

# QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY<sup>1</sup>

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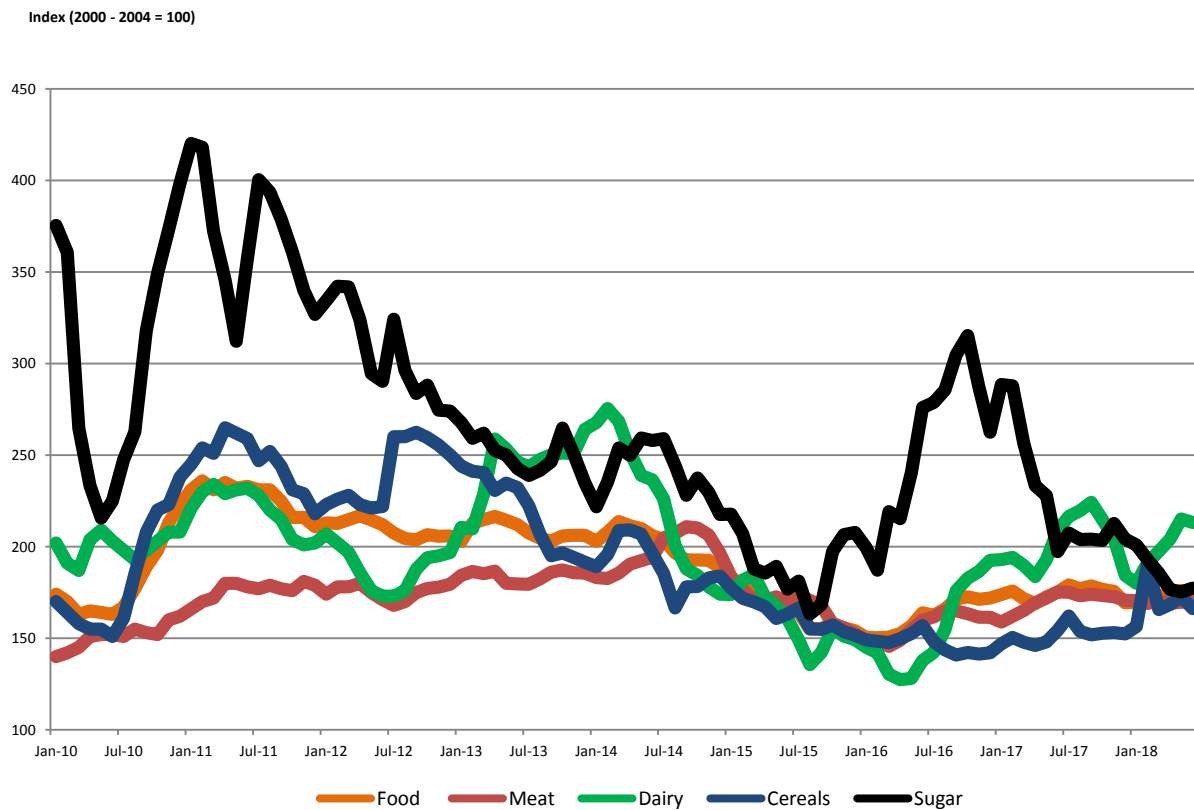
2nd Quarter 2018

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<sup>1</sup> A publication of Milk SA prepared by the MPO and SAMPRO

# 1. INTERNATIONAL MARKET

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



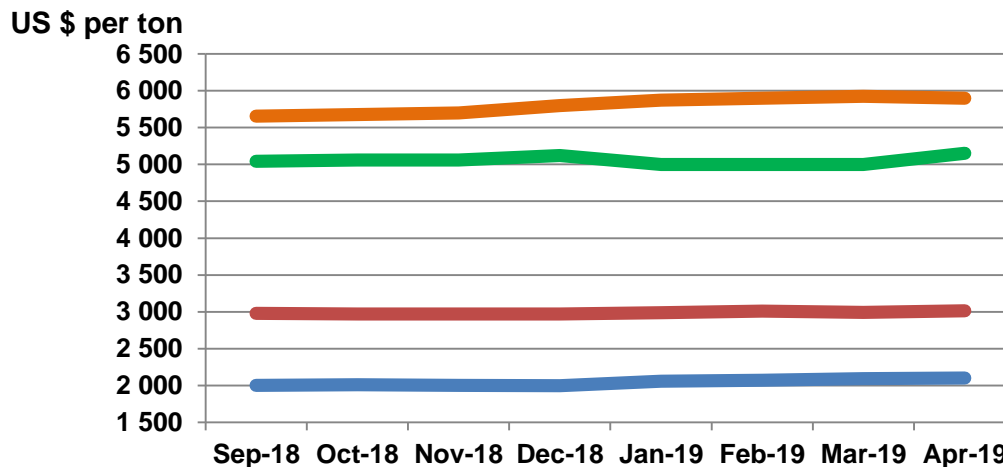
Source: FAO Food price index, 2018

The price index of food and the other food stuffs in figure 1 started to increase since middle 2016 as the world economy started with an expansive cycle that resulted in an increased demand for food. There are shorter cycles evident within the different time series that are food type specific. The sugar spike was a result of adverse weather conditions in South America that created a shortage on the world market. The dairy index shows strong growth since middle 2016.

Looking further back, 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.

Dairy product prices are on an upward trend since April 2016 (127 index points). During this cycle dairy product prices slowed down, decreased and then continued the upward trend. The index peaked in Sept 2017 on 224 index points, decreased to 190 points in February 2018 and peaked again in May 2018 on 215 index points. In June 2018 dairy product prices decreased and the index decreased to 213 points. It seems that there is a resistance level developing at a range between 224 and 215 index points.

