

QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY¹

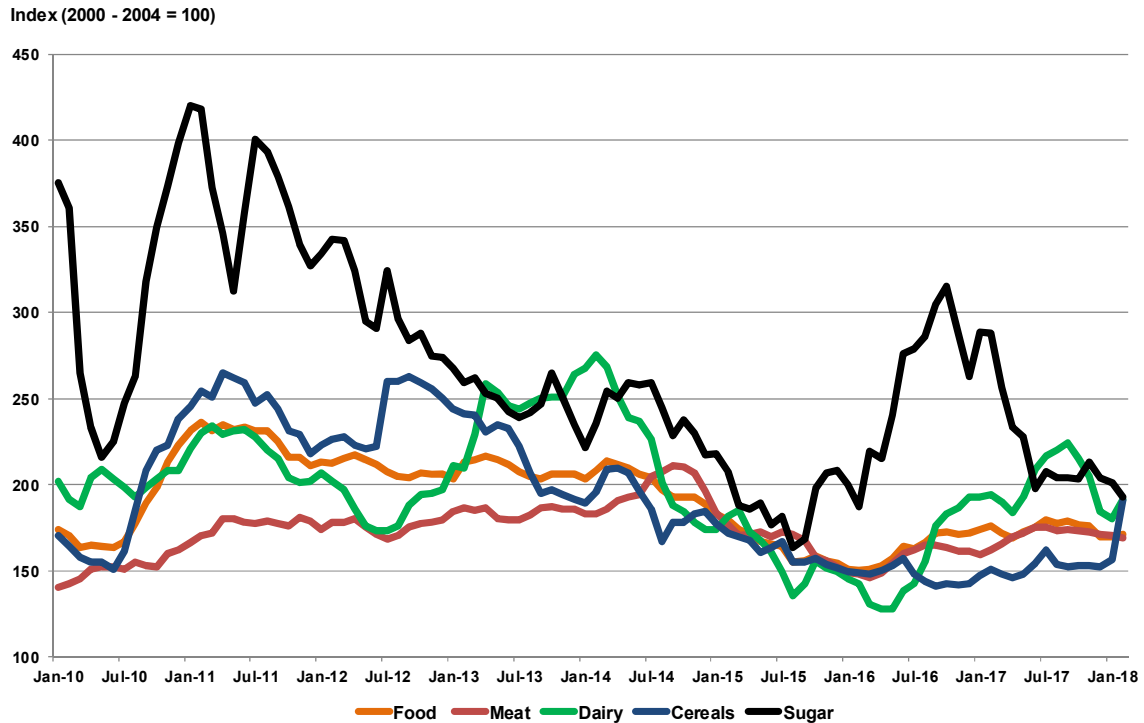
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1st Quarter 2018

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

1. INTERNATIONAL MARKET

FIGURE 1: FAO FOOD PRICE INDICES, JANUARY 2010 – FEBRUARY 2018

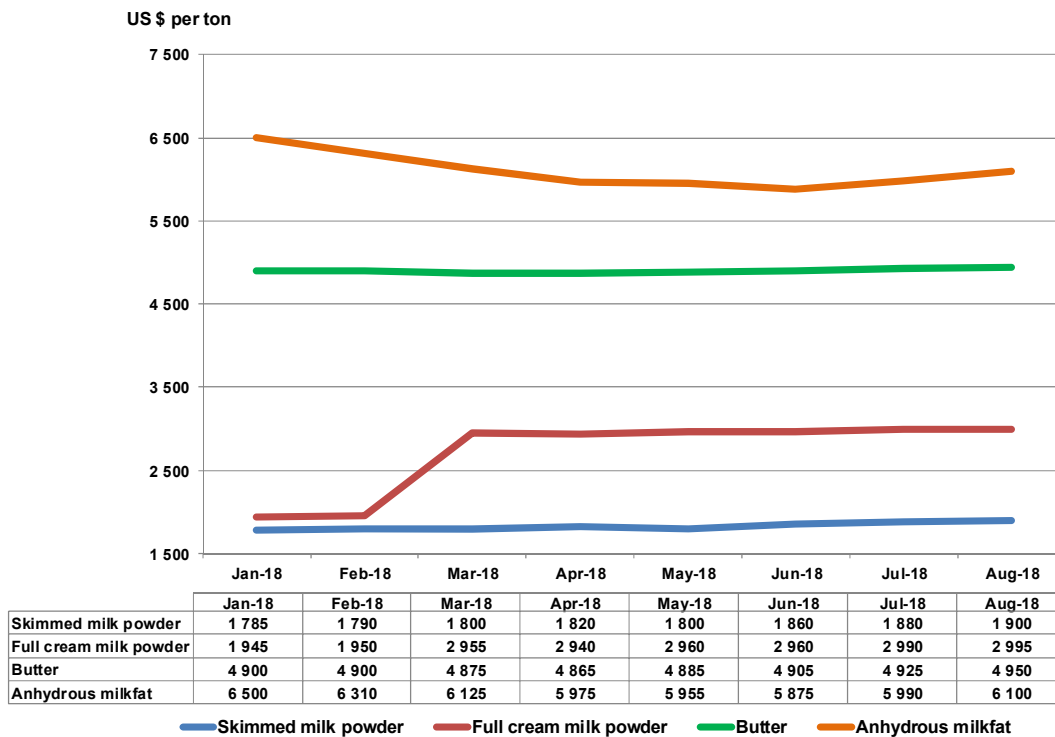


Source: FAO Food price index, 2017

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 September 2017, the price index of dairy products increased by 76,3% to reach a level still 18,5% 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. Dairy product prices decreased by 8,9% from September 2017 to January 2018 and increased slightly in February 2018.

