Milk South Africa
Melk Suid-Afrika

QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY[1]

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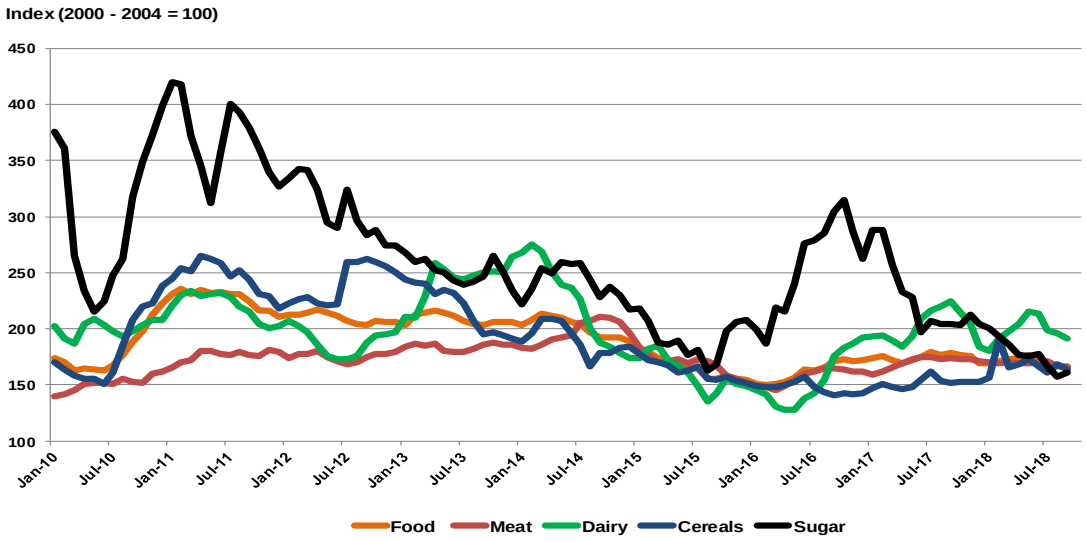
3rd Quarter 2018

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

1. INTERNATIONAL MARKET

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



Source: FAO Food price index, 2018

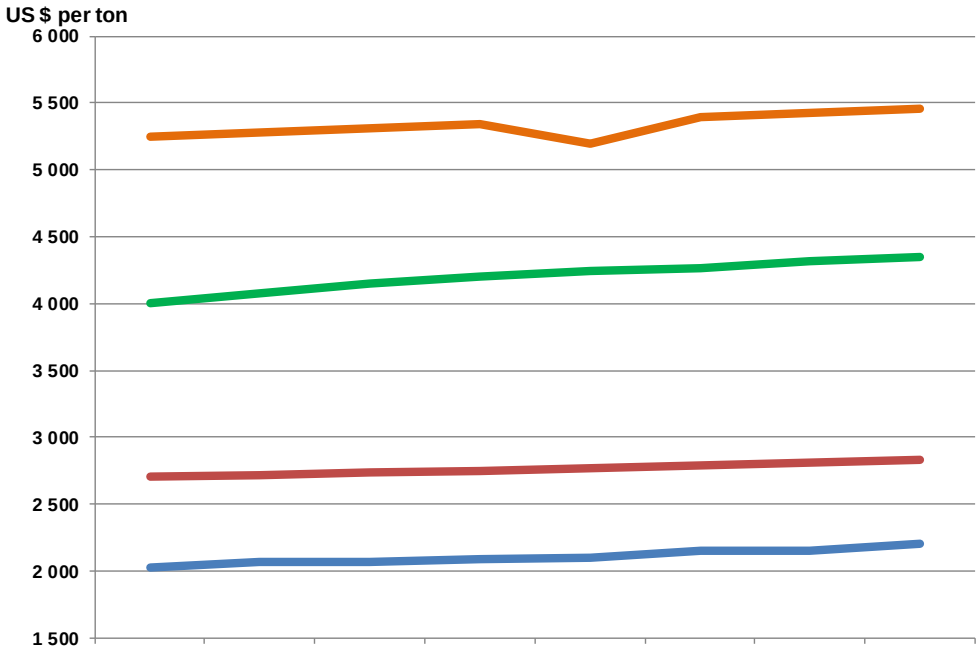
The price index of food and the other food stuffs in figure 1 started to increase since middle 2016 (except sugar), as the world economy started with an expansive cycle that resulted in an increased demand for food. There are shorter cycles evident within the different time series that are food type specific. The sugar spike was a result of adverse weather conditions in South America that created a shortage on the world market. The high volatility of the sugar market is clearly visible in the figure while the meat market exhibits a lower volatility compared to all the other food stuffs.

