

QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY¹

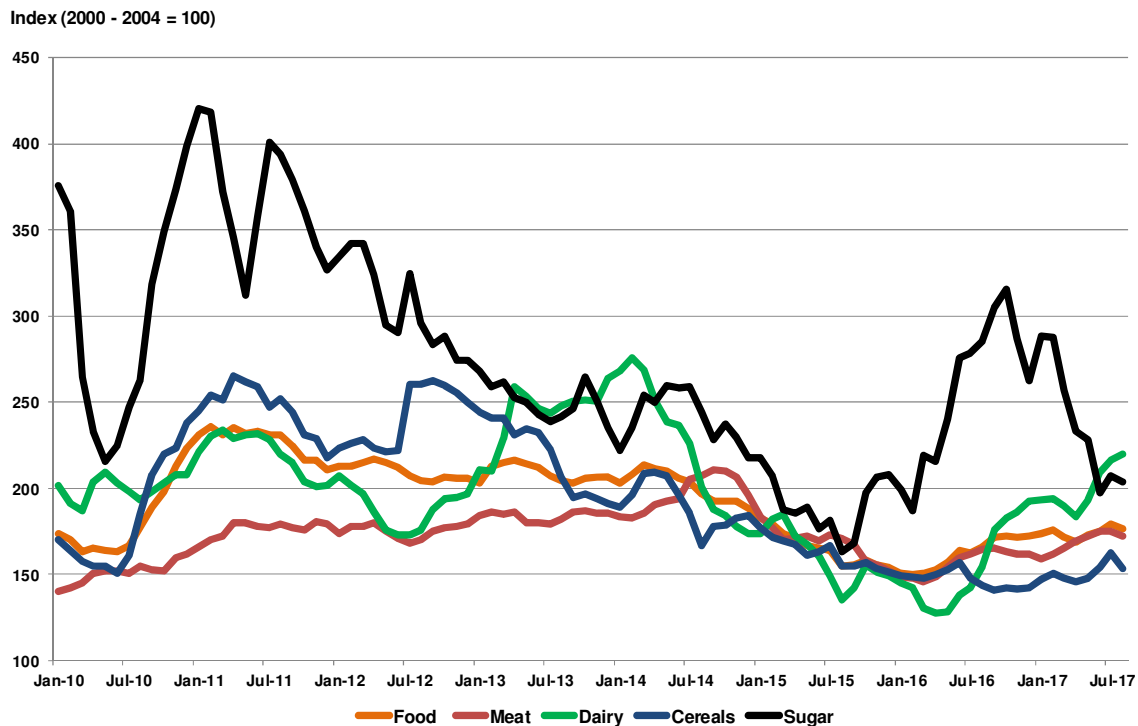
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3rd Quarter 2017

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

1. INTERNATIONAL MARKET

FIGURE 1: FAO FOOD PRICE INDICES, JANUARY 2010 – AUGUST 2017

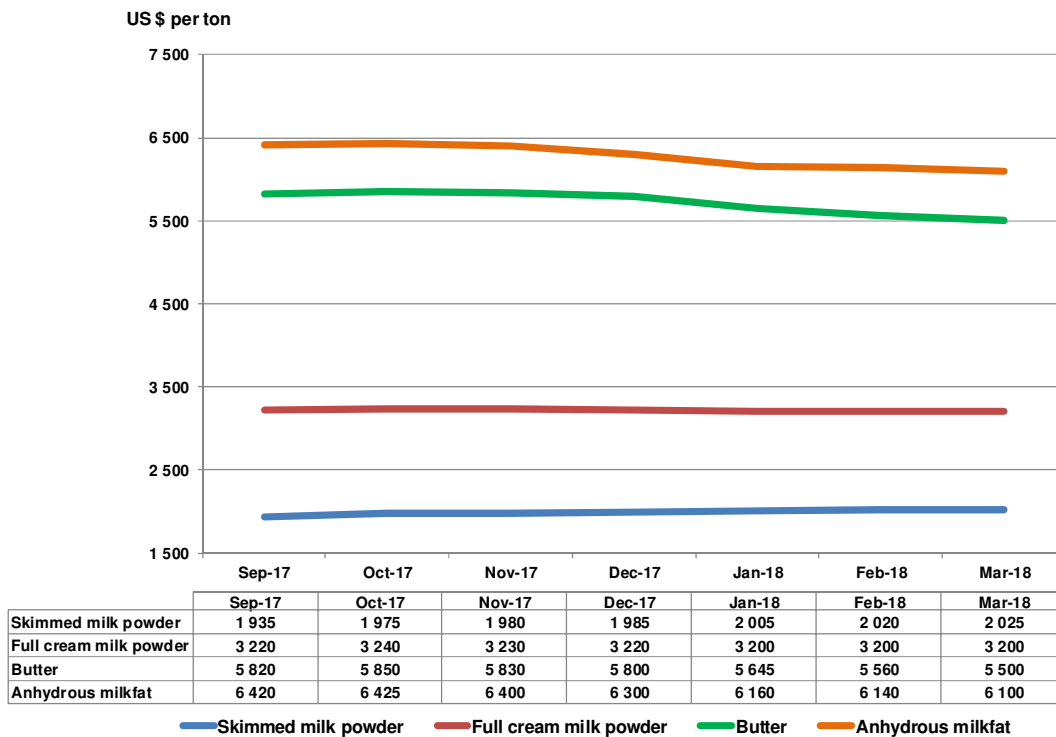


Source: FAO Food price index, 2017

The price index of dairy products decreased from February 2014, when it was at a record high level, to April 2016 with 53,8%. The main causes of the decrease in prices were the higher milk production in major exporting countries like the EU where the quota regime was disbanded in April 2015, the depressed demand in China and the effect of the continuing Russian boycott on EU sales.

From April 2016 to August 2017, the price index of dairy products increased by 72,4% to reach a level still 20,0% lower than the record high level achieved in February 2014. This increase of the price index for dairy products is the result of lower production in the world and signalled the end of the downward trend which lasted up to April 2016, but in this upward phase in the international market, volatile price movements can occur due to the high level of uncertainty in the international dairy market.

