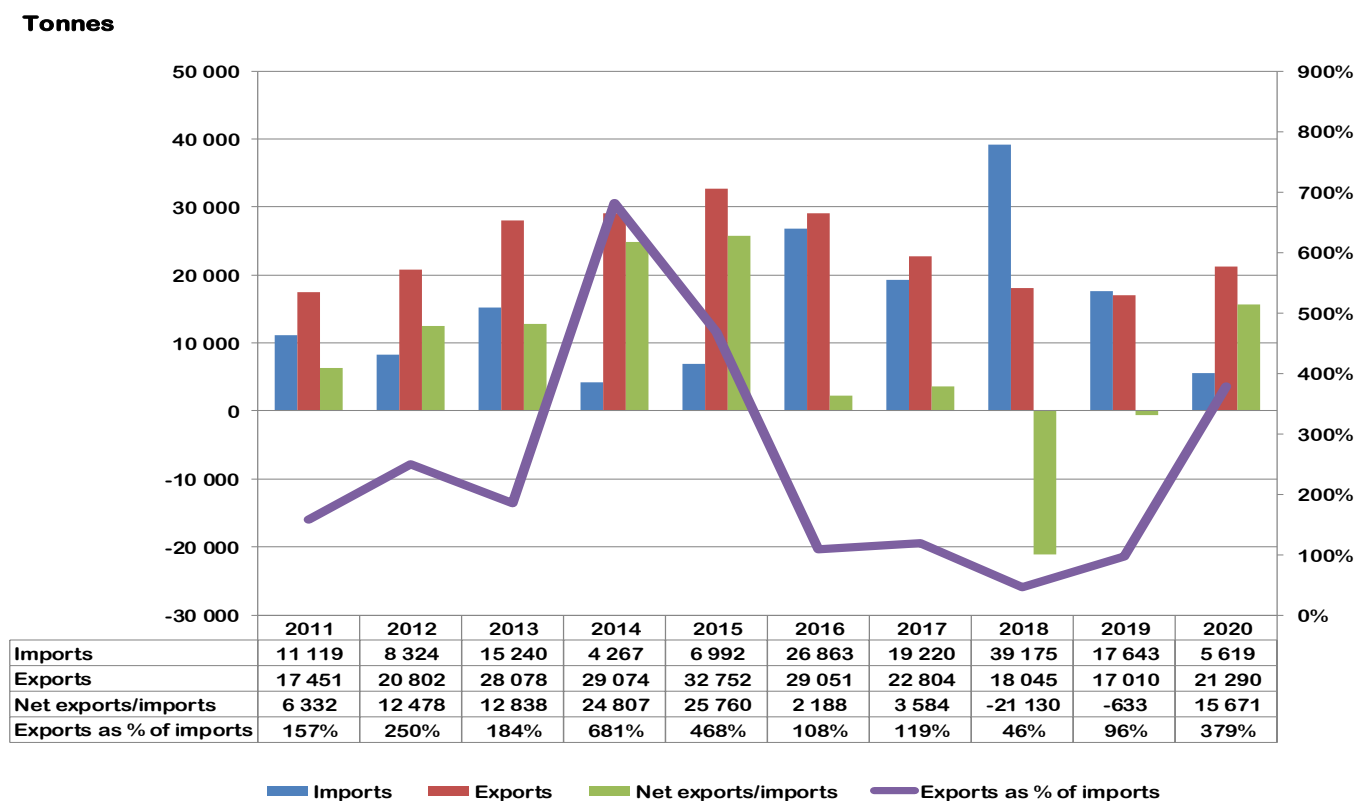


FIGURE 7: S.A. IMPORTS AND EXPORTS OF CONCENTRATED MILK, (04.02) 2011 – 2020

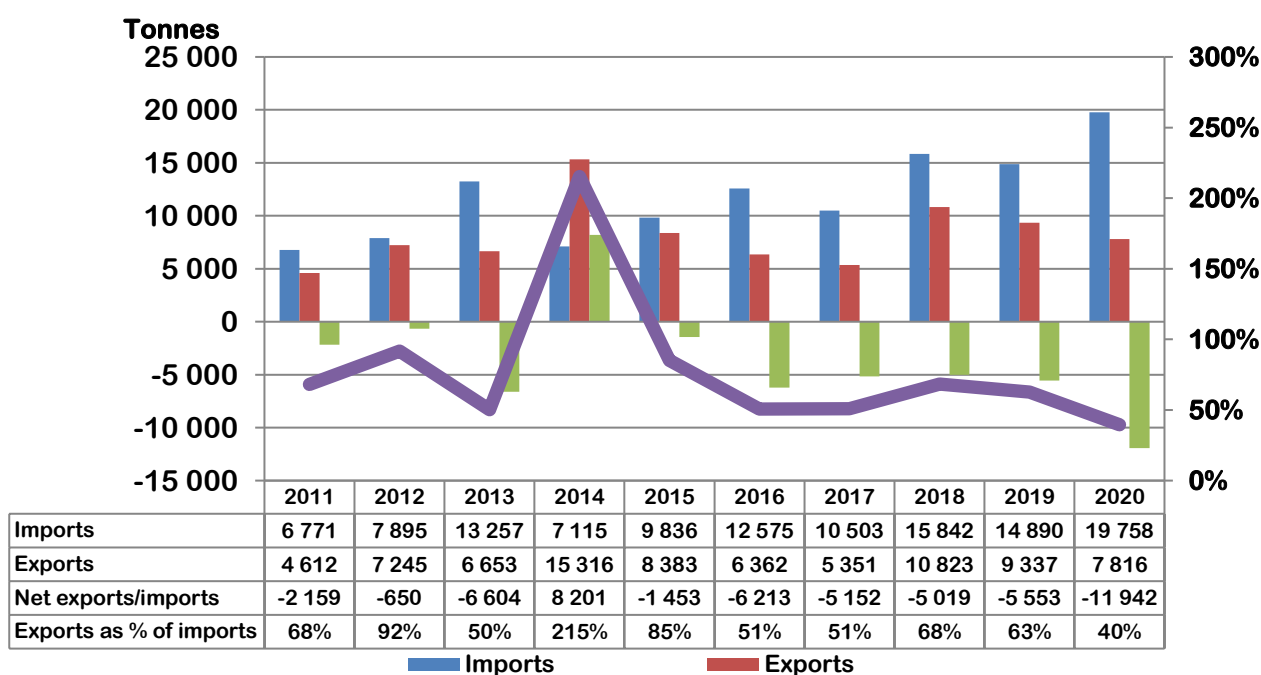


FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, (04.03) 2011 – 2020

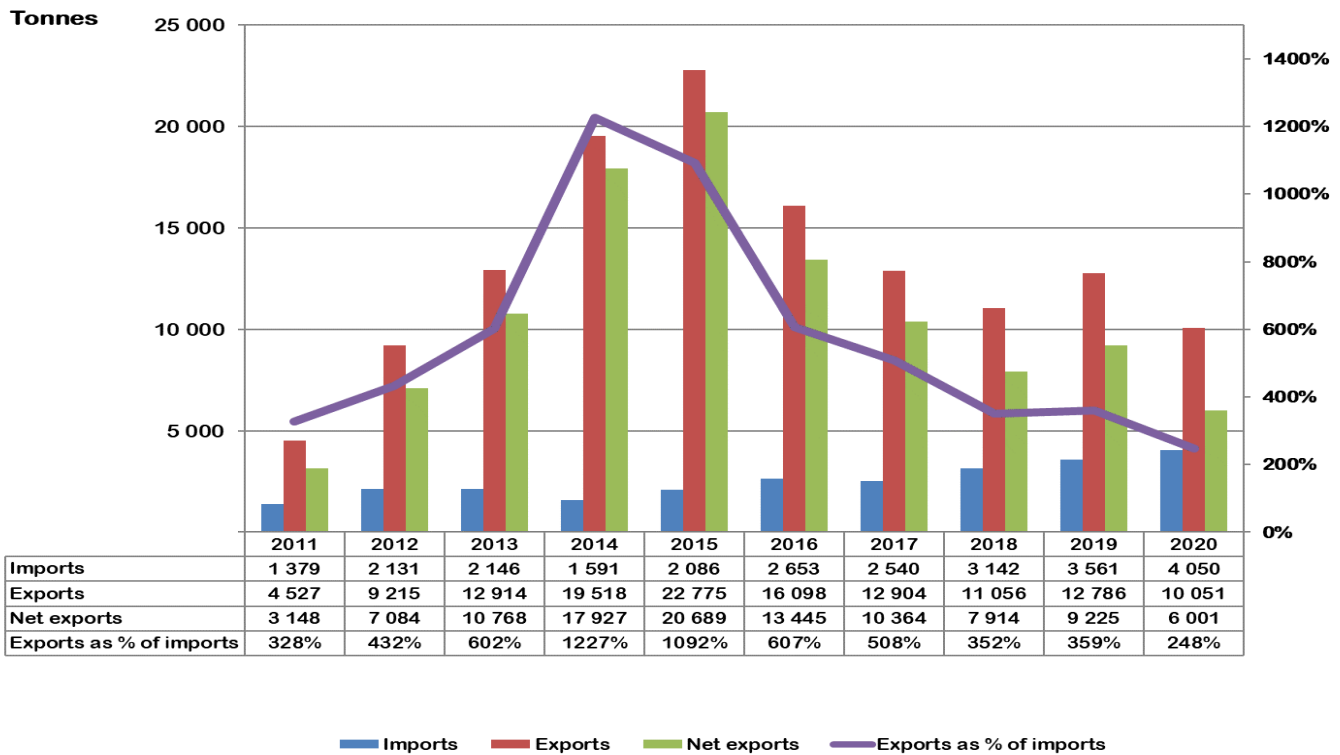


FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, (04.04) 2011 – 2020

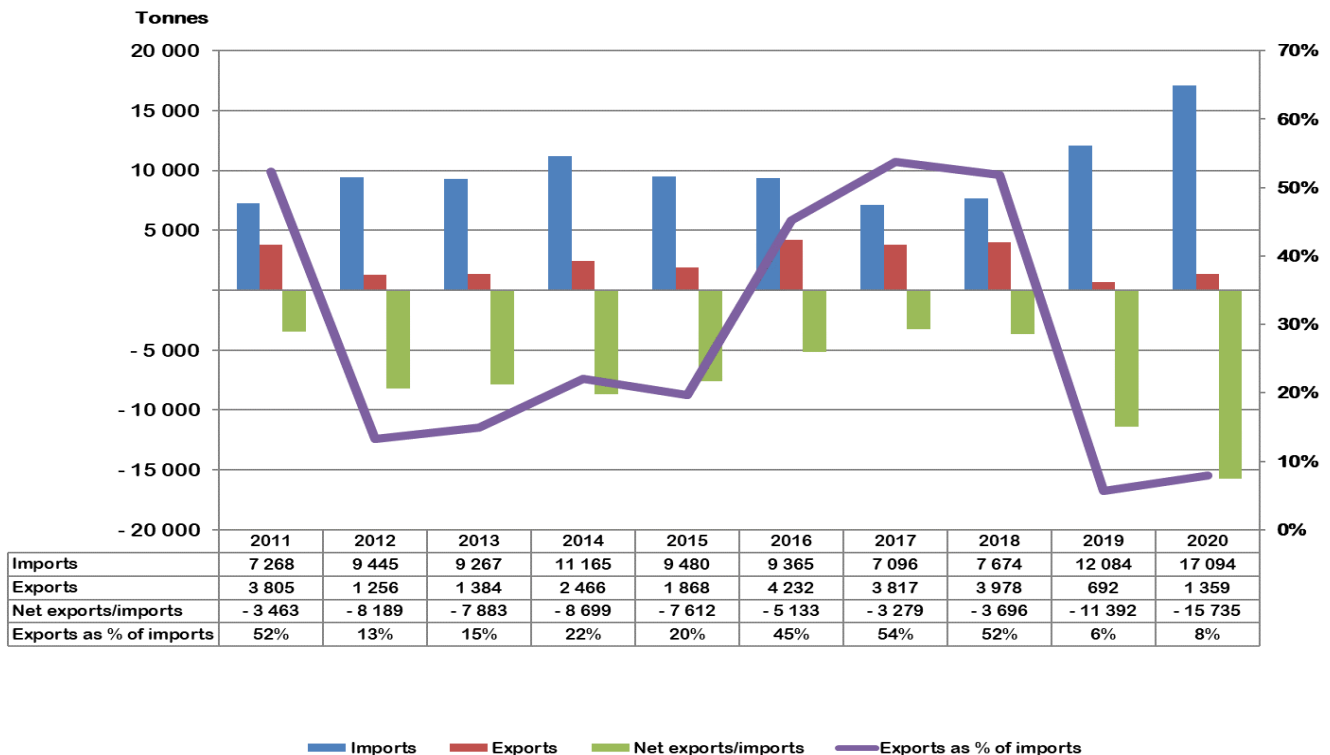


FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2011 – 2020

Tonnes

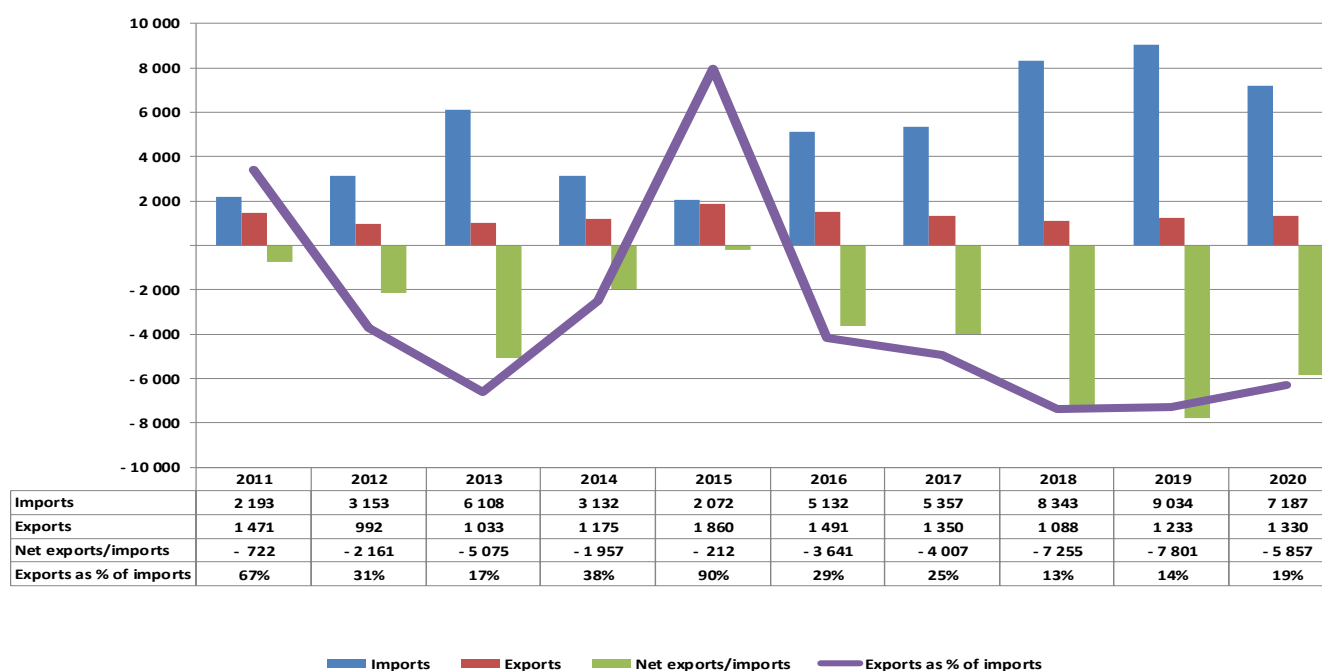


FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, (04.06) 2011 – 2020



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 five of the six categories are higher in 2020 compared to 2019.

TABLE 2: CHANGES IN THE RETAIL SALES QUANTITIES FROM THE YEAR APRIL 2019 TO MARCH 2020, TO THE YEAR APRIL 2020 TO MARCH 2021, AND CHANGES IN THE RETAIL PRICES FROM MARCH 2020 TO MARCH 2021 OF SPECIFIC DAIRY PRODUCTS

PRODUCT	CHANGE IN RETAIL SALES QUANTITY	CHANGE IN RETAIL PRICES
	PERCENT	PERCENT
FRESH MILK	-8.8	4.6
LONG LIFE MILK (UHT MILK)	5.5	4.8
FLAVOURED MILK	-8.6	2.0
YOGHURT	7.2	3.5
MAAS	2.5	2.8
PRE-PACKAGED CHEESE	9.9	3.5
CREAM CHEESE	1.9	12.5
BUTTER	10.2	-3.1
CREAM	13.8	1.2