The dairy index shows strong growth since the middle of 2016 but the growth tapered off at the end of 2017 and is currently moving sideways along the 200 index point level. The cyclical movement in dairy prices are distinctly evident in figure 1.

Dairy product prices are on an upward trend since April 2016. 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.

The downward trend is now in it's fourth consecutive month. In September, international prices of butter, cheese and Whole Milk Powder (WMP) declined while those of Skim Milk Powder (SMP) recovered. The potential for much larger export availabilities weighed on international prices of butter, cheese and WMP. However, SMP prices registered a further recovery in September, resulting in a 16.2 percent gain since the start of the year, largely underpinned by stronger demand for freshly manufactured skimmed milk powder. However, the high stock levels of skimmed milk powder in Europe remains a concern.

FIGURE 2: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX) ON 3 OCTOBER 2018: Nov 2018 – Jun 2019



	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Skimmed milk powder	2 025	2 070	2 070	2 090	2 100	2 150	2 150	2 200
Full cream milk powder	2 700	2 715	2 740	2 750	2 770	2 785	2 805	2 825
Butter	4 000	4 080	4 150	4 200	4 240	4 265	4 320	4 345
Anhydrous milkfat	5 250	5 280	5 310	5 340	5 200	5 400	5 430	5 460

Source: NZX Futures, October 2018

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

- Uncertainty regarding various import duties being introduced between the USA and counter parties;
- Demand growth in developed countries;
- Production in the peak production season of the Southern hemisphere which commences in the third quarter; and
- The possible impact of the drought in certain European countries on the production of unprocessed milk during the winter.

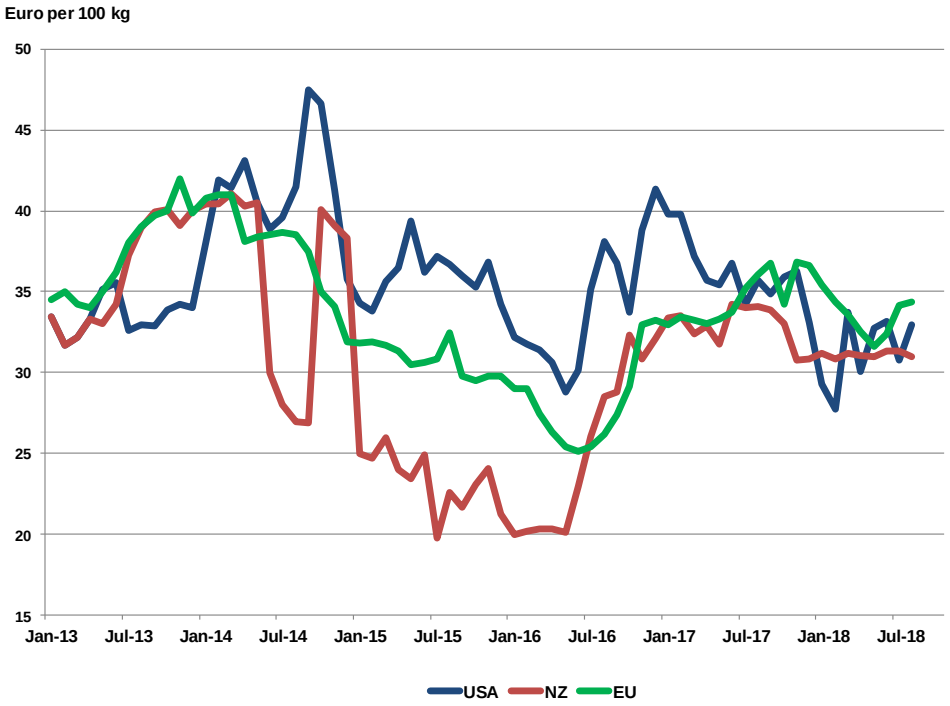
FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2014 – 2017