FIGURE 2: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX) ON 1 SEPTEMBER 2017: SEP 2017 – MARCH 2018

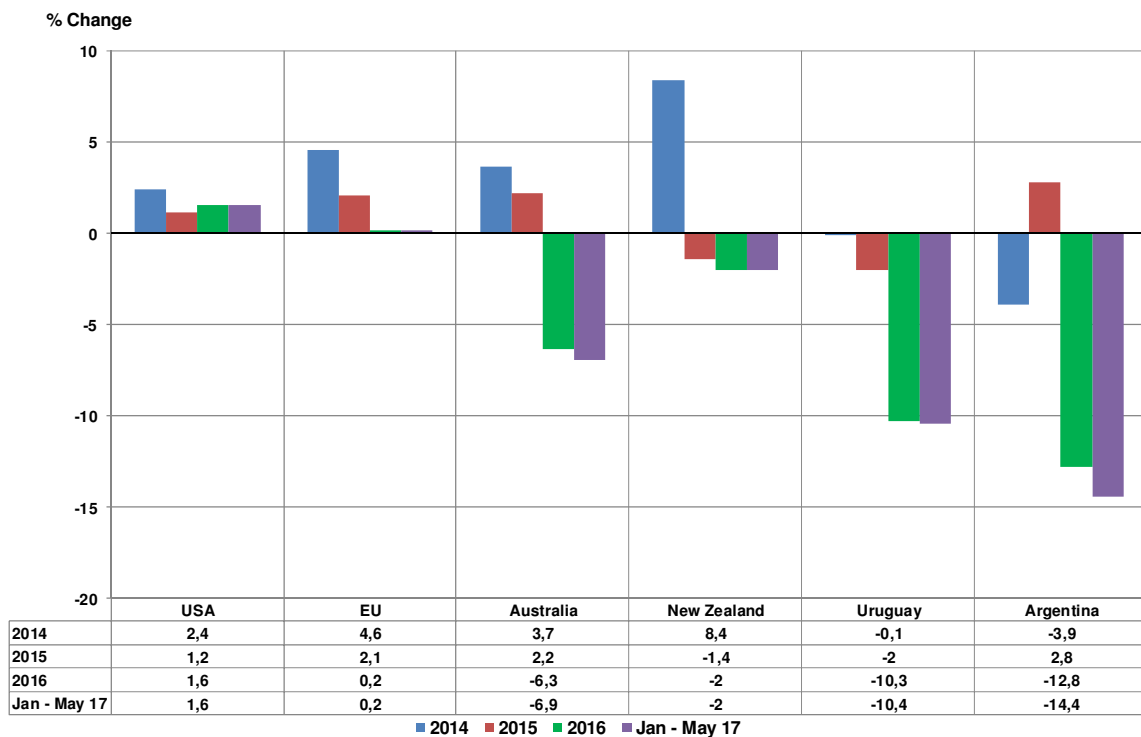


Source: NZX Futures, 1 September 2017

The main factors that may impact on international dairy product prices in the next six months are:

- Uncertainty about production growth in major exporting countries;
- The extent of Chinese economic recovery;
- Impact of climate on production in Oceanic countries;
- The ability of the European Commission to reduce intervention stocks without serious disruption to markets;
- Whether the trend in butter prices continue and
- Whether the increasing trend on the Global Dairy Trade auctions continues.

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

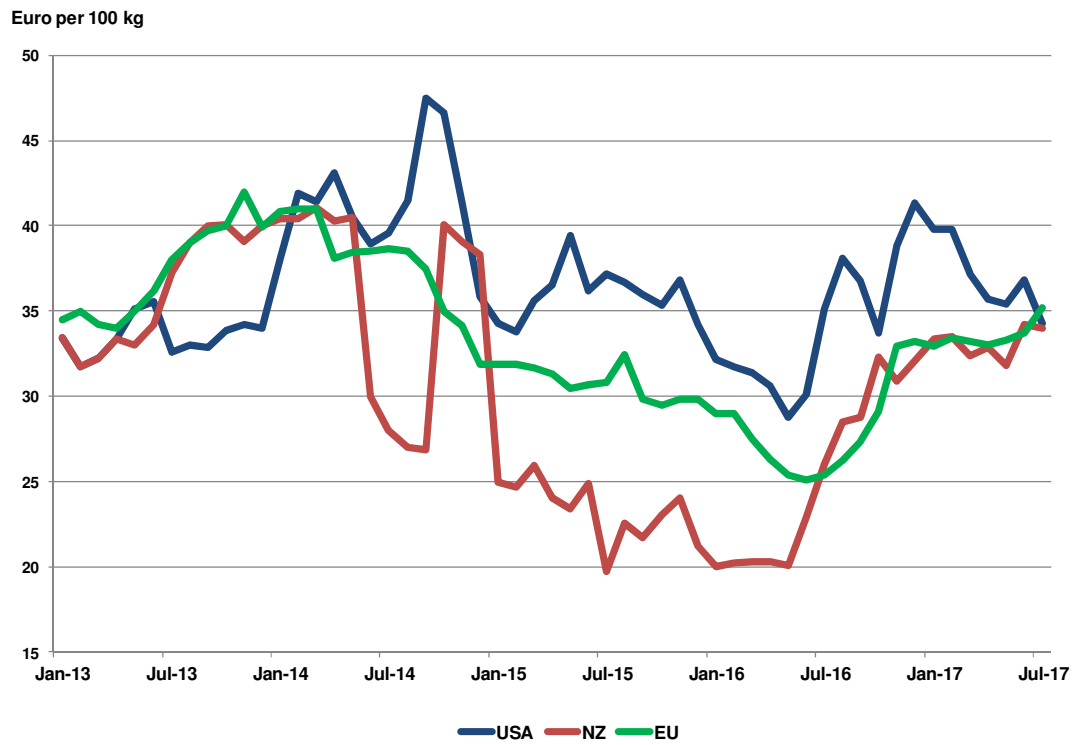


Source: CNIEL, August 2017

Milk production in the USA remained at relatively high levels although the lower producer prices did effect production growth. Expected European production growth after quotas were removed, did not realise, partially as a result of production limiting subsidies in the EU. In the Southern hemisphere lower producer prices and unfavourable climatic conditions resulted in lower milk production. Production in New Zealand in the coming production season will largely depend on climatic conditions that cannot be accurately predicted.

Producer prices in the USA, EU and New Zealand decreased from mid-2014 to April 2016. Since then prices in the USA and New Zealand improved slightly while EU prices remained at lower levels. There was a marked convergence of producer prices. Price movement in the next six months will depend on the production response in the season of peak production in the northern hemisphere in the second and third quarters and the new production season in the Southern Hemisphere, commencing in the third quarter and the possible recovery of EU, US and Chinese markets.