Source: Nielsen figures supplied by SAMPRO

The average retail prices of all eight of the nine products being monitored in the above graph were higher in March 2021 than in March 2020, with the exception of butter being 3,1% lower. In the year which ended in March 2021, the increase in retail sales prices of three of the nine dairy products that increased, were lower than the inflation rate of 3.2

percent, and the retail sales quantities of seven of the nine dairy products were from 2,5 to 13.8 percent higher than in the previous year. The sales quantities of two of the nine dairy products were more than eight percent lower than in the previous year.

Fresh and long-life milk (UHT) (Unflavoured and unsweetened milk) utilize approximately 46,0 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 March 2021 versus the sales in the month of March 2020	Sales in the 3 months from January 2021 to March 2021 versus the sales in the 3 months from January 2020 to March 2020	Sales in the 6 months from October 2020 to March 2021 versus the sales in the 6 months from October 2019 to March 2020	Sales in the 9 months from July 2020 to March 2021 versus the sales in the 9 months from July 2019 to March 2020	Sales in the 12 months from April 2020 to March 2021 versus the sales in the 12 months from April 2019 to March 2020
	percent		percent		percent
Fresh Milk	-11.8	-8.2	-8.7	-8.8	-8.8
UHT milk	-18.8	-4.8	-0.2	2.6	5.5
Flavoured milk	2.2	0.3	-3.6	-6.8	-8.6
Yoghurt	-5.9	-0.9	2.5	3.9	7.2
Maas	11.4	3.4	-0.1	0.7	2.5
Pre-packaged cheese	-6.6	-1.0	4.3	6.1	9.9
Cream cheese	-6.9	-1.3	-0.9	-0.8	1.9
Butter	-3.4	8.8	5.1	7.4	10.2
Cream	3.9	11.4	9.5	11.1	13.8

Source: Nielsen as supplied by SAMPRO

In the year which ended in March 2021, the retail sales quantities of two of the nine dairy products were from 8.8 and 8.6 percent lower than in the year which ended in March 2020, while the retail sales quantities of seven dairy products were from 2.5 to 13.8 percent higher than in the year that ended in March 2020. Comparing March 2021 with March 2020 indicates a serious decline in sales. Long life milk decreased with 19 percent and fresh milk with 12 percent. Although the circumstances between the two months regarding the start of the lockdown in South Africa in March 2020 versus a continuation of the lockdown

in March 2021 at different levels of severity due to the Covid-19 pandemic, sales of dairy products decreased with high percentages.

TABLE 4: THE AVERAGE RETAIL PRICES OF SPECIFIC DAIRY PRODUCTS IN MARCH 2021, COMPARED TO THE AVERAGE RETAIL PRICES OF THE PRODUCTS CONCERNED IN SPECIFIC PREVIOUS MONTHS OF 2020 AND 2019