FIGURE 2: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX) ON 15 MARCH 2018: JAN 2018 – AUGUST 2018

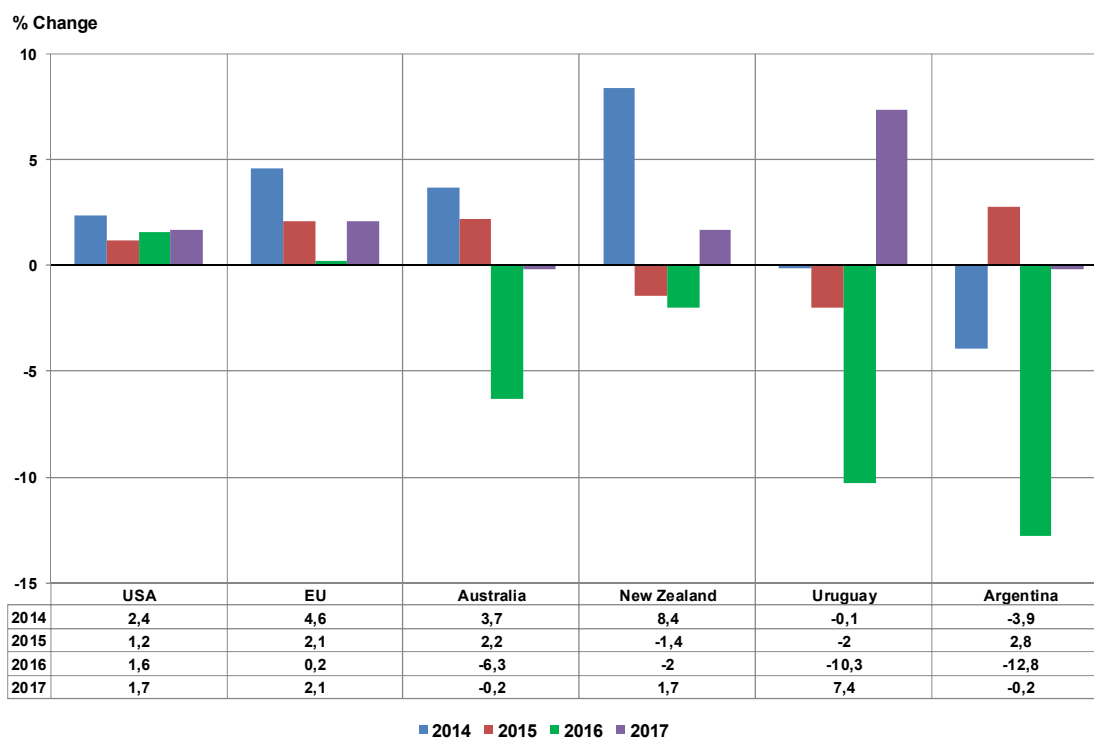


Source: NZX Futures, March 2018

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;
- Demand growth in developed countries and
- The ability of the European Commission to reduce intervention stocks without serious disruption to markets.

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

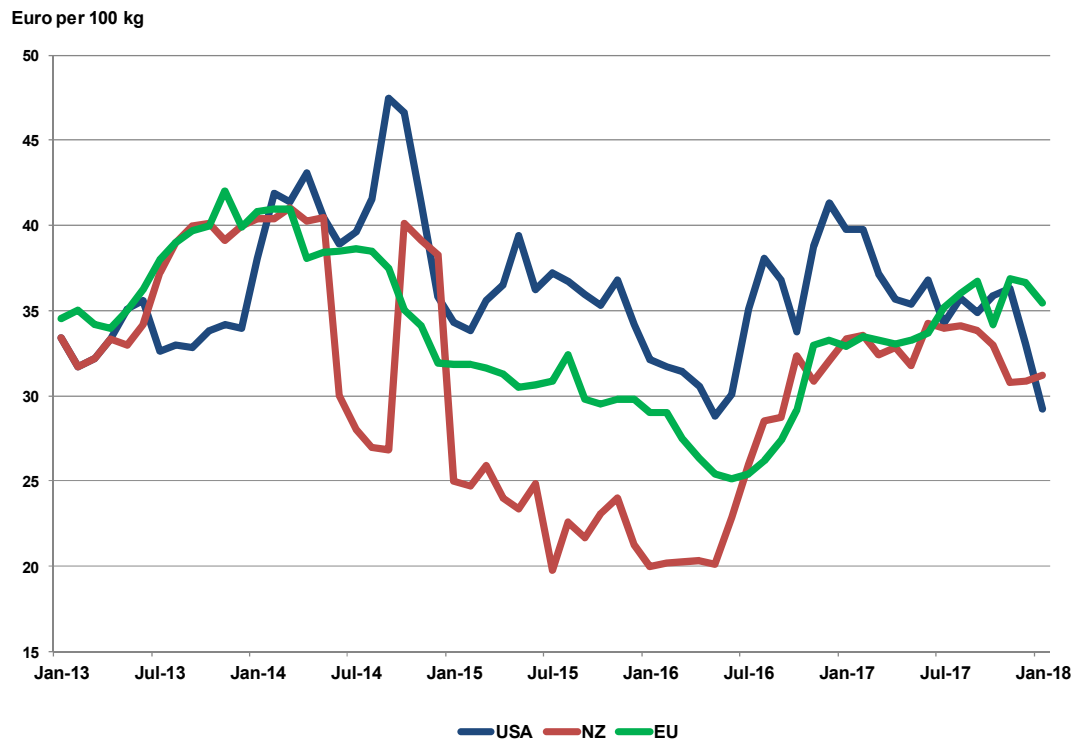


Source: CNIEL, January 2018

Milk production in the USA remained at relatively high levels although the lower producer prices did affect 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.

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 northern hemisphere in coming months and in the southern hemisphere from Spring 2018 as well as the speed of economic recovery in Chinese, US and European markets.