FIGURE 4: PRODUCER PRICES OF UNPROCESSED MILK IN THE EU, USA AND NEW ZEALAND IN EURO PER 100 KG, JANUARY 2013 - APRIL 2017



Source: LTO Nederland, August 2017

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, 2008 – 2016

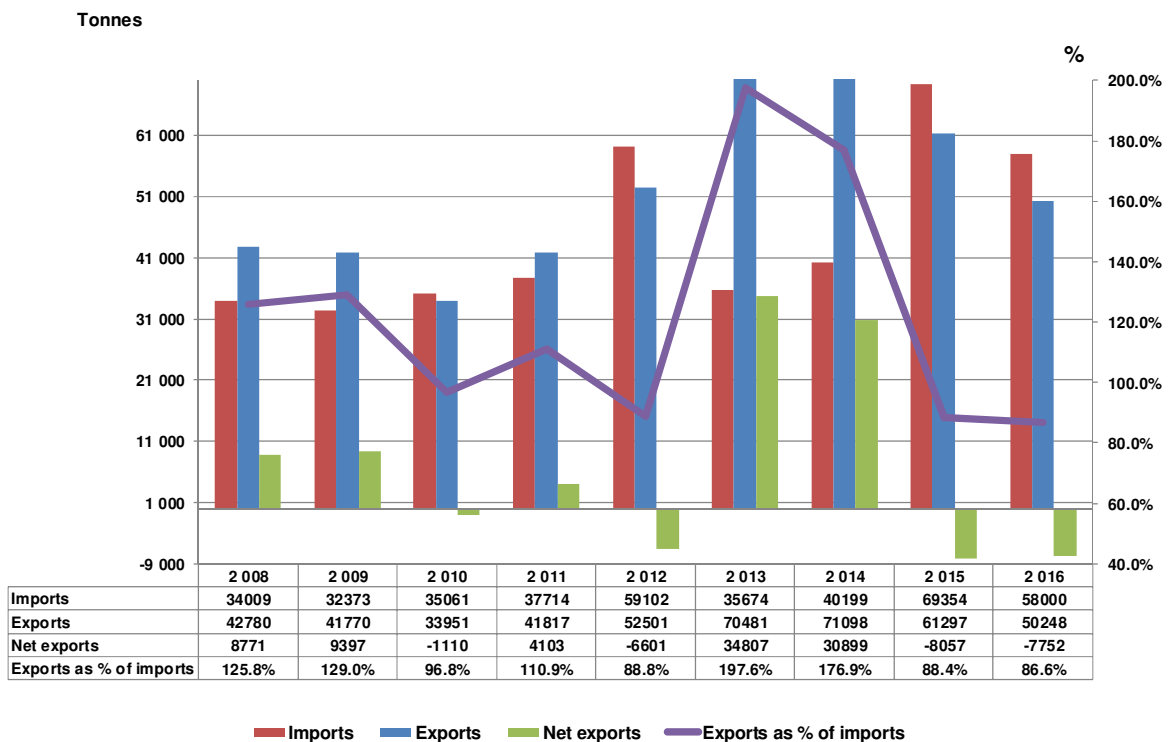


FIGURE 6: SOUTH AFRICAN IMPORTS AND EXPORTS OF MILK AND CREAM, 2008 – 2016

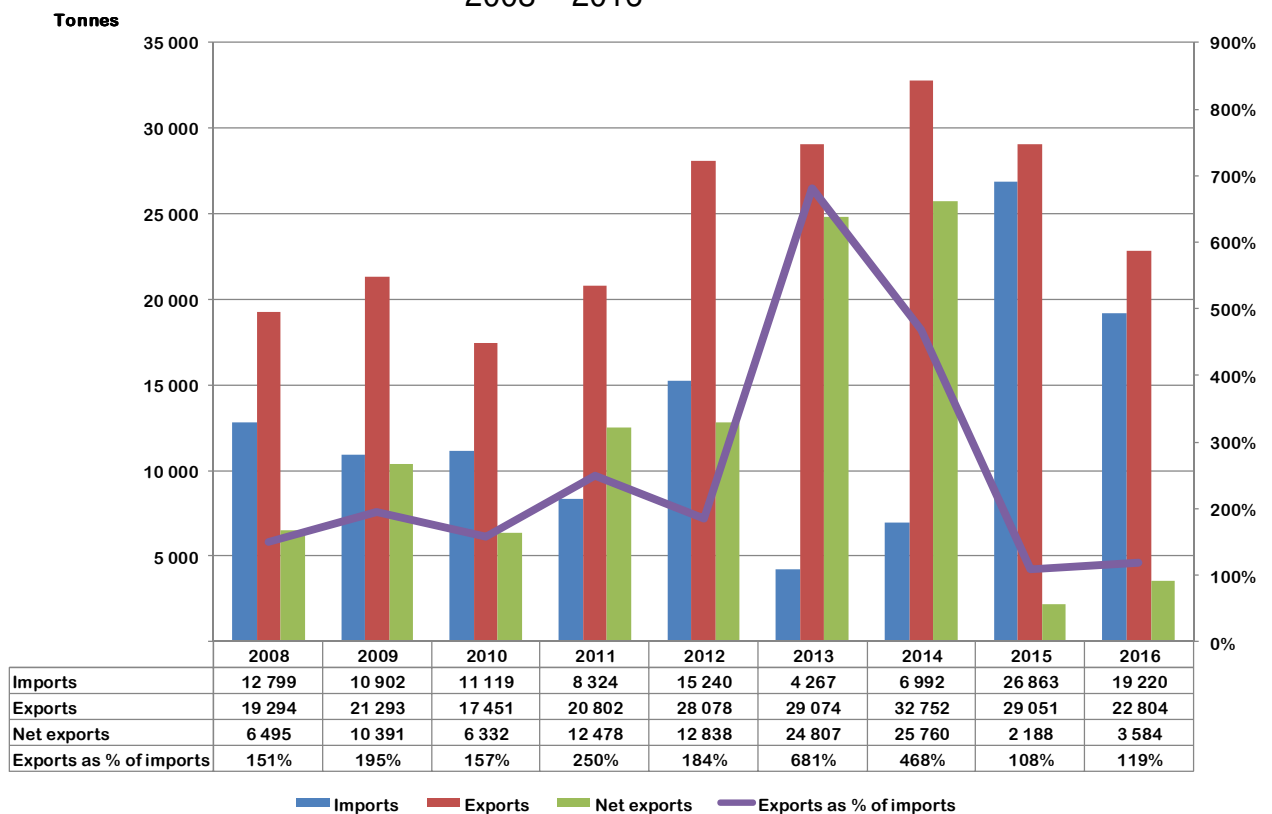


FIGURE 7: SOUTH AFRICAN IMPORTS AND EXPORTS OF CONCENTRATED MILK, 2008 – 2016

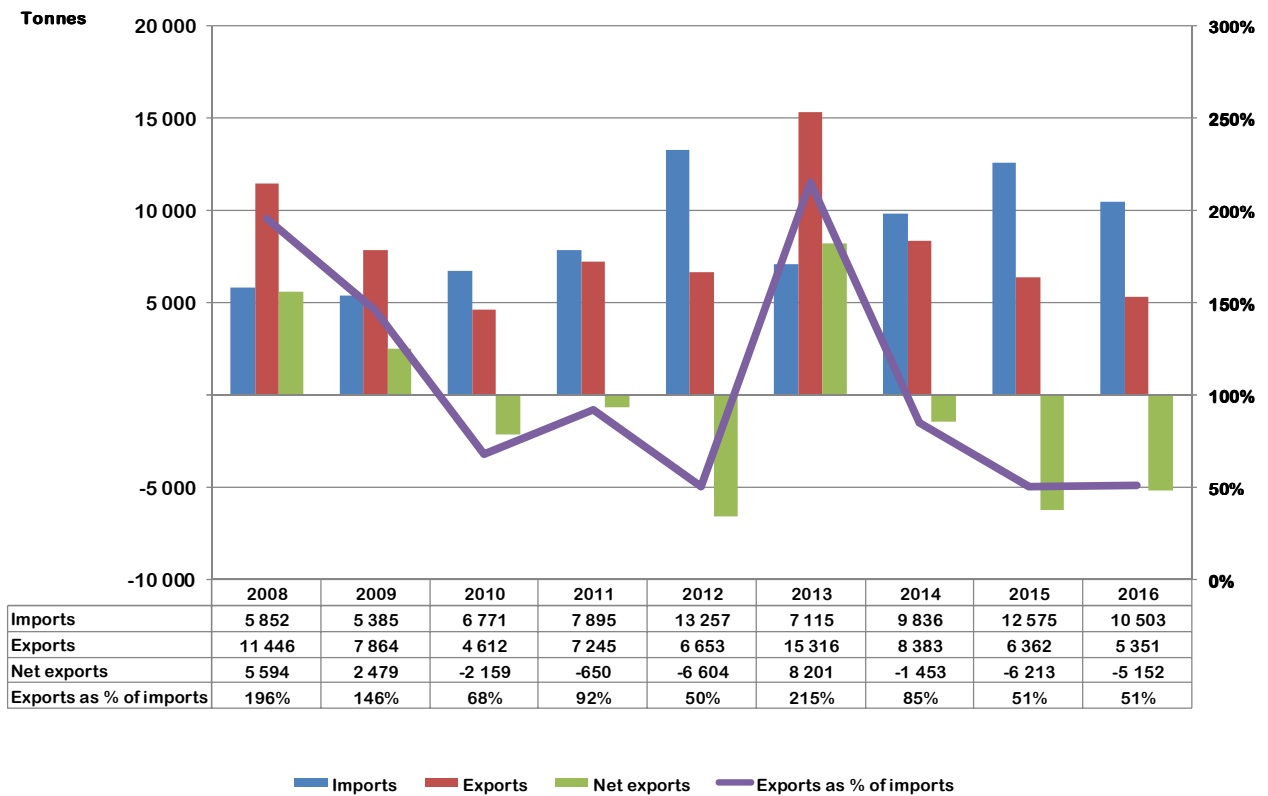


FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, 2008 – 2016

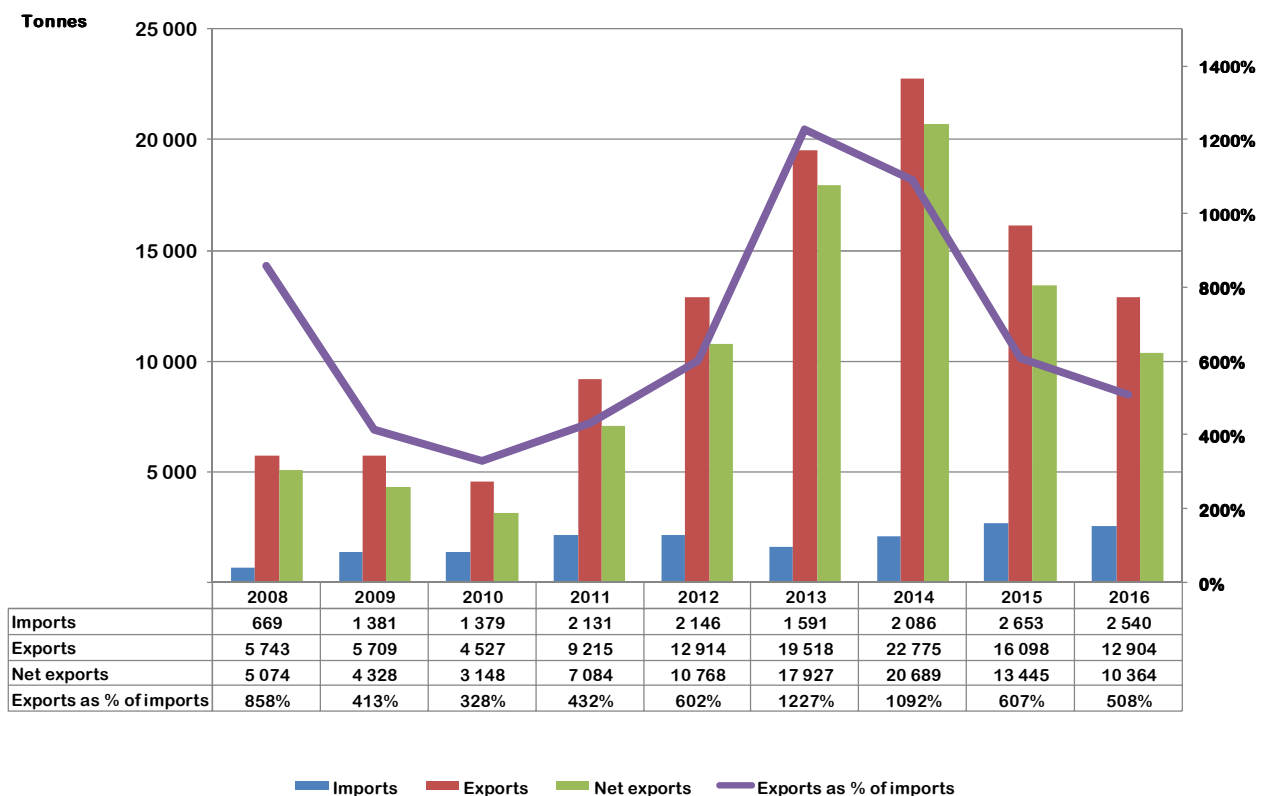


FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, 2008 – 2016

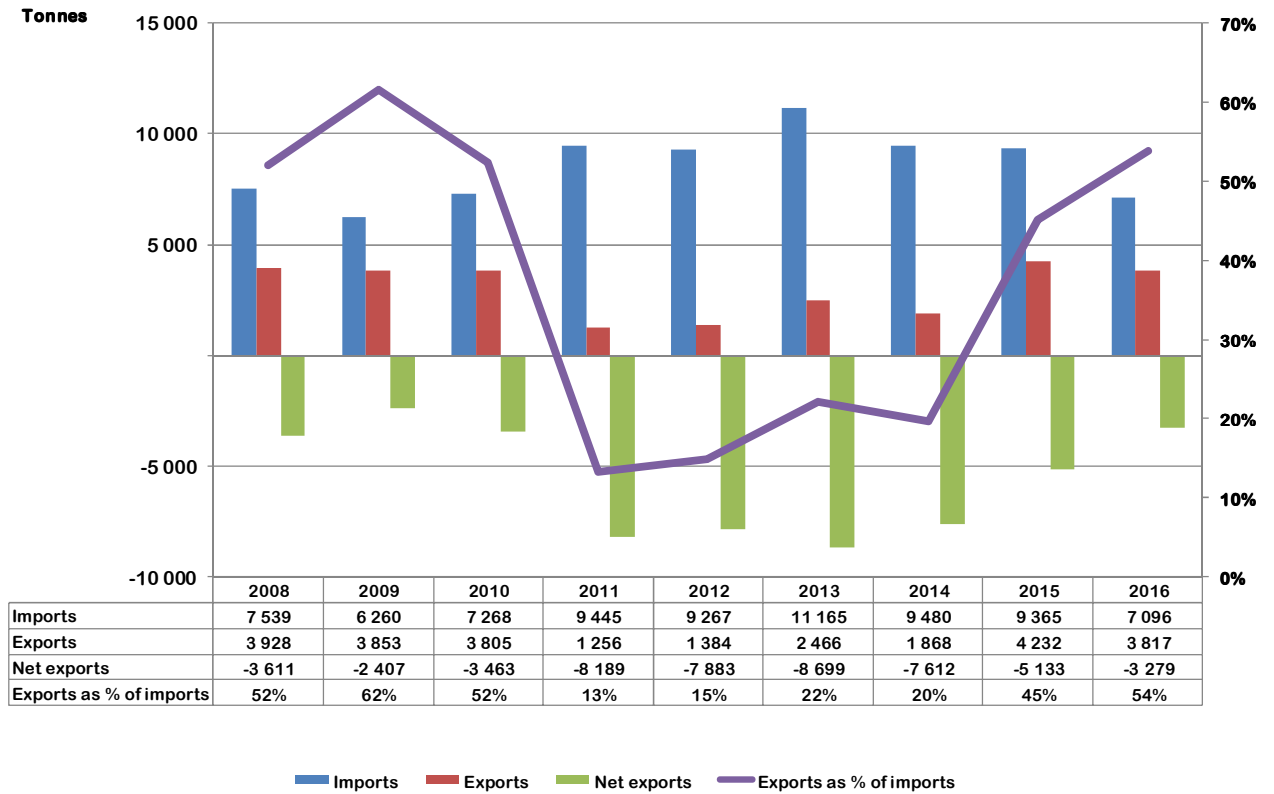


FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, 2008 – 2016