	USA	EU	Australia	New Zealand	Uruguay	Argentina
2014	2.4	4.6	3.7	8.4	-0.1	-3.9
2015	1.2	2.1	2.2	-1.4	-2.0	2.8
2016	1.6	0.2	-6.3	-2.0	-10.3	-12.8
2017	1.7	2.1	-0.2	1.7	7.4	-0.2

Source: CNIEL, January 2018

Unprocessed milk production in the USA continued to grow 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 especially in 2016.

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



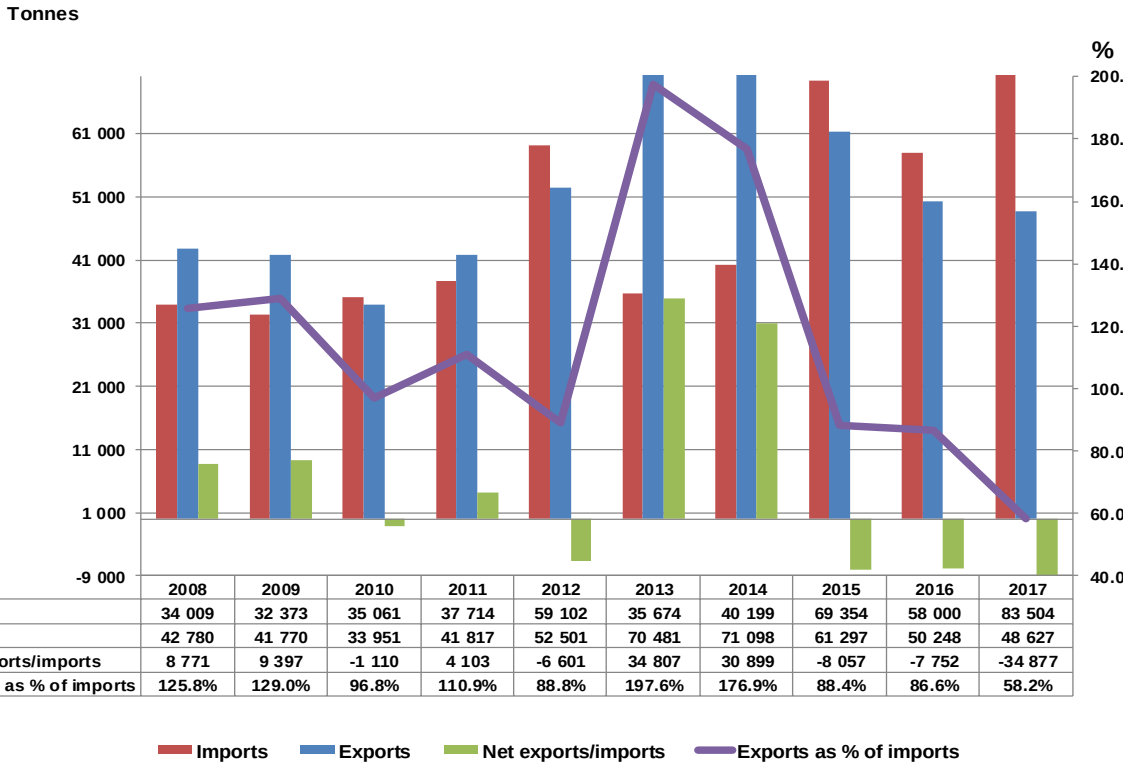
Source: LTO Nederland, July 2018

Producer prices in the USA, EU and New Zealand decreased from mid-2014 to April 2016. Since then prices in the USA, EU and New Zealand improved but it remained lower than the high levels achieved in particular months of 2014. There was a marked convergence of producer prices in the last year similar to the situation at the beginning of 2013. 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 growth especially in Chinese, US and European markets.