FIGURE 2: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX) ON 31 JULY 2018: SEP 2018 – APRIL 2019



	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Skimmed milk powder	2 000	2 010	2 000	1 995	2 055	2 070	2 090	2 100
Full cream milk powder	2 980	2 970	2 970	2 970	2 985	3 010	2 990	3 015
Butter	5 045	5 060	5 060	5 120	5 000	5 000	5 000	5 150
Anhydrous milkfat	5 655	5 680	5 700	5 800	5 875	5 900	5 925	5 900

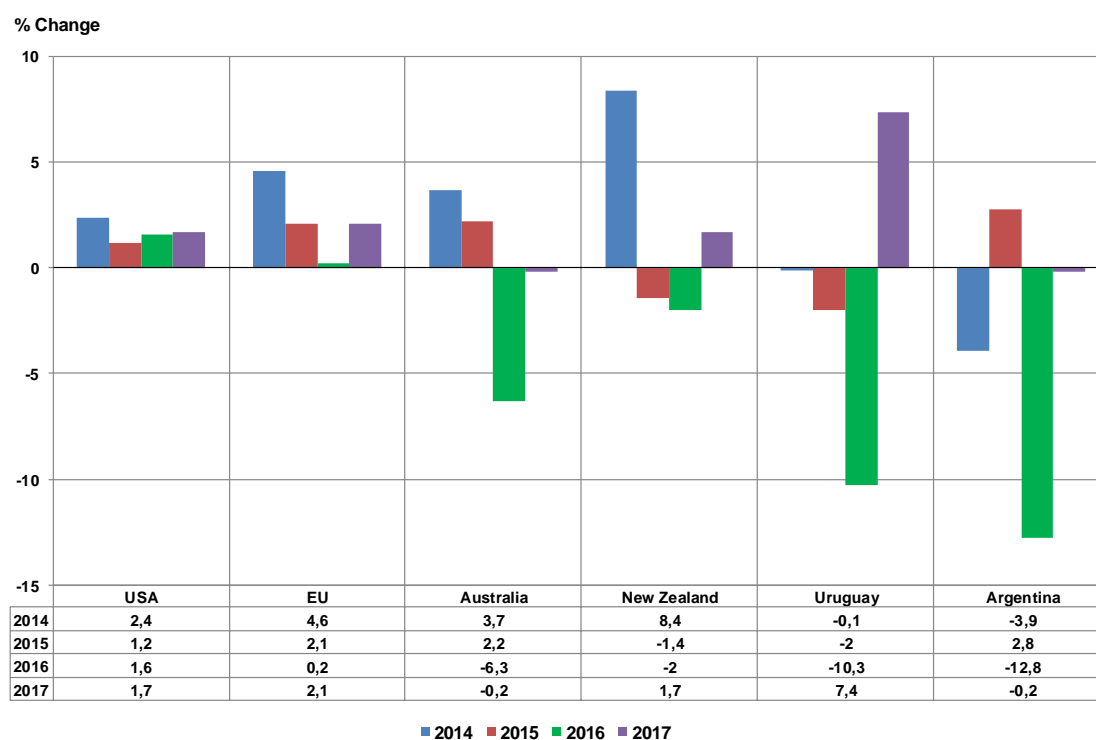
— Skimmed milk powder    — Full cream milk powder  
— Butter    — Anhydrous milkfat

Source: NZX Futures, July 2018

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

- Uncertainty regarding various tariffs being introduced between the USA and counter parties.
- Demand growth in developed countries and
- The ability of the European Commission to reduce intervention stocks without serious disruption to markets.
- Production in the peak production season of the Southern hemisphere which commences in the third quarter.

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

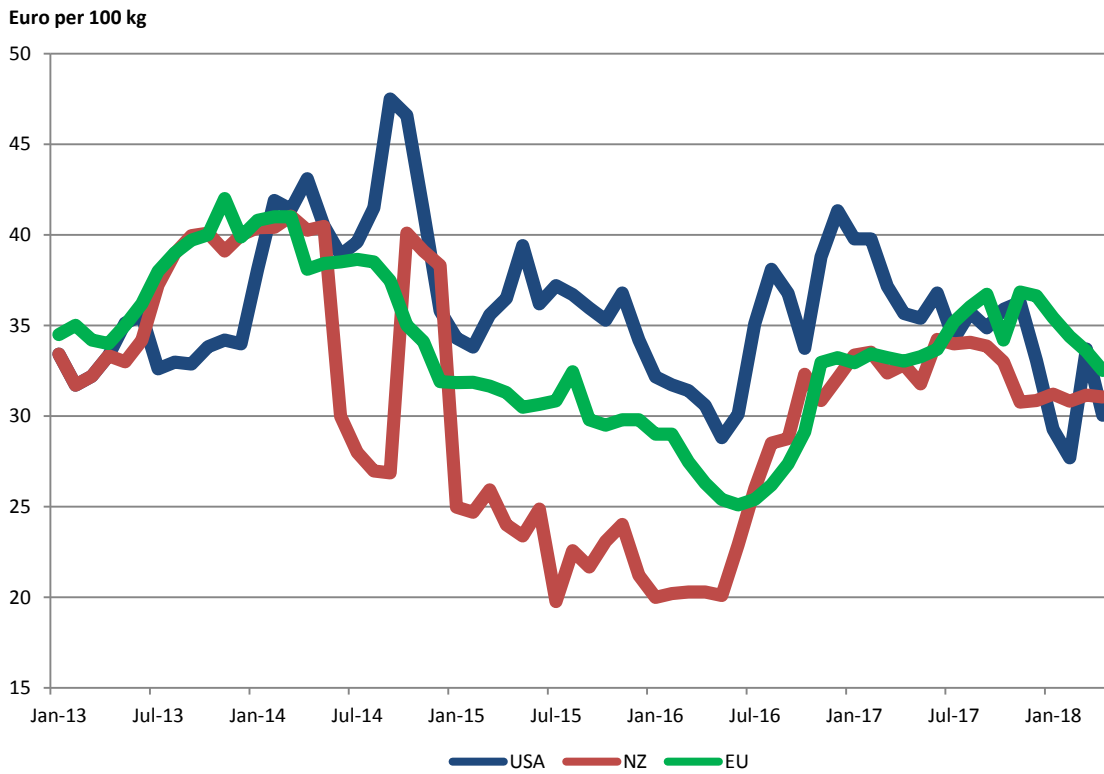


Source: CNIEL, January 2018

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 - JUNE 2018



Source: LTO Nederland, July 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