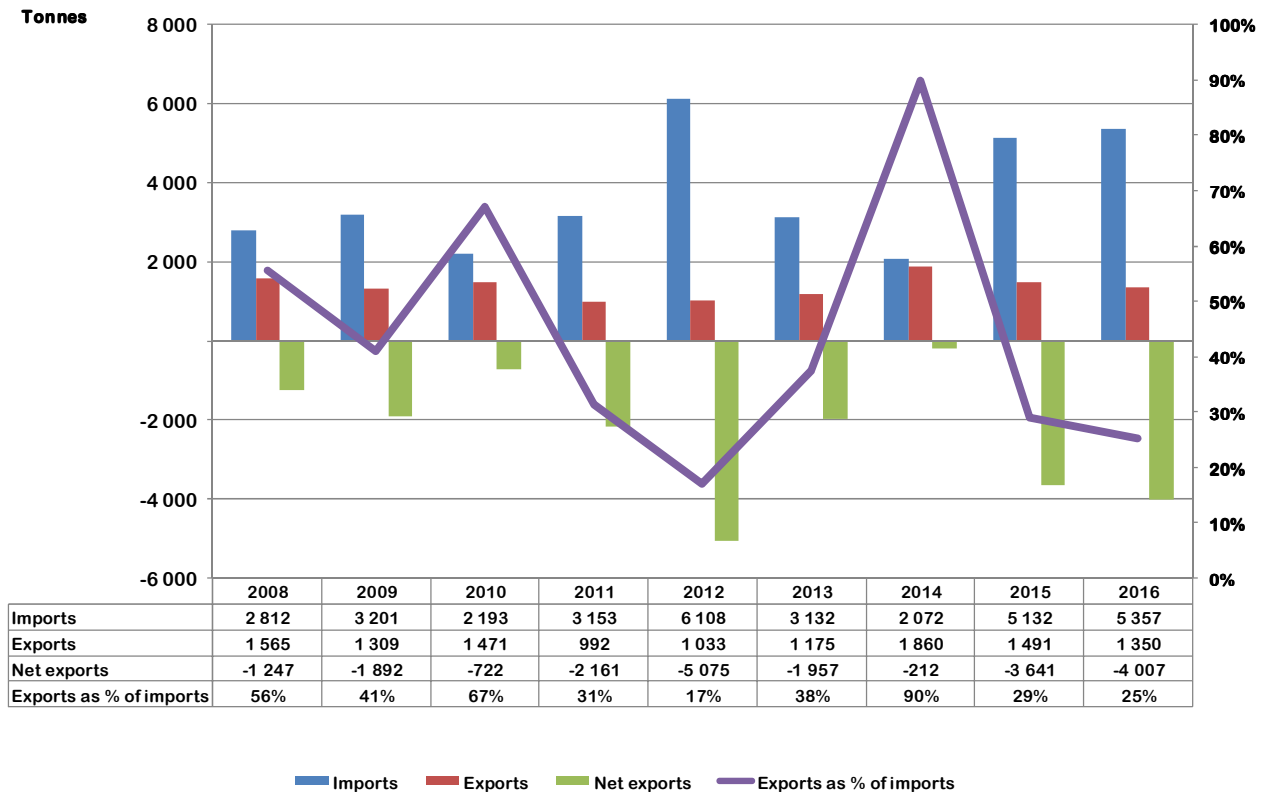


FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, 2008 – 2016



Source, Figure 6 – Figure 11: SARS Figures supplied by SAMPRO

TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT PRICES FOR DAIRY PRODUCTS , 2012 – 2016

Tariff heading	Description	Import price (R/kg)					Export price (R/kg)				
		2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
04.01	Milk & cream	5.55	5.96	8.50	7.65	7.44	8.39	8.55	9.45	10.30	10.18
04.02	Concentrated milk	26.85	37.95	42.62	30.92	32.94	24.37	19.49	30.04	30.97	37.00
04.03	Buttermilk & yoghurt	23.03	35.55	42.09	28.06	25.57	16.97	17.76	19.97	18.76	21.27
04.04	Whey	22.33	28.62	34.82	31.98	28.90	9.43	15.55	14.85	10.51	25.46
04.05	Butter	29.99	35.05	48.13	39.56	46.87	37.06	36.75	40.37	40.66	49.40