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

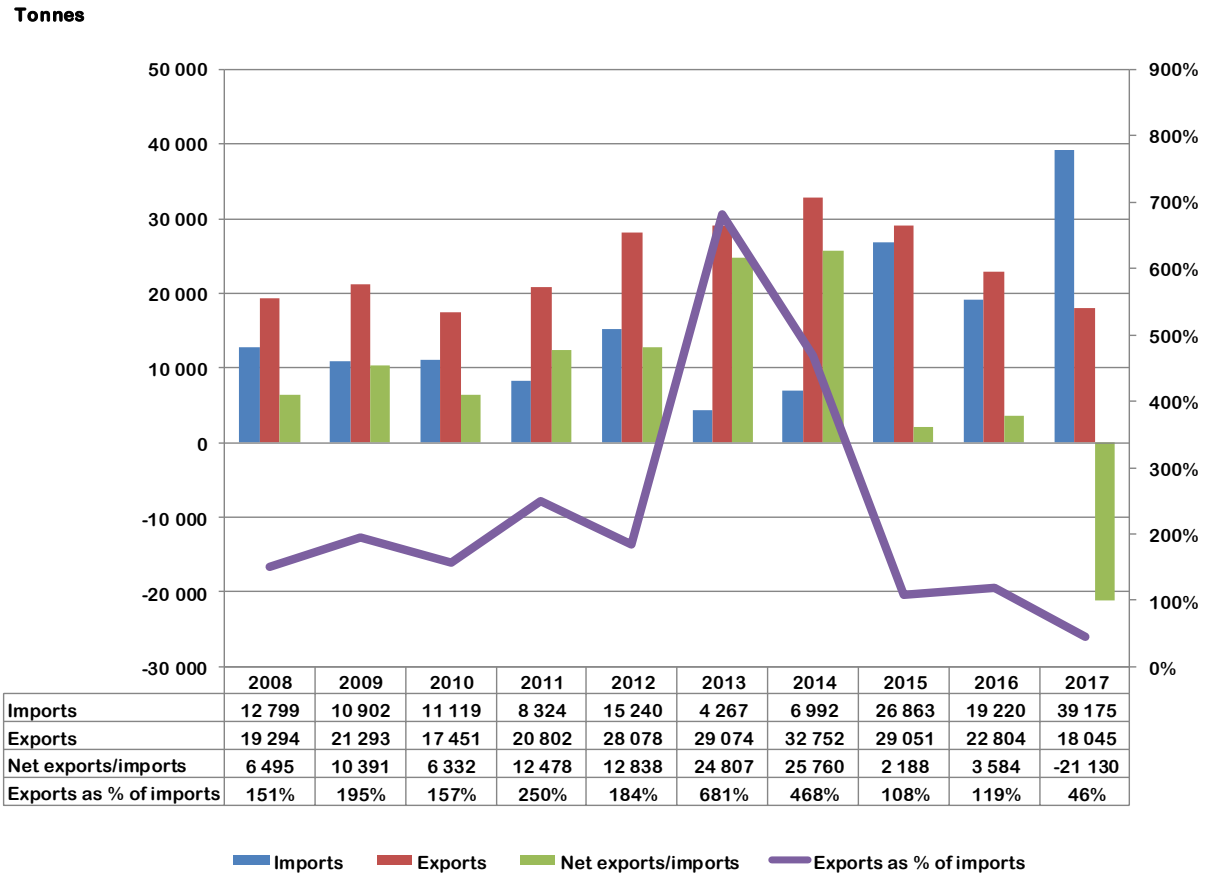


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	34 009	32 373	35 061	37 714	59 102	35 674	40 199	69 354	58 000	83 504
Exports	42 780	41 770	33 951	41 817	52 501	70 481	71 098	61 297	50 248	48 627
Net exports/imports	8 771	9 397	-1 110	4 103	-6 601	34 807	30 899	-8 057	-7 752	-34 877
Exports as % of imports	125.8%	129.0%	96.8%	110.9%	88.8%	197.6%	176.9%	88.4%	86.6%	58.2%

The information regarding imports and exports by South Africa of dairy products in 2017, showed that:

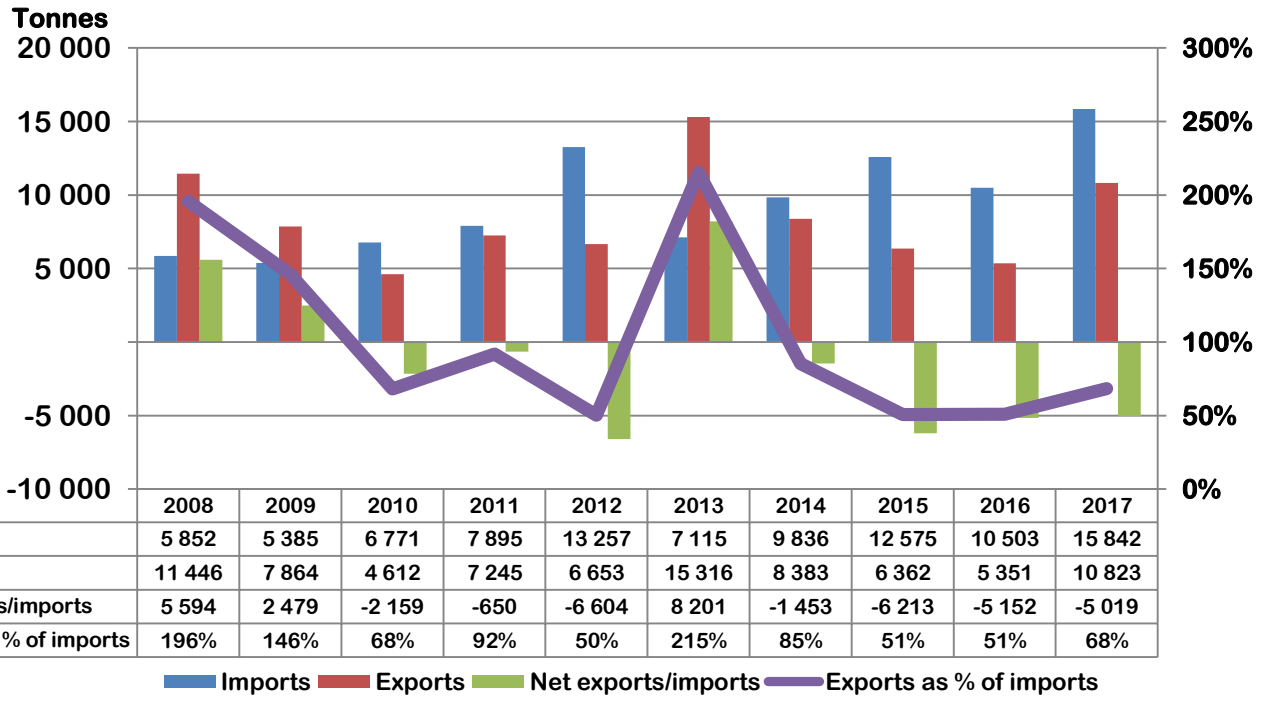
- The mass of exports was 3.2 percent lower than in 2016, 20.6 percent lower than in 2015 and the sixth highest in the ten years from 2008 to 2017;
- The mass of imports was 44.0 percent higher than in 2016 and 20.4 percent higher than in 2015, which was the highest import in the years 2008 to 2016. This increase in the mass of imports of dairy products, was mainly the result of higher imports of milk and cream (04.01) and concentrated milk (04.02);
- The very sharp increase in the imports of milk and cream (04.01) from 2016 to 2017, was the result of the increased imports of UHT milk. The share of the imports of UHT milk in the estimated total South African market for UHT milk, increased from 2.2 percent in 2016, to 4.2 percent in 2017;
- South Africa was, in terms of mass, a nett exporter of one of the six types of dairy products, namely “buttermilk and yoghurt”; and that
- South Africa was, in terms of mass, for the first time in the ten years from 2008 to 2017, a nett importer of “milk and cream”.