FIGURE 4: PRODUCER PRICES OF UNPROCESSED MILK IN THE EU, USA AND NEW ZEALAND IN EURO PER 100 KG, JANUARY 2013 - JANUARY 2018



Source: LTO Nederland, March 2018

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 – 2017

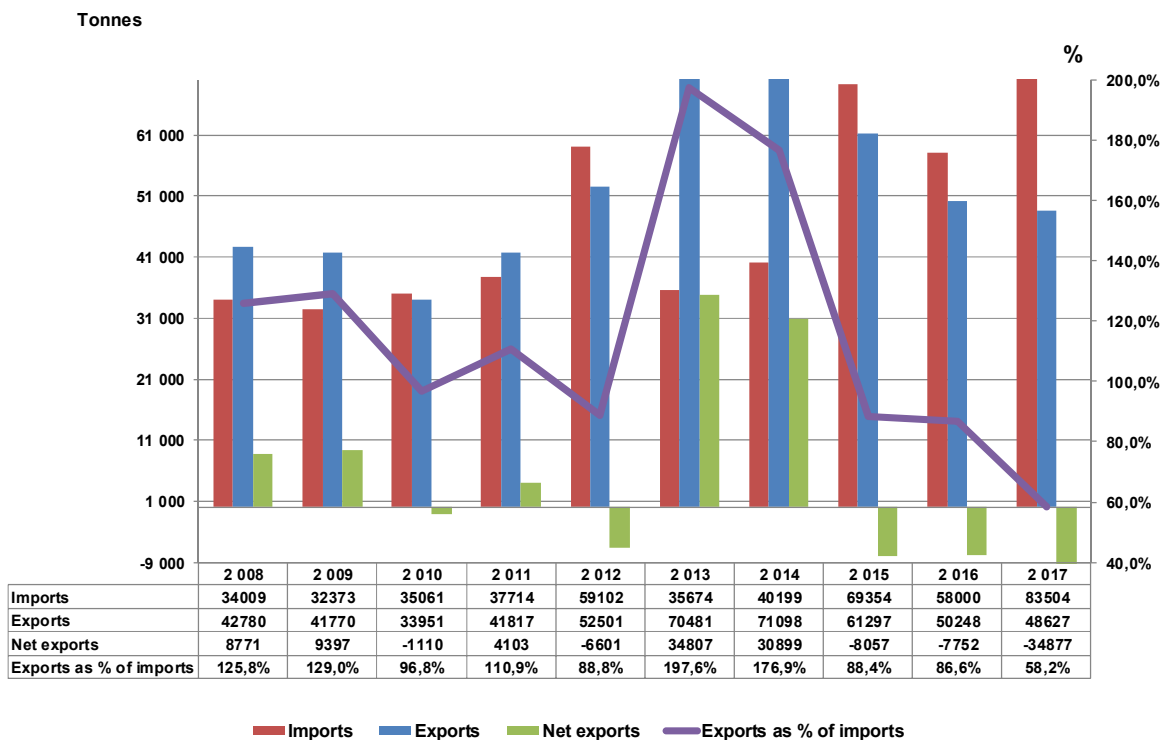