04.06	Cheese	40.02	51.90	61.70	54.94	57.21	40.44	42.47	46.11	45.50	51.99

Source: SARS as supplied to SAMPRO

TABLE 2: PERCENTAGE CHANGE IN RETAIL SALES QUANTITIES FOR MAJOR DAIRY PRODUCTS FOR THE 12 MONTH PERIOD FROM JULY 2016 TO JUNE 2017 COMPARED TO THE 12 MONTH PERIOD FROM JULY 2015 TO JUNE 2016 AND THE CHANGE IN RETAIL PRICES FROM JUNE 2016 TO JUNE 2017

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-4.0	4.8
Long-life milk (UHT)	-1,6	0.3
Flavoured milk	-7.4	8.3
Yoghurt	-1.8	8.0
Maas	2.4	2.7
Pre-packaged cheese	8.4	9.0
Cream cheese	-9.1	15.5
Butter	-5.6	17.8
Cream	1.3	4.7

Source : Nielsen figures supplied by SAMPRO

The sales quantities of maas, pre-packaged cheese and cream increased in the period. Total estimated liquid milk sales quantities (fresh and UHT) decreased by an estimated 2,7% during this period. Price increases of flavoured milk, yoghurt, pre-packaged cheese, cream cheese and butter were higher than rate of inflation for the year to June 2017.

The change in sales in a 12-month period for any product does not imply that quantities or prices changed at an uniform rate during the whole period.

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 17 vs June 16	Apr – Jun 17 vs Apr – Jun 16	Jan – Jun 17 vs Jan – Jun 16	Oct 16 – Jun 17 vs Oct 15 – Jun 16	Jul 16 – Jun 17 vs Jul 15 – Jun 16
Fresh milk	-6.2	-5.7	-4.0	-4.0	-4.0
UHT milk	15.4	10.5	5.3	-2.0	-1,6
Flavoured milk	-5.9	-8.9	-12.1	-10.4	-7.4
Yoghurt	-2.3	-0.9	-3.0	-3.5	-1.8
Maas	0.2	3.4	0.7	0.6	2.4
Pre-packaged cheese	4.2	4.8	7.4	7.5	8.4
Cream cheese	-9.3	-8.4	-10.3	-9.4	-9.1
Butter	-9.9	-6.8	-6.2	-6.4	-5.6
Cream	0.6	3.5	0.9	1.5	1.3