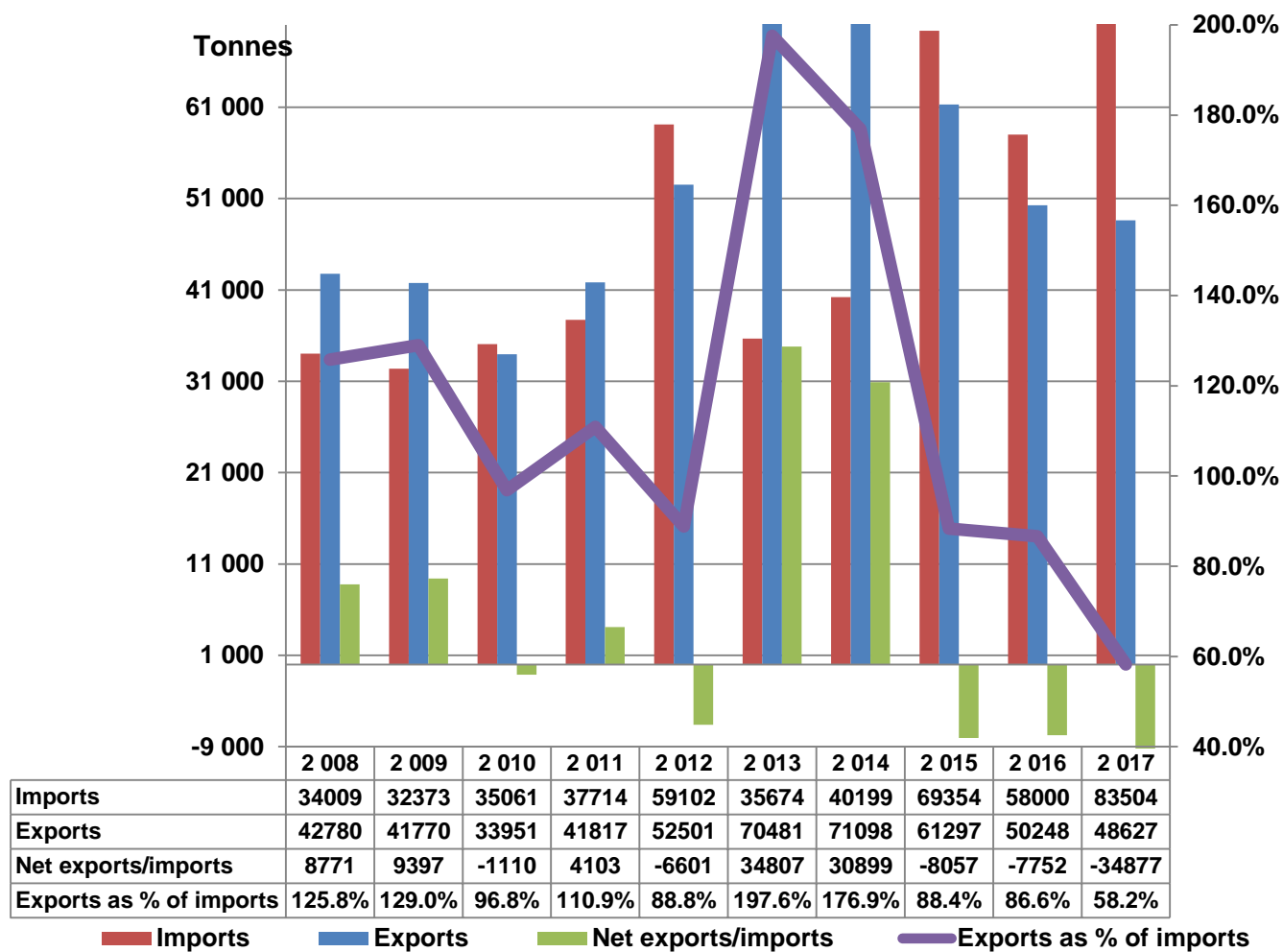


FIGURE 6: SOUTH AFRICAN IMPORTS AND EXPORTS OF MILK AND CREAM, 2008 – 2017

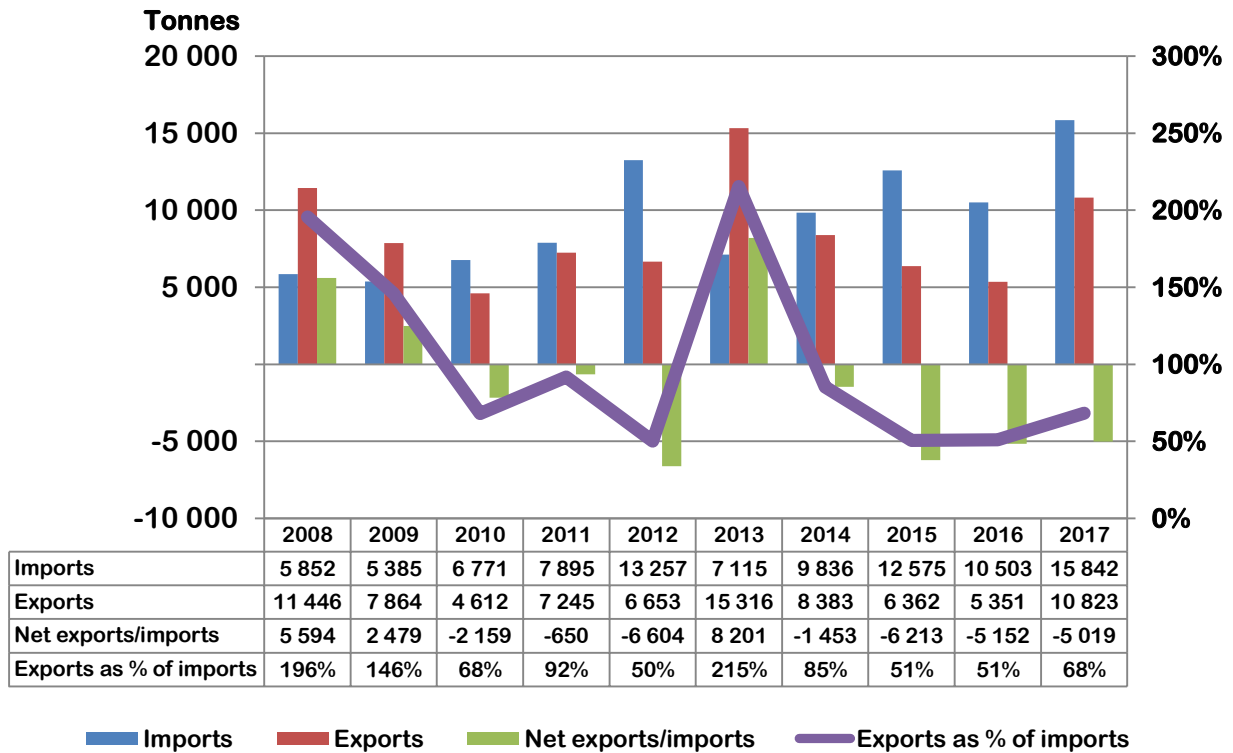


FIGURE 7: SOUTH AFRICAN IMPORTS AND EXPORTS OF CONCENTRATED MILK, 2008 – 2017