FIGURE 6: SOUTH AFRICAN IMPORTS AND EXPORTS OF MILK AND CREAM (04.01), 2008 – 2017



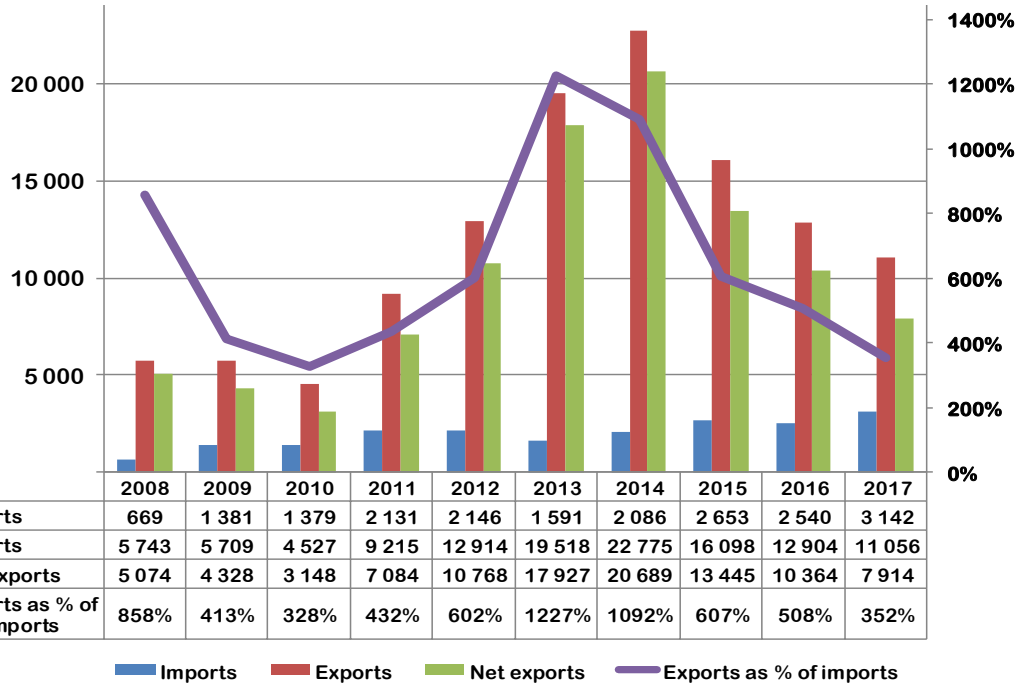
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	12 799	10 902	11 119	8 324	15 240	4 267	6 992	26 863	19 220	39 175
Exports	19 294	21 293	17 451	20 802	28 078	29 074	32 752	29 051	22 804	18 045
Net exports/imports	6 495	10 391	6 332	12 478	12 838	24 807	25 760	2 188	3 584	-21 130
Exports as % of imports	151%	195%	157%	250%	184%	681%	468%	108%	119%	46%