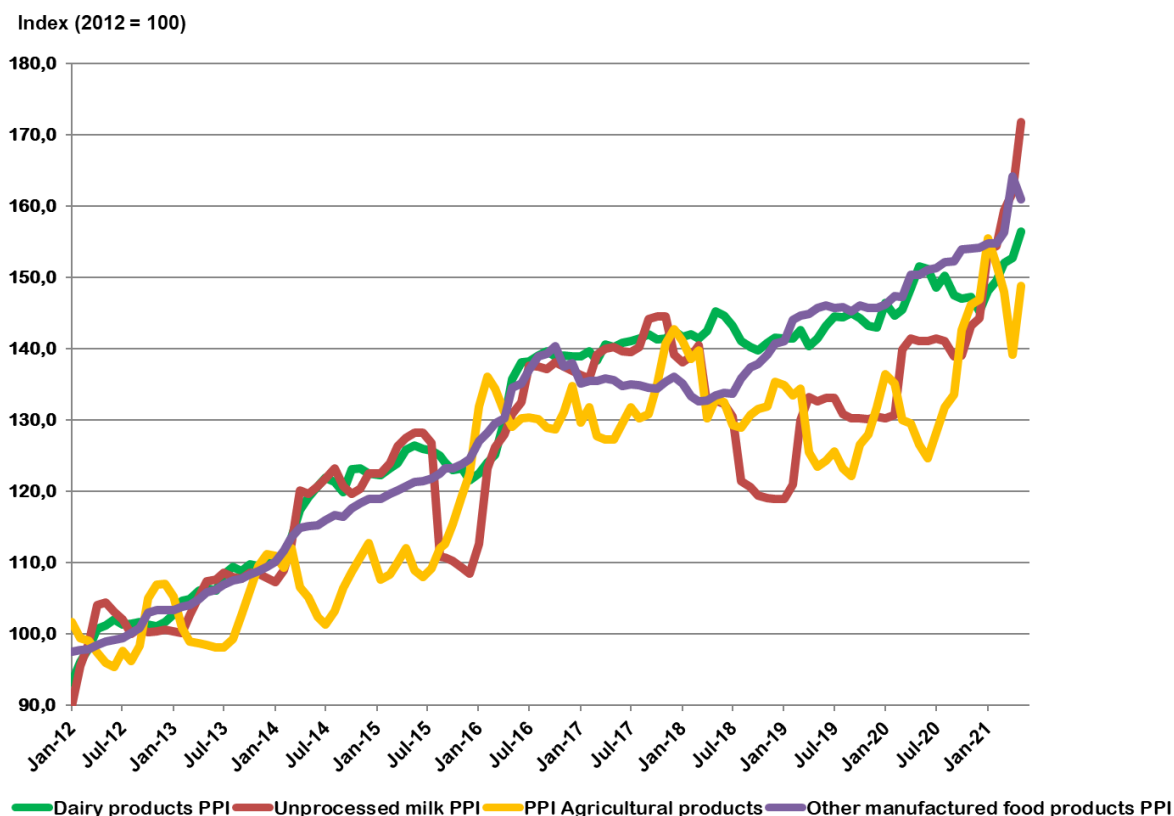
PRODUCT	March 2021 versus February 2021 (1 month ago)	March 2021 versus December 2020 (3 months ago)	March 2021 versus September 2020 (6 months ago)	March 2021 versus June 2020 (9 months ago)	March 2021 versus March 2020 (12 months ago)	March 2021 versus September 2019 (18 months ago)	March 2021 versus March 2019 (24 months ago)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
FRESH MILK	2.0	3.0	4.3	3.5	4.6	6.8	10.2
UHT MILK	-0.3	-0.3	-0.4	-0.6	4.8	3.7	11.9
FLAVOURED MILK	-0.1	-1.5	0.2	-2.0	2.0	1.6	6.3
YOGHURT	-0.1	3.5	2.7	4.8	3.5	5.0	4.5
MAAS	0.2	3.9	4.8	3.6	2.8	6.4	7.1
PRE-PACKAGED CHEESE	0.3	-1.0	1.2	0.9	3.5	5.7	5.0
CREAM CHEESE	5.7	3.8	7.7	7.5	12.5	17.0	19.3
BUTTER	0.7	-3.2	-2.0	-1.5	-3.1	6.0	6.9
CREAM	-0.04	-1.7	1.1	1.0	1.2	3.5	9.9

Source: Nielsen as supplied by SAMPRO

Comparing month on month (March 2021 with February 2021), the retail sales prices of two of the nine products increased with less than the inflation rate of 0,7 percent, while the prices of four of the nine products decreased.

In the year which ended in March 2021, the retail sales prices of eight dairy products increased with 1.2 to 12.5 percent. Three of the nine product sales prices that increased, increased with less than the year on year inflation rate of 3,2%.