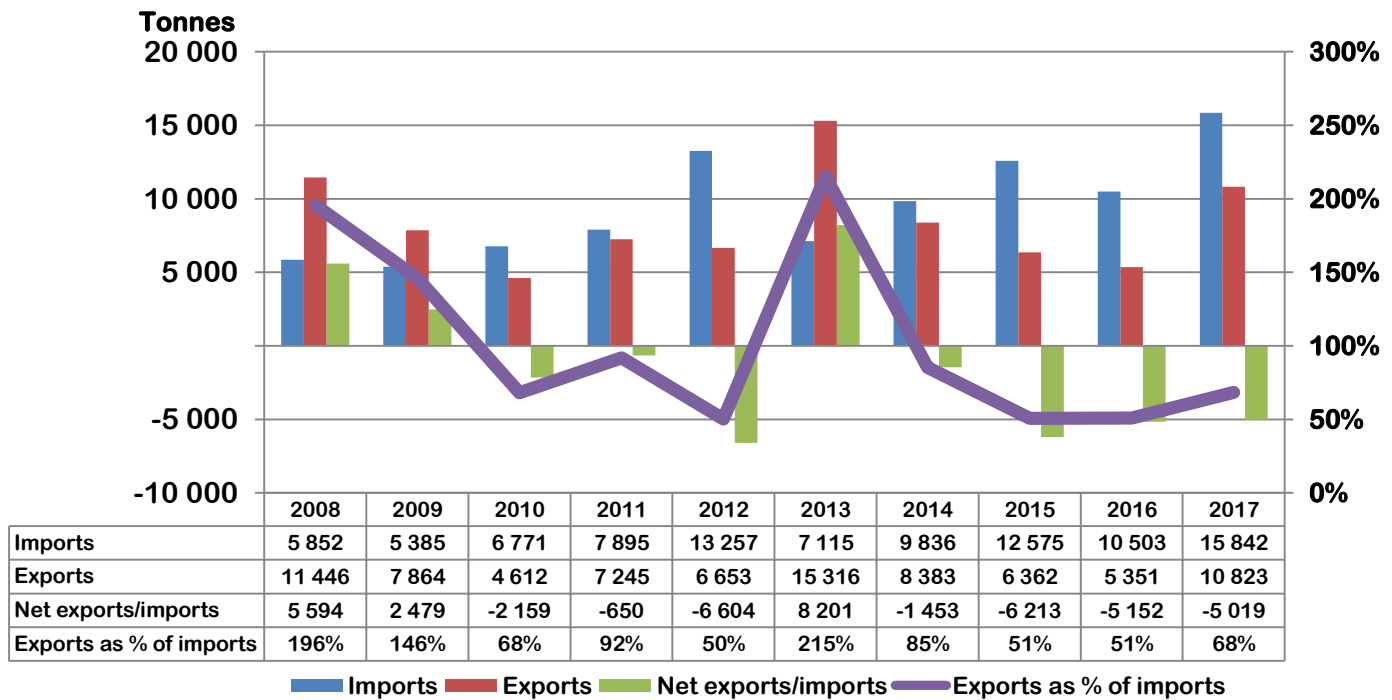


FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, 2008 – 2017

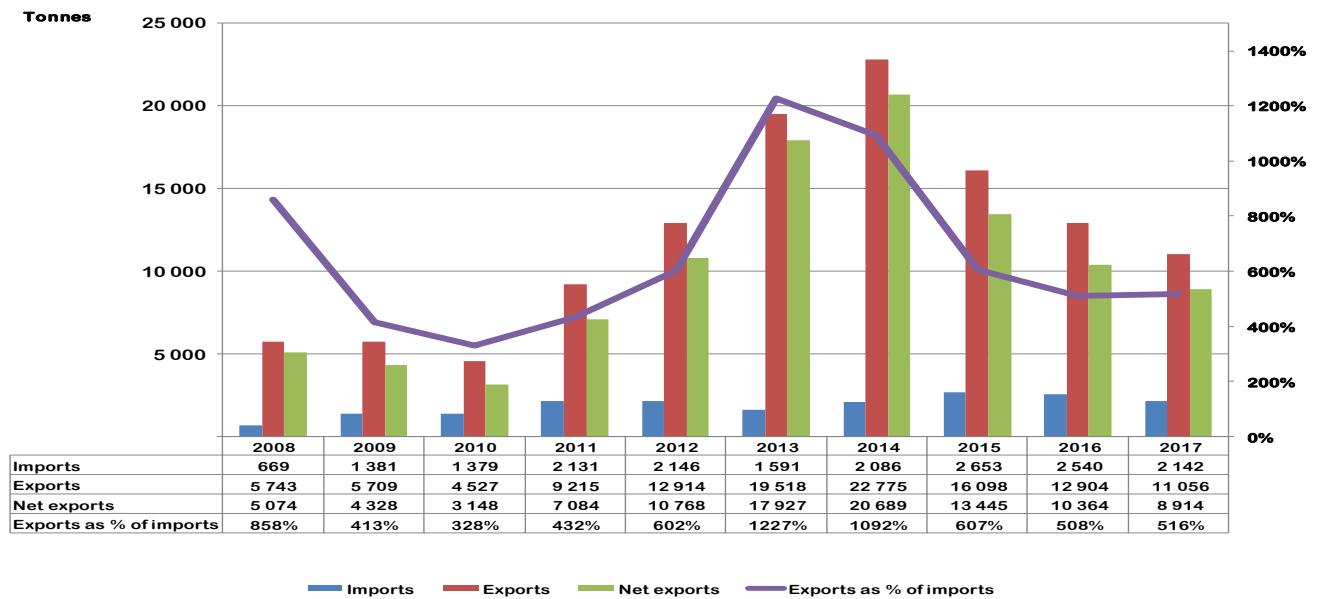


FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, 2008 – 2017