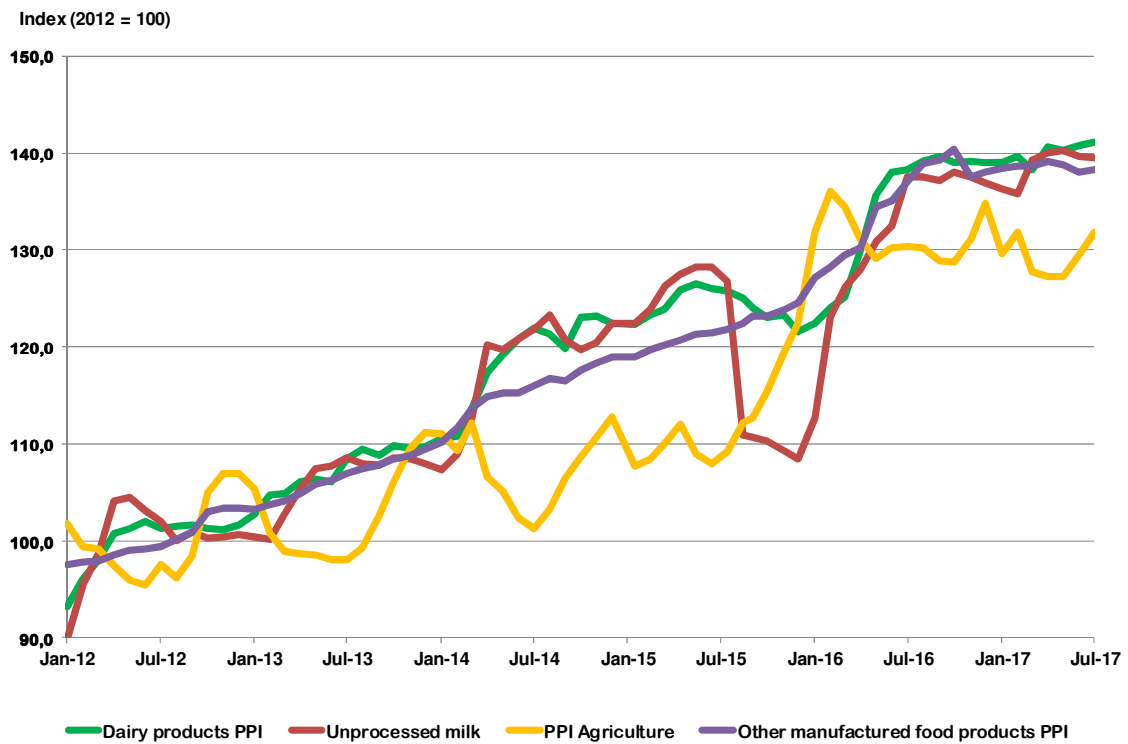
Source: Nielsen as supplied by SAMPRO

TABLE 4: TABLE 3: CHANGES IN THE RETAIL PRICES OF CERTAIN DAIRY PRODUCTS

Product	Change in retail prices compared to same period previous year (%)				
	June 17 vs May 17	Jun 17 vs Mar 17	Jun 17 vs Dec 16	Jun 17 vs Sep 16	Jun 17 vs Jun 16
Fresh milk	-0.4	-0.8	0.3	0.7	4.8
UHT milk	0.5	0.3	1.4	0.7	0.3
Flavoured milk	1.5	3.1	4.3	8.5	8.3
Yoghurt	-0.8	1.5	3.8	3.8	8.0
Maas	-0.1	0.4	2.6	0.0	2.7
Pre-packaged cheese	1.0	5.3	5.9	6.3	9.0
Cream cheese	2.5	6.3	7.2	10.9	15.5
Butter	3.0	6.3	8.8	16.2	17.8
Cream	0.9	2.3	-0.8	4.1	4.7

Source: Nielsen as supplied by SAMPRO

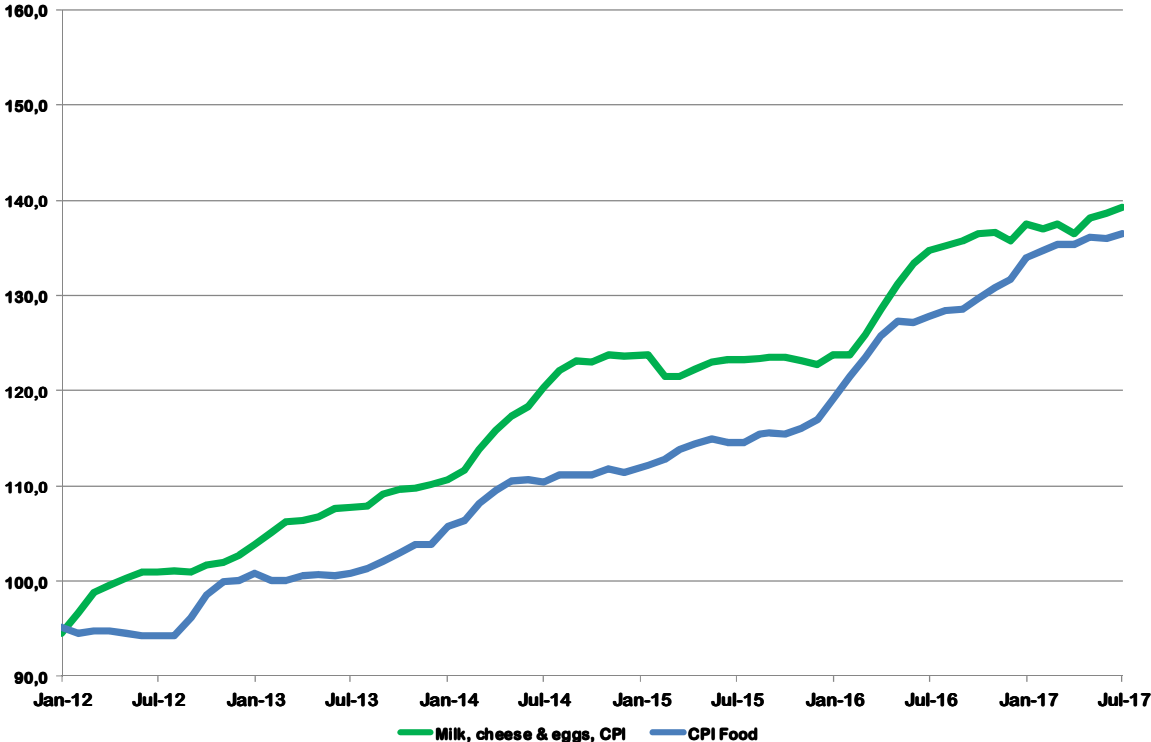
FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, JANUARY 2012 – JULY 2017



Source: Stats SA

Figure 12 shows that producer prices of unprocessed milk are more volatile than the prices of manufactured dairy products. The agricultural price of unprocessed milk increased, from a very low level, at a faster rate than the prices of all agricultural products. Dairy product prices are more volatile than all manufactured food prices.