FIGURE 6: SOUTH AFRICAN IMPORTS AND EXPORTS OF MILK AND CREAM, 2008 – 2017

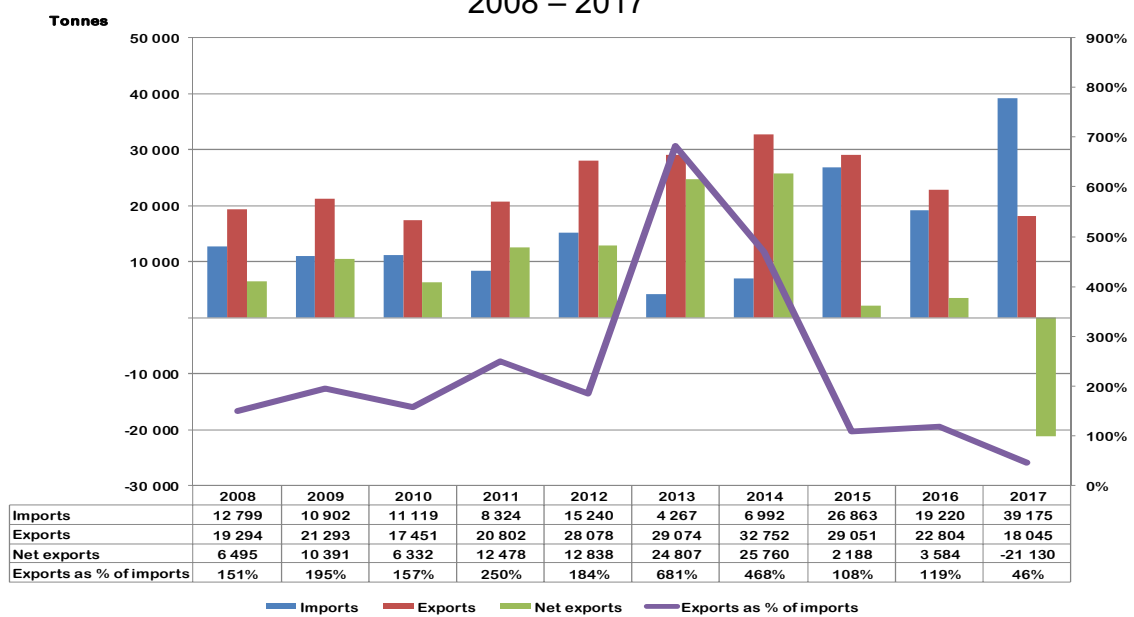


FIGURE 7: SOUTH AFRICAN IMPORTS AND EXPORTS OF CONCENTRATED MILK, 2008 – 2017

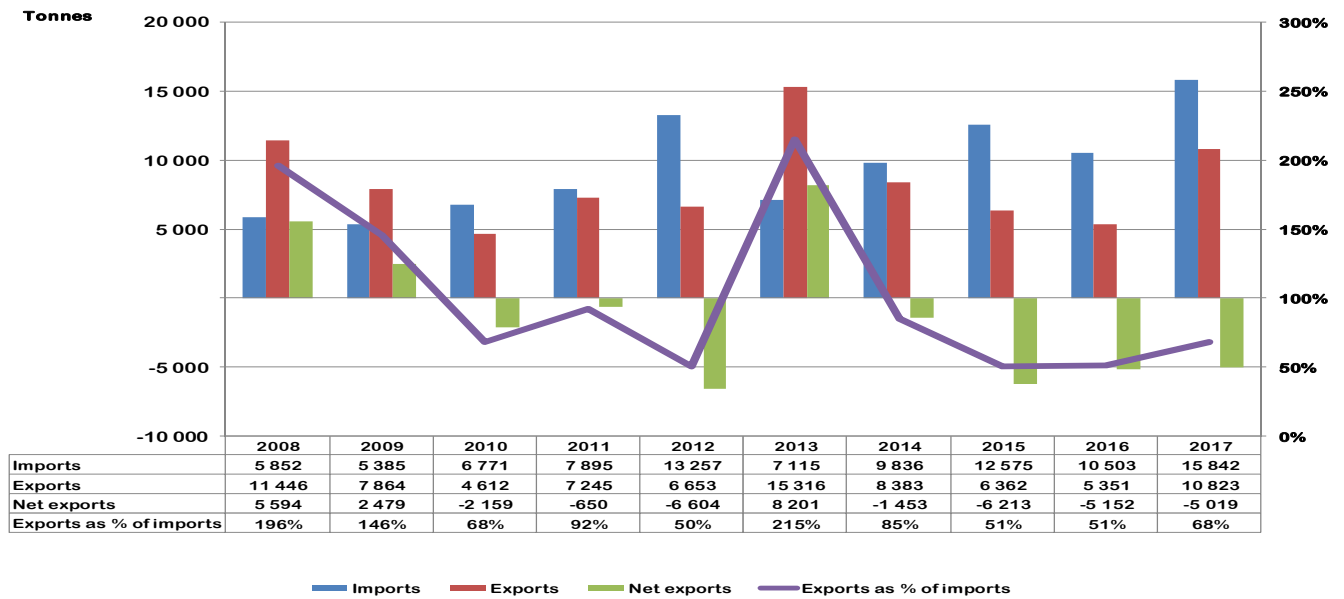


FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, 2008 – 2017