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



Source: Stats SA

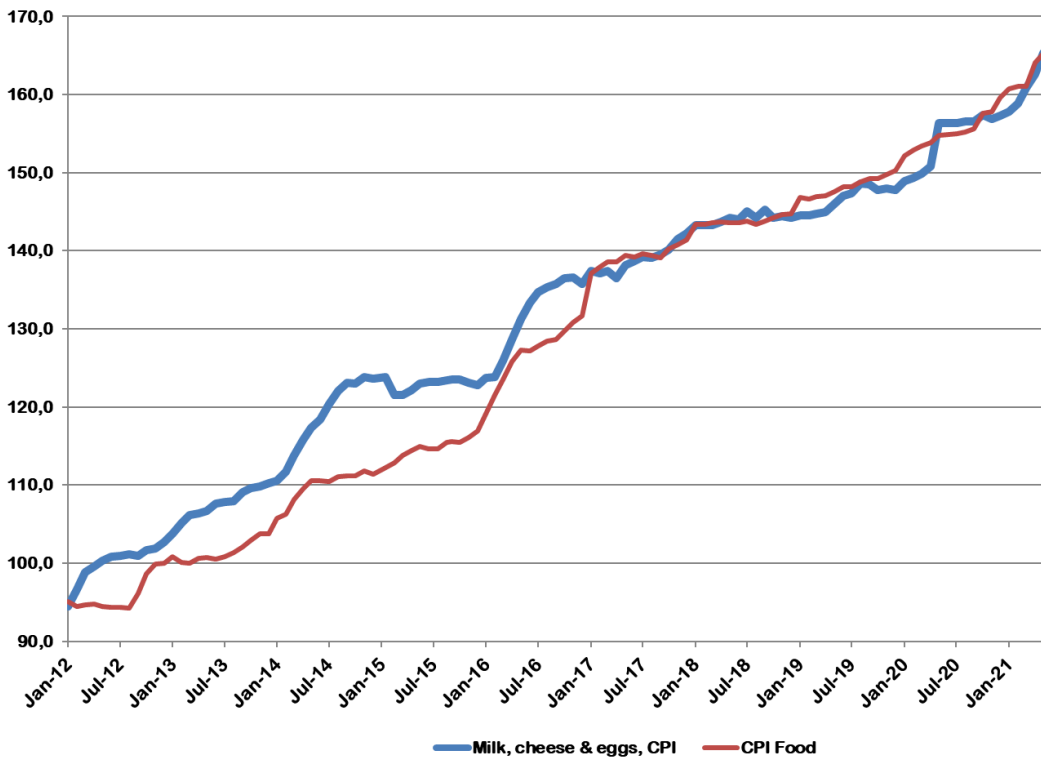
The PPI for unprocessed milk started to increase from February 2020 from 130.3 index points to 144.3 points in December 2020, an increase of 10,6%. The index continued to increase in 2021, from 153,9 index points in January 2021 to 171,8 index points in May 2021, an increase of 11,6%. The PPI for unprocessed milk increased with 31,8% from February 2020 to May 2021 and is currently the highest of all the indices in figure 12. The PPI for unprocessed milk increased with 21,7% from May 2020 to May 2021.

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 four months of 2021, but with May 2021 declining from 164,2 index points to 160,9 index points. The PPI for other manufactured food products increased with 7,0% from May 2020 to May 2021.

The PPI for Agricultural products increased with 17,6% from May 2020 to May 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. From December 2020 to May 2021 the index increased with 7,7% to 156,5 index points. The index increased with 3,2% from May 2020 to May 2021, which is significantly less than all other three indices in the above graph.