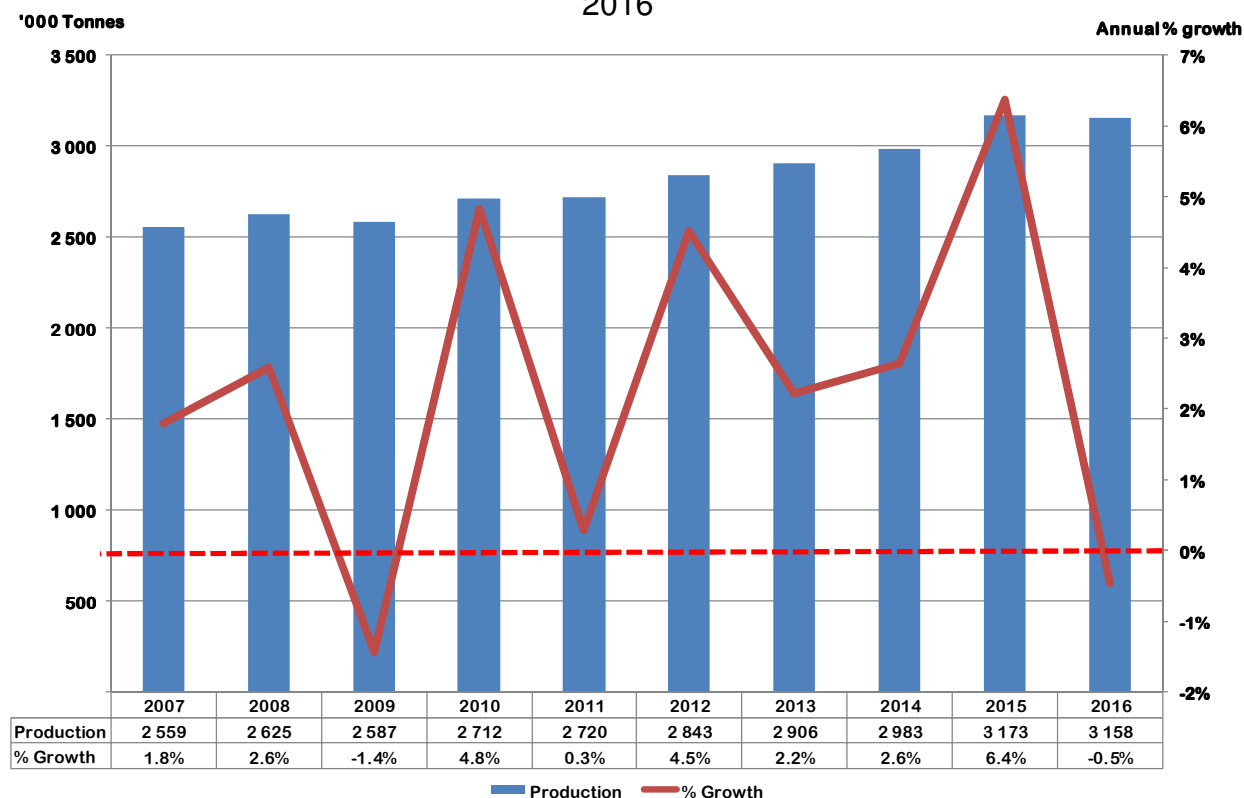
FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, 2012 – JULY 2017



Source: Stats SA

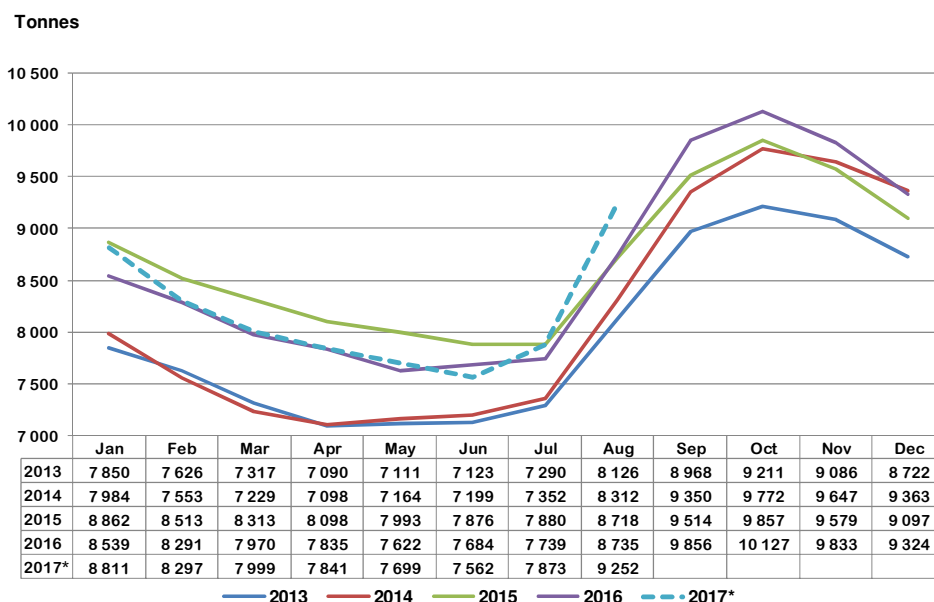
Climatic conditions will play an important role in determining agricultural product prices during the following six months. Favourable climatic conditions in relevant areas have already resulted in lower grain prices and the expected record summer-grain crop will ensure that grain prices remain relatively low. Exchange rates will also influence agricultural product prices, especially for products that will be imported.

FIGURE 14: ANNUAL SOUTH AFRICAN UNPROCESSED MILK PURCHASES, 2007 – 2016



Source: Milk SA

FIGURE 15: SOUTH AFRICAN UNPROCESSED MILK PURCHASES DAILY AVERAGE PER MONTH, JANUARY 2013 – AUGUST 2017



Source: Milk SA; * January – August 2017 = Milk SA estimate.

The lower cumulative production in January 2016 to July 2016, relative to 2015 is mainly the result of the drought, lower unprocessed milk prices in the period August 2015 to February 2016, and the higher feed prices resulting from the drought. More favourable

production conditions and lower grain prices resulted in marginally higher production since the end of 2016.

TABLE 3: CUMULATIVE UNPROCESSED MILK PURCHASES (000 Tonnes), 2013 – 2017

Month	2013	2014	2015	2016	2017
January	213 535	211 473	238 351	264 711	273 126
February	427 070	422 946	476 702	505 147	505 449
March	653 886	647 031	734 413	752 227	753 417
April	866 573	859 982	977 344	987 280	988 660
May	1 087 007	1 082 063	1 225 122	1 223 556	1 227 321
June	1 300 697	1 298 030	1 461 388	1 454 086	1 454 194
July	1 526 684	1 525 954	1 705 683	1 694 009	1 698 255
August	1 778 588	1 783 614	1 975 939	1 964 790	1 985 067
September	2 047 640	2 064 113	2 261 356	2 260 473	
October	2 333 175	2 367 030	2 566 916	2 574 398	
November	2 605 762	2 656 449	2 854 281	2 869 392	
December	2 876 136	2 946 705	3 136 300	3 158 446	

Source: Milk SA statistics. January – July 2017 = estimated.

Unprocessed milk purchase growth slowed down from September 2015 and remained negative until July 2016. Since then purchases improved slightly, closing the 2016 year at 0,5% above 2015. During the first eight months of 2017, 1 985 067 000 tonnes of milk were purchased, 1,0% more than in the same period in 2016.

The performance of the South African dairy industry in the coming months will especially be shaped by:

- The impact of the very low economic growth rate of South Africa on the demand for dairy products;
- The effect of lower grain prices on milk production
- Timeliness and quantity of spring and summer rain.
- Very high beef and especially Grade-C beef prices.
- The continuation of current international supply and demand trends.
- Foreign competition in the South African market and export markets of South Africa which is also influenced by the movements of the volatile exchange rate.