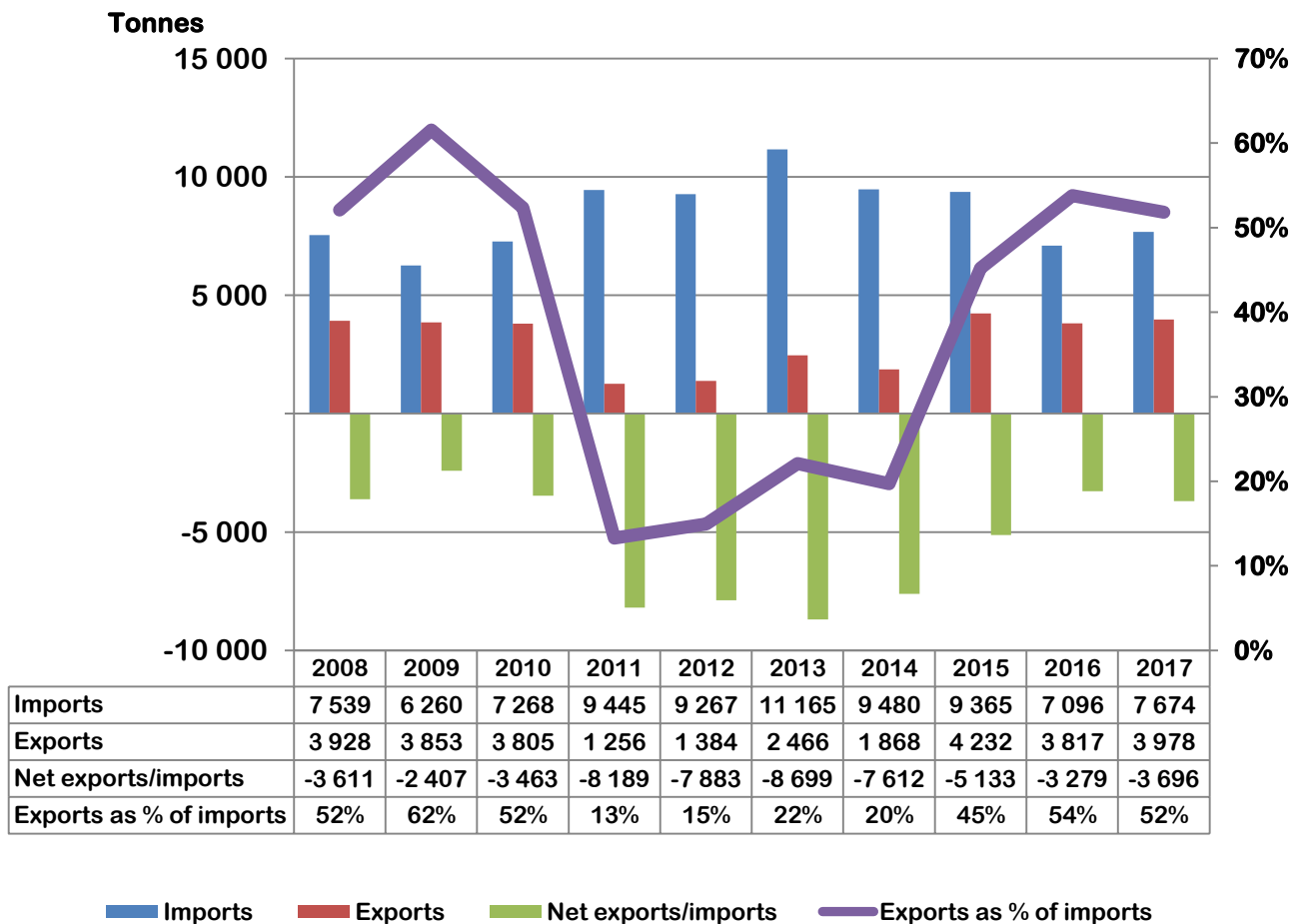




FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, 2008 – 2017

Tonnes

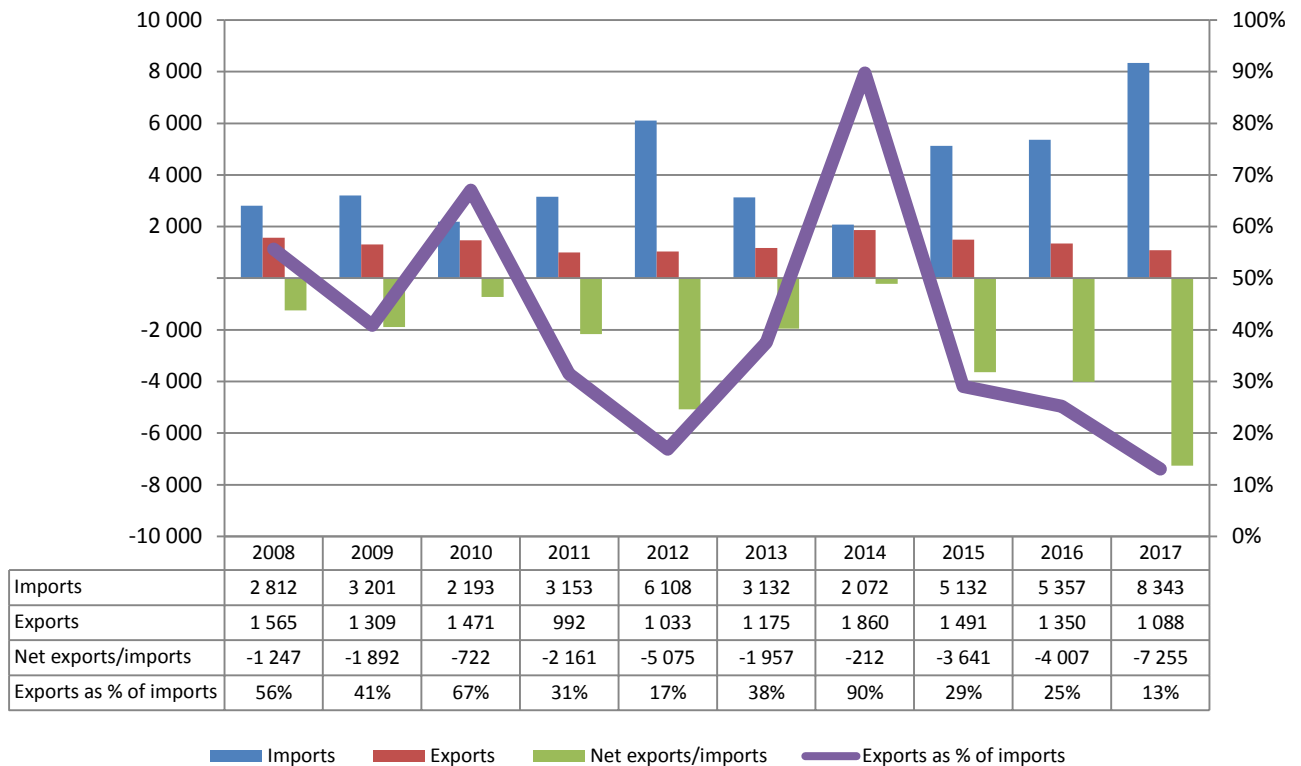
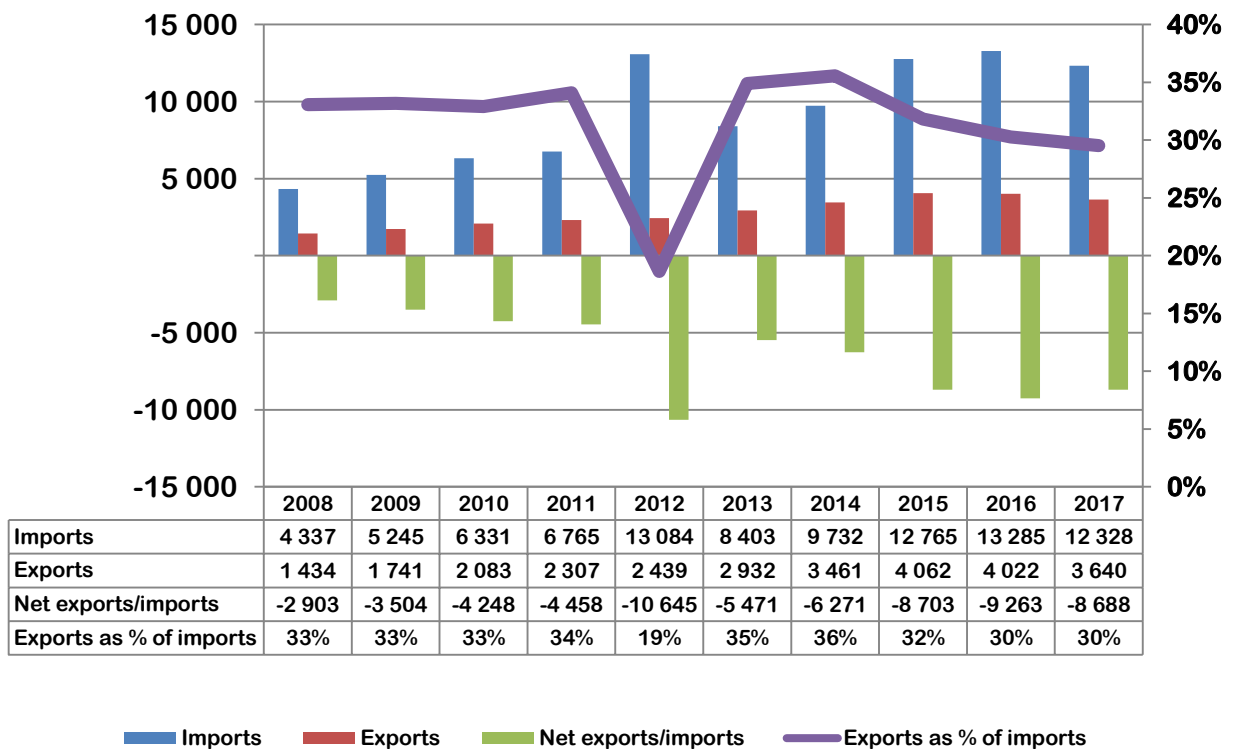


FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, 2008 – 2017

Tonnes



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 APRIL 2017 TO MARCH 2018 COMPARED TO THE 12 MONTH PERIOD FROM APRIL 2016 TO MARCH 2017 AND THE CHANGE IN RETAIL PRICES FROM APRIL 2017 TO MARCH 2018**

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-3.8	0.3
Long-life milk (UHT)	11.3	-1.5
Flavoured milk	-1.2	3.9
Yoghurt	-0.9	5.6
Maas	6.7	-0.1
Pre-packaged cheese	8.3	2.1
Cream cheese	-8.2	5.9
Butter	-6.5	31.8
Cream	0.4	11.1

Source : Nielsen figures supplied by SAMPRO

Sale quantities for UHT, Maas and Pre-packed cheese are showing significant growth on the back of price decreases or relatively low price increases. Butter sales are still on a downward trend due to very high prices.

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 (%)				
	March 18 vs March 17	Jan – Mar 18 vs Jan – Mar 17	Oct17 – Mar18 vs Oct16 – Mar17	Jul17 – Mar18 vs Jul16 – Mar17	Apr17 – Mar18 vs Apr16 – Mar17
Fresh milk	-3.2	-3.4	-2.0	-3.0	-3.8
UHT milk	8.1	9.8	8.9	8.8	11.0
Flavoured milk	-0.4	4.2	3.4	1.1	-1.2
Yoghurt	-2.3	-0.5	-0.5	-0.9	-0.9
Maas	8.9	7.6	8.1	7.8	6.7
Pre-packaged cheese	7.0	5.7	9.5	9.2	8.3
Cream cheese	-3.2	-5.8	-8.9	-8.1	-8.2
Butter	2.5	-8.5	-6.7	-6.3	-6.5
Cream	2.2	-0.6	-0.5	-0.4	0.4