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

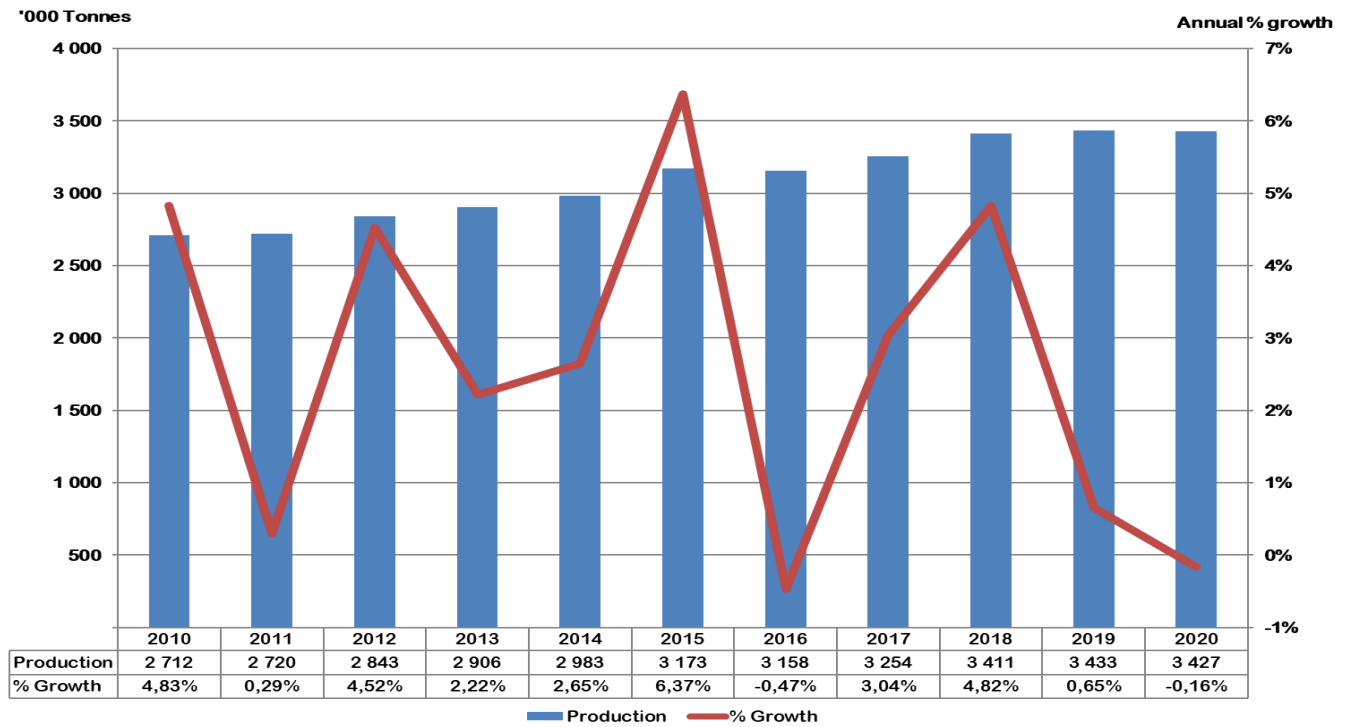


Source: Stats SA

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 6,8% from May 2020 to May 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%. The index increased with 5,8% from May 2020 to May 2021. This percentage increase is moderately lower than the CPI for food.

**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 – May 2021**



Source: Milk SA; April and May 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

All four international dairy products prices reflected in Rand terms in graph 1B started to decline in April 2021, after some six months of continued price increases.

On a year basis three of the dairy product prices being monitored in graph 1B increased from June 2020 to June 2021. The price of butter up 4,8%, skimmed milk powder (SMP) up 7,6% and full cream milk powder (FMP) up 18,6% on the corresponding month of the previous year. The price of cheddar bucked the trend, decreasing with 5,9% in June 2021 compared to June 2020. The price increases would have been more severe if it was not for the Rand exchange rate strengthening against the USD with 18,6% over the same period. In USD terms the increases in the dairy product prices over the same period were even more pronounced, butter up 29%, SMP up 32%, Cheddar up 15% and FMP up 46%. **However, it is significant to note that the butter price in USD decreased with 19% from the peak in April 2021.**

In USD terms all four dairy product prices declined in June 2021, possibly indicating some ease returning to these markets.

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

In the year which ended in March 2021, the retail sales quantities of two of the nine dairy products were from 8.8 and 8.6 percent lower than in the year which ended in March 2020, while the retail sales quantities of seven dairy products were from 2.5 to 13.8 percent higher than in the year that ended in March 2020. Comparing March 2021 with March 2020 indicates a serious decline in sales. Long life milk decreased with 19 percent and fresh milk with 12 percent. Although the circumstances between the two months regarding the start of the lockdown in South Africa in March 2020 versus a continuation of the lockdown in March

2021 at different levels of severity differs due to the Covid-19 pandemic, sales of dairy products decreased with high percentages and need to be noticed.

The PPI for unprocessed milk increased with 31,8% from February 2020 to May 2021 and is currently the highest of all the indices in figure 12. This should be viewed against the low base the index started at in February 2020. The index increased with 21,7% from May 2020 to May 2021.

The PPI for other manufactured food products increased with 7,0% from May 2020 to May 2021. The PPI for agricultural products increased with 17,6% from May 2020 to May 2021. The PPI index for dairy products increased with 3,2% from May 2020 to May 2021 and is noteworthy lower than all the other indices.

Daily unprocessed milk purchases in 2021 for the first five months (last two months preliminary) is the lowest if compared to the same months for the past three years, but higher than in 2017.

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