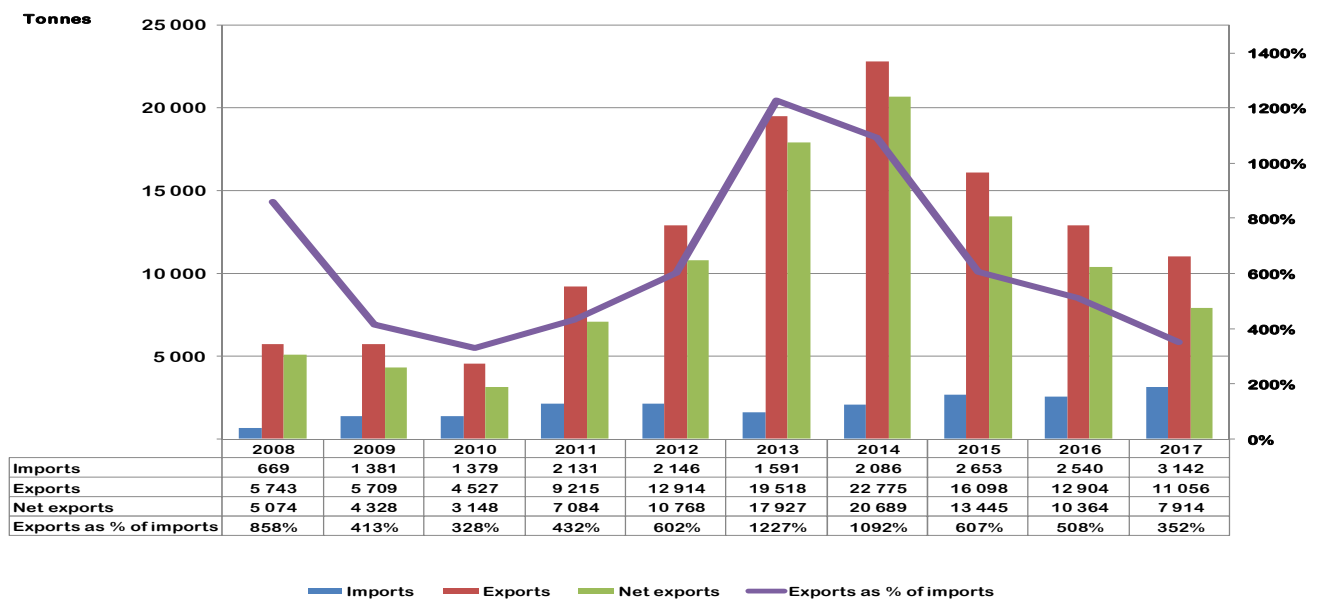


FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, 2008 – 2017

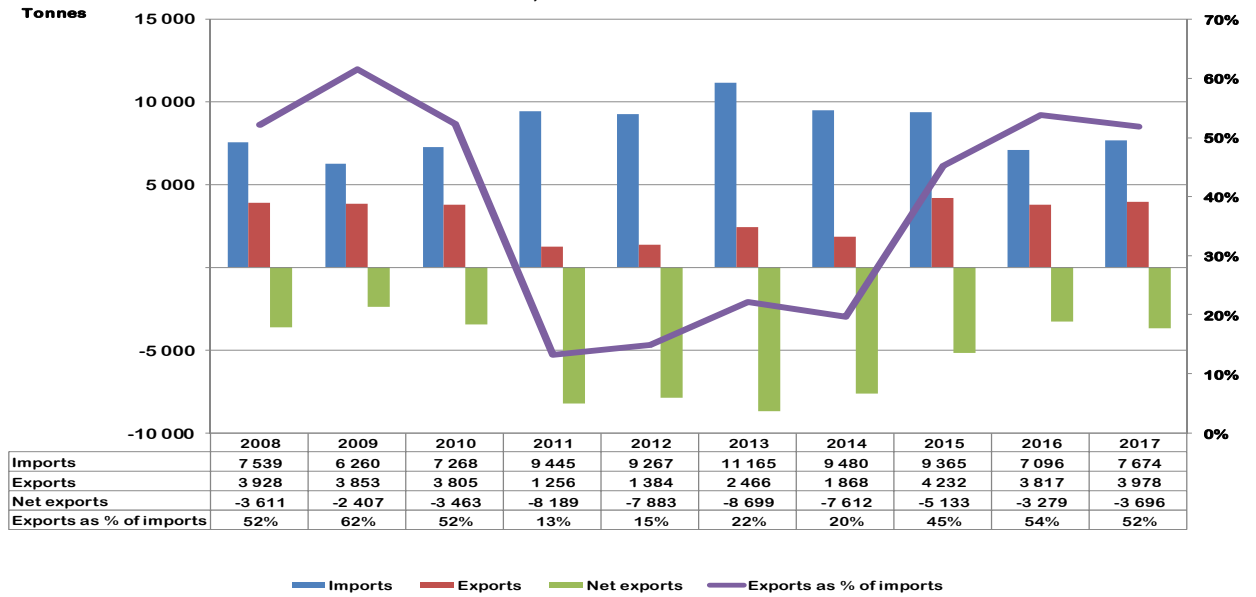


FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, 2008 – 2017

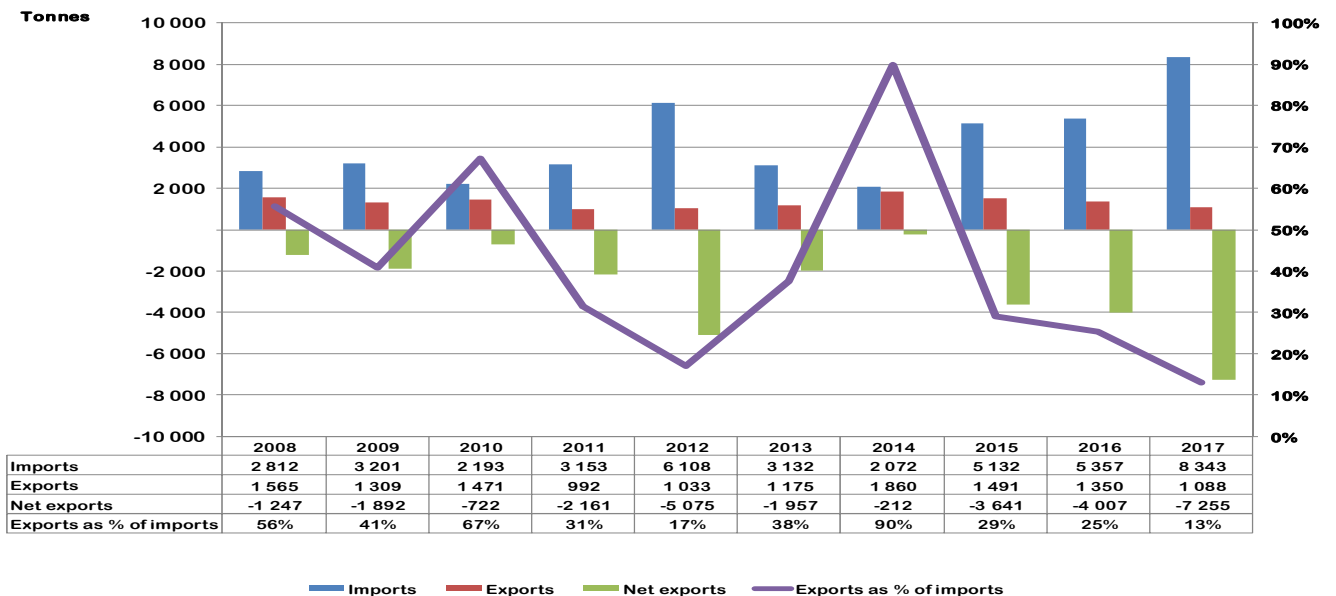
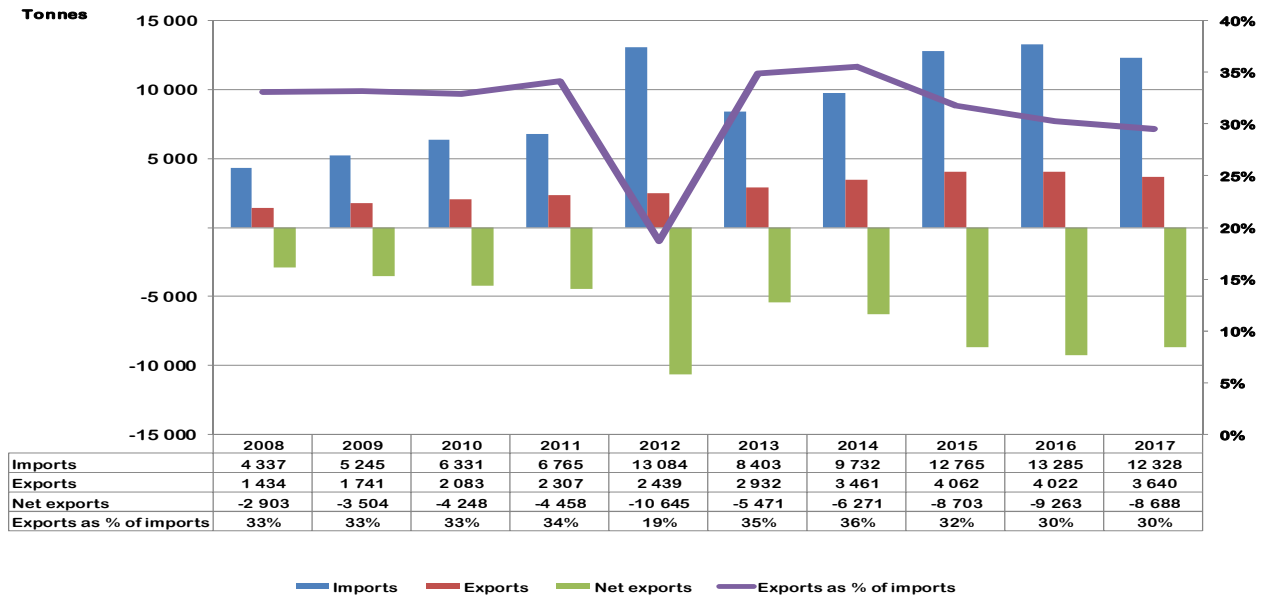


FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, 2008 – 2017



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

TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT (FOB) PRICES FOR DAIRY PRODUCTS , 2013– 2017

Tariff heading	Description	Import price (R/kg)					Export price (R/kg)				
		2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
04.01	Milk & cream	5.96	8.50	7.65	7.44	7.65	8.55	9.45	10.30	10.18	10.93
04.02	Concentrated milk	37.95	42.62	30.92	32.94	32.31	19.49	30.04	30.97	37.00	41.51
04.03	Buttermilk & yoghurt	35.55	42.09	28.06	25.57	28.39	17.76	19.97	18.76	21.27	37.12
04.04	Whey	28.62	34.82	31.98	28.90	31.24	15.55	14.85	10.51	25.46	13.27
04.05	Butter	35.05	48.13	39.56	46.87	68.89	36.75	40.37	40.66	49.40	59.94
04.06	Cheese	51.90	61.70	54.94	57.21	62.19	42.47	46.11	45.50	51.99	60.86

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 2016 TO DECEMBER 2016 AND THE CHANGE IN RETAIL PRICES FROM DECEMBER 2016 TO DECEMBER 2017

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-3.7	-0.5
Long-life milk (UHT)	9.0	0.7
Flavoured milk	-6.7	3.9
Yoghurt	-0.1	0.1
Maas	4.0	0.9
Pre-packaged cheese	8.2	2.1
Cream cheese	-9.8	9.2
Butter	-5.5	28.3
Cream	-0.1	11.2

Source : Nielsen figures supplied by SAMPRO

The average retail prices of 8 of the 9 products were higher in December 2017 than in December 2016. The increases of the average retail prices of 3 of the 8 products, of which the retail prices increased from December 2016 to December 2017, were higher than the inflation rate of 5.1 percent for the year which ended in December 2017.

In the year that ended in December 2017, the retail sales quantities of 3 of the 9 dairy products were from 4.0 to 9.0 percent higher than in the previous year, but the sales quantities of 6 of the 9 dairy products were lower than in the previous year. The change in sales in a 12-month period for any product does not imply that quantities or prices changed at a 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 (%)				
	Dec 17 vs Dec 16	Oct – Dec 17 vs Oct - Dec 16	Jul – Dec 17 vs Jul - Dec 16	Apr - Dec 17 vs Apr - Dec 16	Jan –Dec 17 Vs Jan – Dec 16
Fresh milk	1.7	-0.7	-2.8	-4.0	-3.7
UHT milk	11.9	8.0	8.3	11.8	9.0
Flavoured milk	1.6	2.5	-0.6	-3.1	-6.7
Yoghurt	3.1	4.6	3.4	2.0	-0.1
Maas	3.7	8.6	7.8	6.3	4.0
Pre- packaged cheese	9.2	11.2	9.1	7.7	8.2
Cream cheese	-8.3	-12.0	-9.3	-9.0	-9.8
Butter	1.9	-5.1	-5.4	-6.0	-5.5
Cream	0.7	-0.6	-0.3	0.7	-0.1