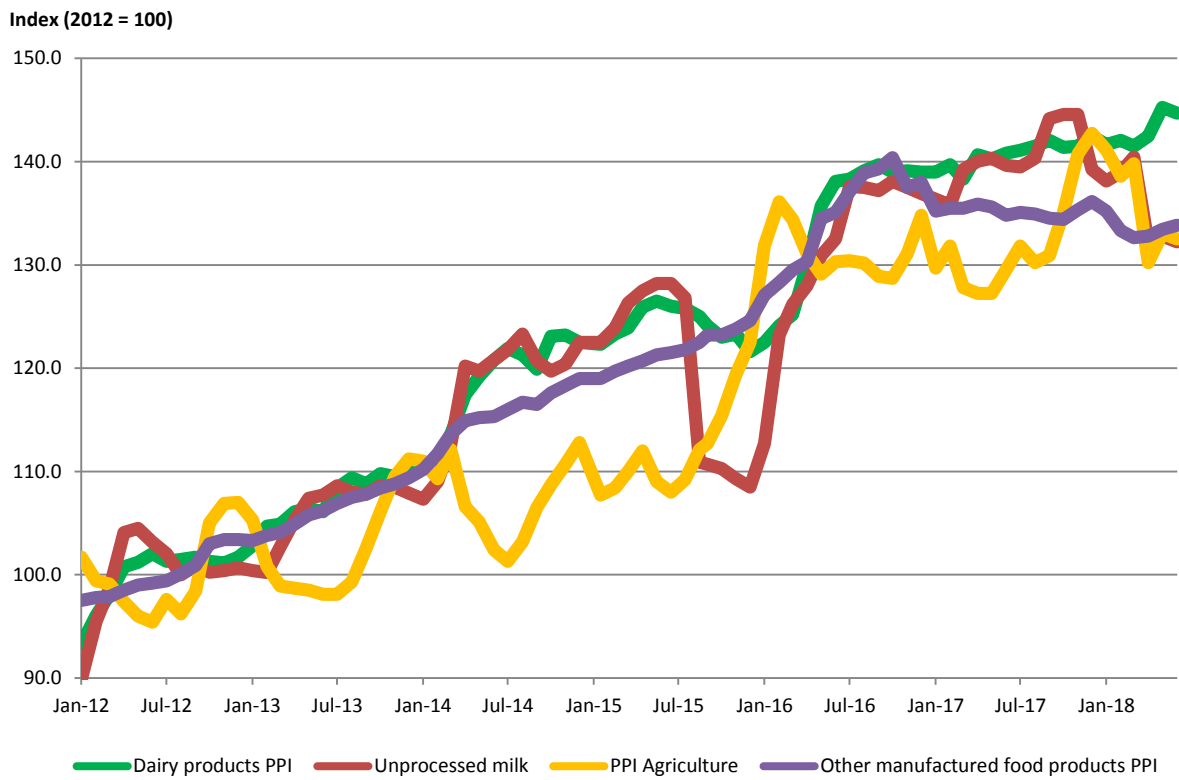
Source: Nielsen as supplied by SAMPRO

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

Product	Change in retail prices compared to same period previous year (%)				
	Mar 18 vs Feb 18	Mar 18 vs Dec 17	Mar 18 vs Sep 17	Mar 18 vs Jun 17	Mar 18 vs Mar 17
Fresh milk	0.2	2.0	1.7	1.1	0.3
UHT milk	-1.0	-1.3	-1.1	-2.0	-1.5
Flavoured milk	0.9	1.8	-0.1	1.0	3.9
Yoghurt	0.1	2.8	1.0	3.8	5.6
Maas	-1.4	0.7	-0.1	-0.7	-0.1
Pre-packaged cheese	-1.4	0.5	-2.3	-3.0	2.1
Cream cheese	1.5	-2.2	2.0	-0.3	5.9
Butter	0.7	3.7	9.7	22.0	31.8
Cream	-0.3	-3.2	7.4	8.4	11.1

Source: Nielsen as supplied by SAMPRO

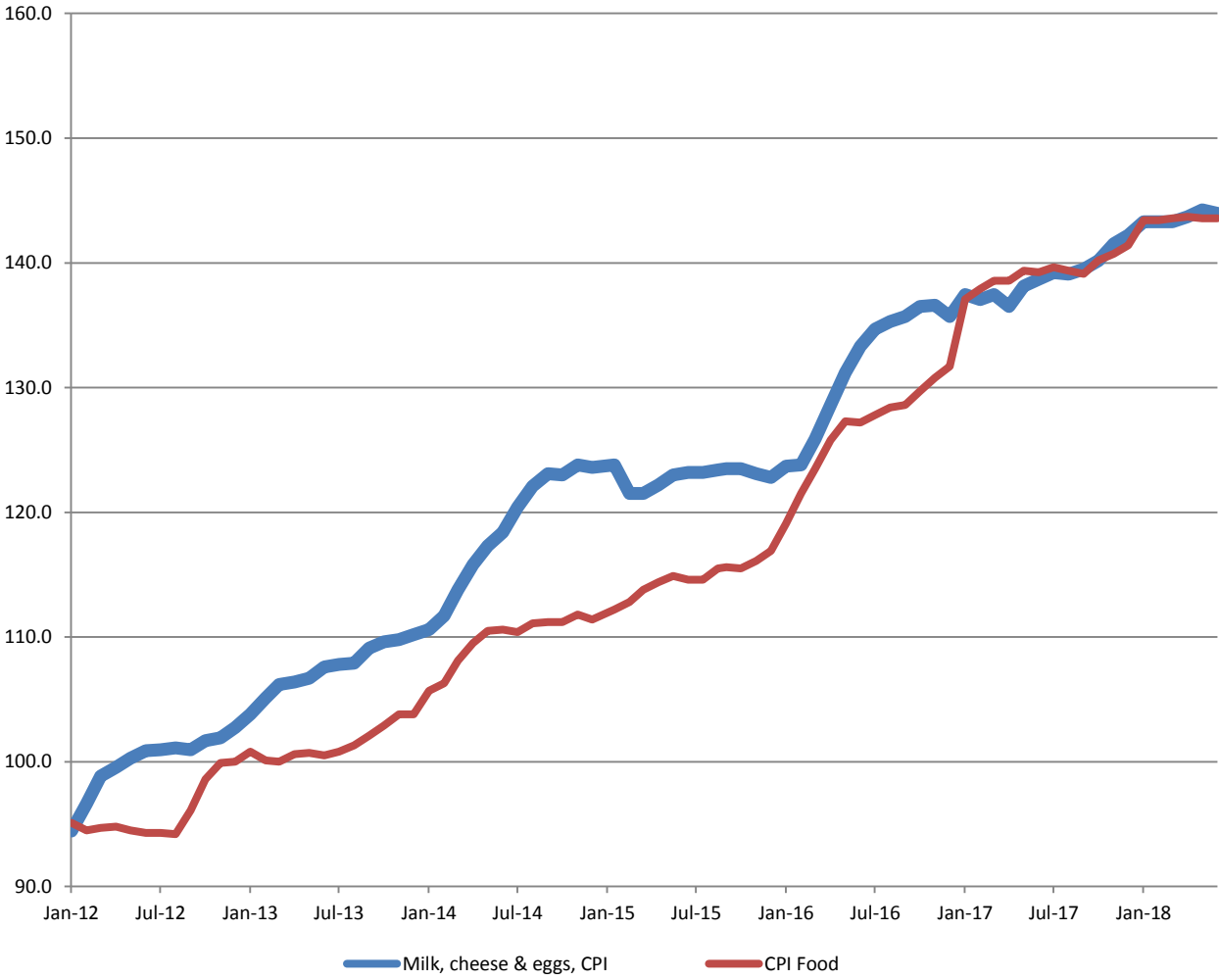
FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, JANUARY 2012 – JUNE 2018



Source: Stats SA

Figure 12 shows that producer prices of unprocessed milk are more volatile than the prices of manufactured dairy products.