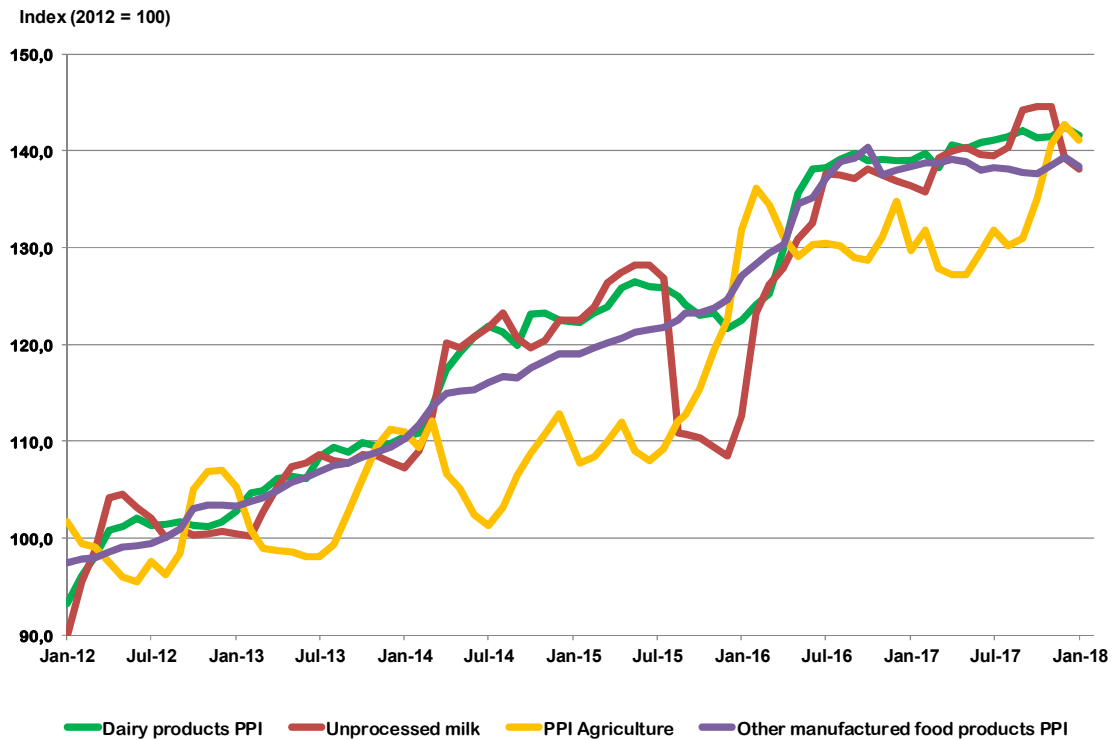
Source: Nielsen as supplied by SAMPRO

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

Product	Change in retail prices compared to same period previous year (%)				
	Dec 17 vs Nov 17	Dec 17 vs Sep 17	Dec 17 vs June 17	Dec 17 vs Mar 17	Dec 17 vs Dec 16
Fresh milk	-0.8	-0.3	-0.9	-1.6	-0.5
UHT milk	-0.4	0.2	-0.7	-0.2	0.7
<i>Flavoured milk</i>	1.8	-1.9	-0.8	2.0	3.9
Yoghurt	-0.5	-1.0	-3.7	-2.1	0.1
Maas	1.0	-0.8	-1.4	-0.9	0.9
Pre-packaged cheese	-0.4	-2.7	-3.5	1.5	2.1
Cream cheese	3.0	4.2	1.9	8.3	9.2
Butter	2.0	5.8	17.7	27.1	28.3
Cream	8.5	10.9	12.0	14.7	11.2

Source: Nielsen as supplied by SAMPRO

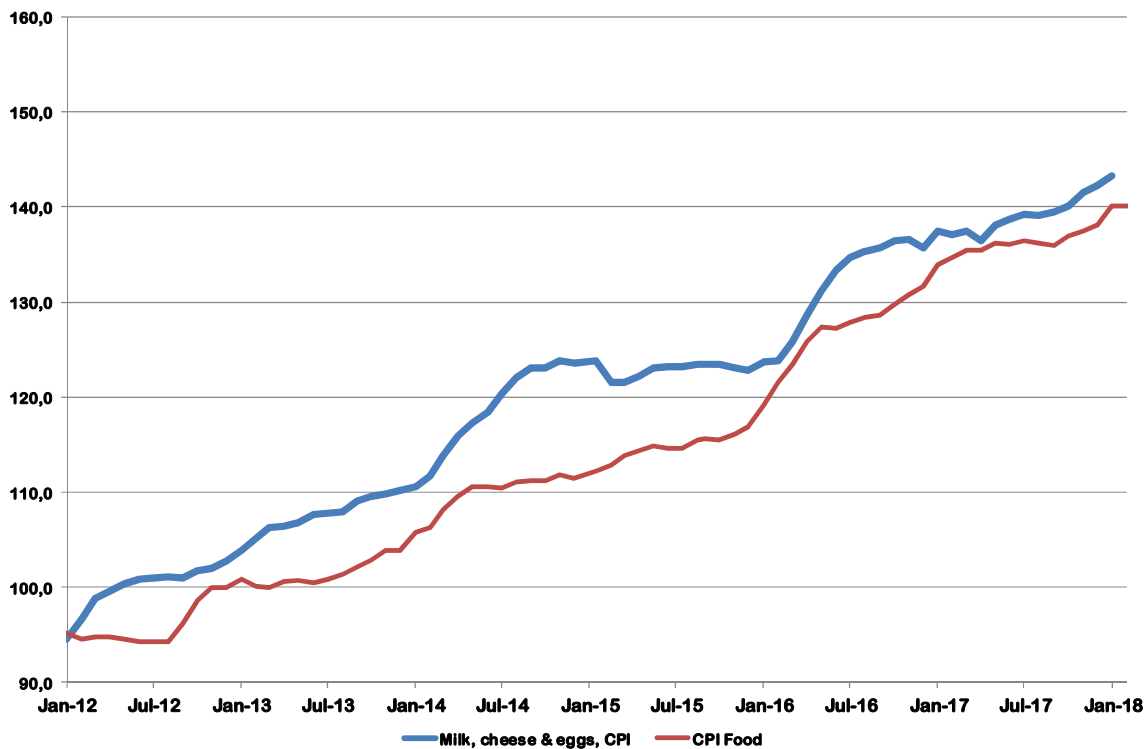
FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, JANUARY 2012 – FEBRUARY 2018



Source: Stats SA

Figure 12 shows that producer prices of unprocessed milk are more volatile than the prices of manufactured dairy products. The dairy producer price index is more volatile than the manufactured food price index. From December 2016 to December 2017 the producer prices of unprocessed milk and manufactured dairy products increased respectively by only 1,7% and 2,5%.

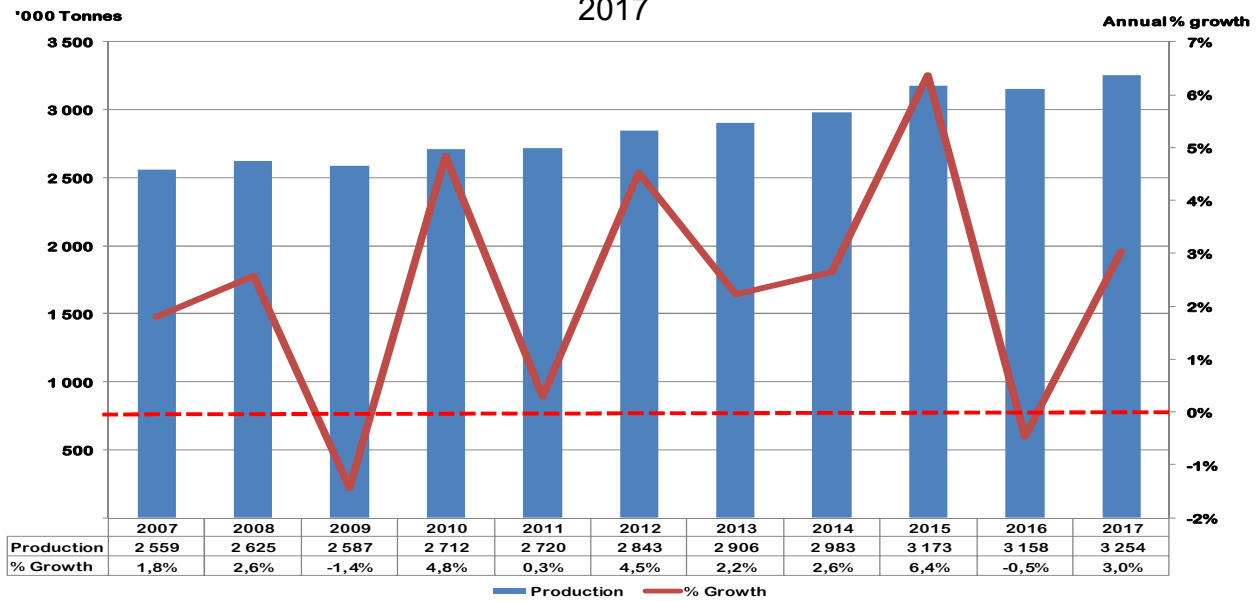
FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – FEBRUARY 2018