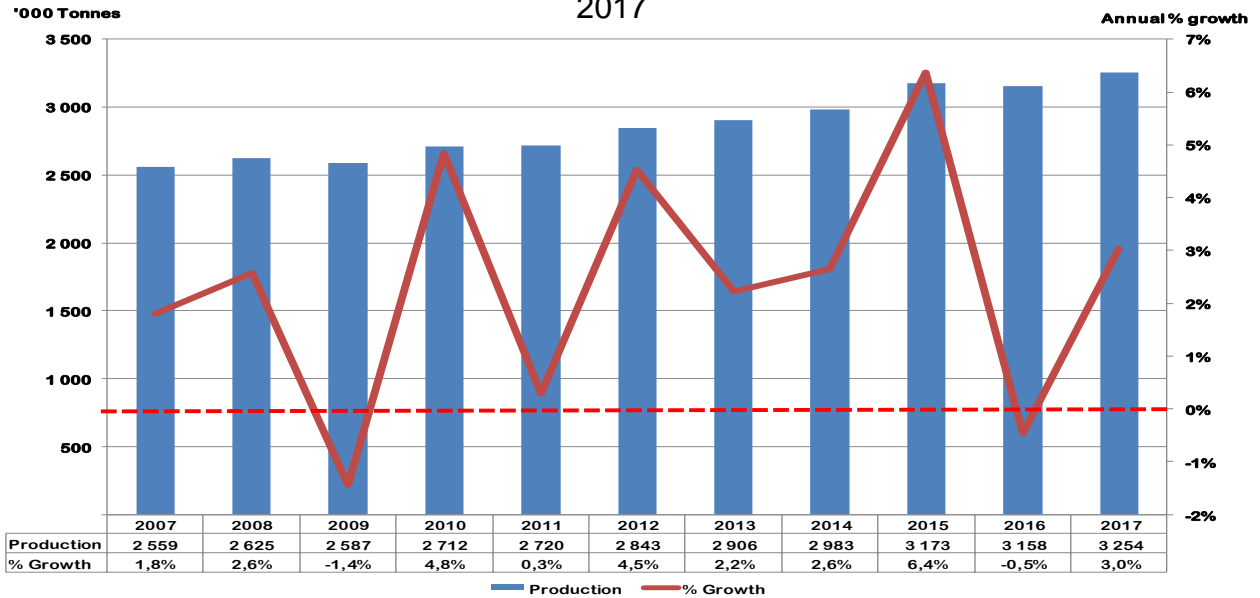
FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – JUNE 2018



Source: Stats SA

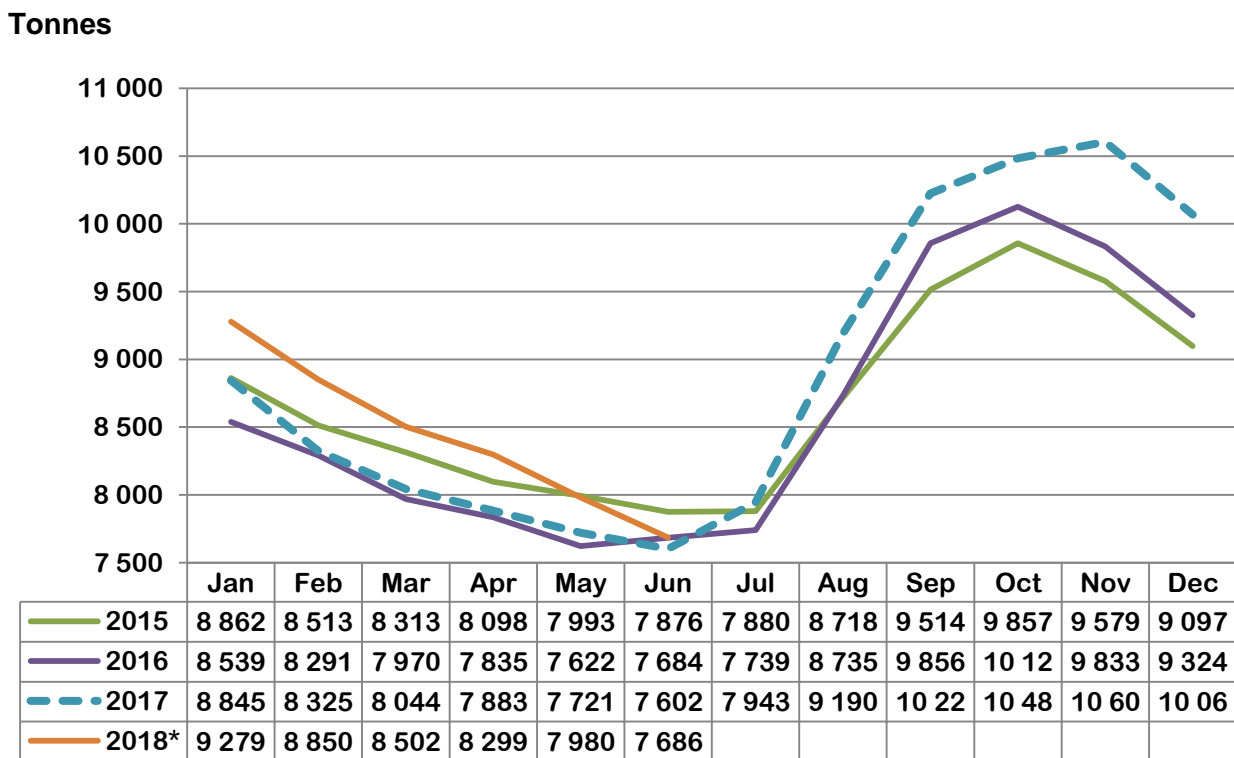
Climatic conditions will play an important role in determining agricultural product prices during the following six months. The record 2017 summer-grain crop and carry-over stocks resulted in lower grain prices and futures prices for 2018. Exchange rates will also influence agricultural product prices, 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 2015 – JUNE 2018



Source: Milk SA; \*May and June 2018 = Milk SA estimates.

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

Month	2014	2015	2016	2017	2018
January	211 473	274 707	264 711	274 208	287 641
February	422 946	513 058	505 147	507 314	535 441
March	647 031	770 769	752 227	756 690	799 011
April	859 982	1 013 700	987 280	993 180	1 047 971
May	1 082 063	1 261 478	1 223 556	1 232 517	1 295 359
June	1 298 030	1 497 744	1 454 086	1 460 583	1 525 951
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. May and June 2018 = 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% below 2015. During 2017, 3 253 682 tonnes of milk were purchased, 3,0% more than in 2016. Unprocessed milk purchases for the first two quarters of 2018 grew by 4.48%.

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

- The impact of producer price decreases;
- The high level of international dairy product prices and the level of R/\$ exchange rate -imports are expensive compared to a year ago;
- The impact of the low economic growth rate of South Africa on the demand for dairy products; and
- The effect of lower grain prices on milk production