Source: Stats SA

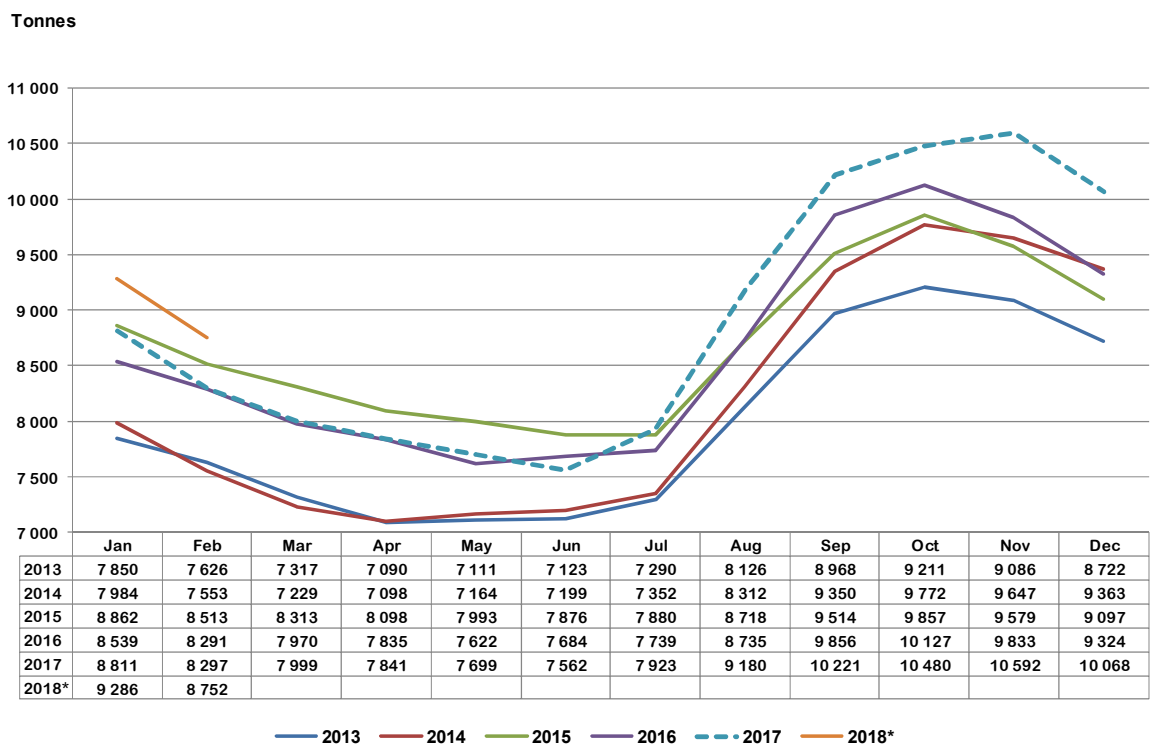
Climatic conditions will play an important role in determining agricultural product prices during the following six months. The record 2017 summer-grain crop and carry-over stocks resulted in lower grain prices and futures prices for 2018. Exchange rates will also influence agricultural product prices, especially for products that will be imported.

FIGURE 14: ANNUAL SOUTH AFRICAN UNPROCESSED MILK PURCHASES, 2007 – 2017



Source: Milk SA

FIGURE 15: SOUTH AFRICAN UNPROCESSED MILK PURCHASES DAILY AVERAGE PER MONTH, JANUARY 2013 – FEBRUARY 2018



Source: Milk SA; *January – February 2018 = Estimate based on a sample of return forms.

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 higher production since the end of 2016.

TABLE 3: CUMULATIVE UNPROCESSED MILK PURCHASES (000 Tonnes), 2014 – 2018

Month	2014	2015	2016	2017	2018
January	211 473	274 707	264 711	274 208	287 866
February	422 946	513 058	505 147	507 314	535 913
March	647 031	770 769	752 227	756 690	
April	859 982	1 013 700	987 280	993 180	
May	1 082 063	1 261 478	1 223 556	1 232 517	
June	1 298 030	1 497 744	1 454 086	1 460 583	
July	1 525 954	1 742 039	1 694 009	1 706 830	
August	1 783 614	2 012 295	1 964 790	1 991 715	
September	2 064 113	2 297 713	2 260 473	2 298 450	
October	2 367 030	2 603 272	2 574 398	2 623 438	
November	2 656 449	2 890 637	2 869 392	2 941 589	
December	2 946 705	3 172 656	3 158 446	3 253 682	

Source: Milk SA statistics. January – February 2018 = Estimate based on a sample of return forms

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% below 2015. During 2017, 3 253 682 000 tonnes of milk were purchased, 3,0% more than in 2016. This increase is the result of a sharp increase in milk intake since August 2017 as milk intake in the first seven months was on the same level as in 2016.

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

- The impact of the low economic growth rate of South Africa on the demand for dairy products;
- Whether the increase in retail sales quantities and downward movement in retail prices experienced in recent months continues
- The effect of lower grain prices on milk production
- 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.