FIGURE 7: SOUTH AFRICAN IMPORTS AND EXPORTS OF CONCENTRATED MILK, (04.02) 2008 – 2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	5 852	5 385	6 771	7 895	13 257	7 115	9 836	12 575	10 503	15 842
Exports	11 446	7 864	4 612	7 245	6 653	15 316	8 383	6 362	5 351	10 823
Net exports/imports	5 594	2 479	-2 159	-650	-6 604	8 201	-1 453	-6 213	-5 152	-5 019
Exports as % of imports	196%	146%	68%	92%	50%	215%	85%	51%	51%	68%

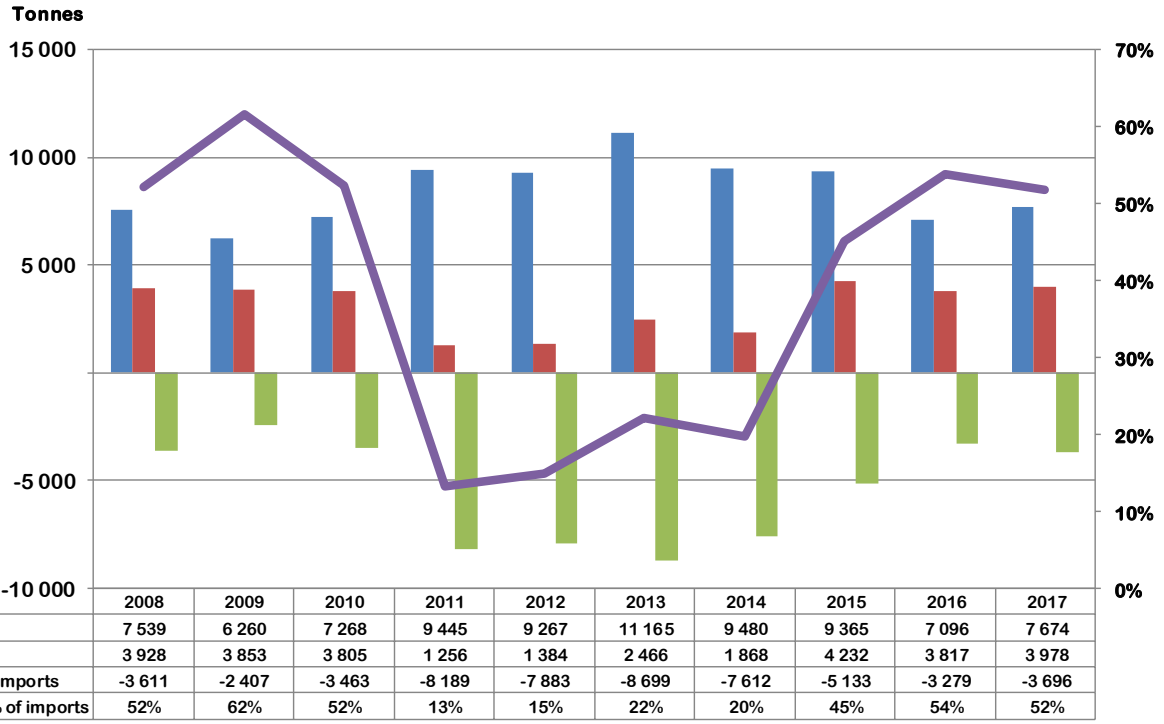
FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, (04.03)
2008 – 2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	669	1 381	1 379	2 131	2 146	1 591	2 086	2 653	2 540	3 142
Exports	5 743	5 709	4 527	9 215	12 914	19 518	22 775	16 098	12 904	11 056
Net exports	5 074	4 328	3 148	7 084	10 768	17 927	20 689	13 445	10 364	7 914
Exports as % of imports	858%	413%	328%	432%	602%	1227%	1092%	607%	508%	352%

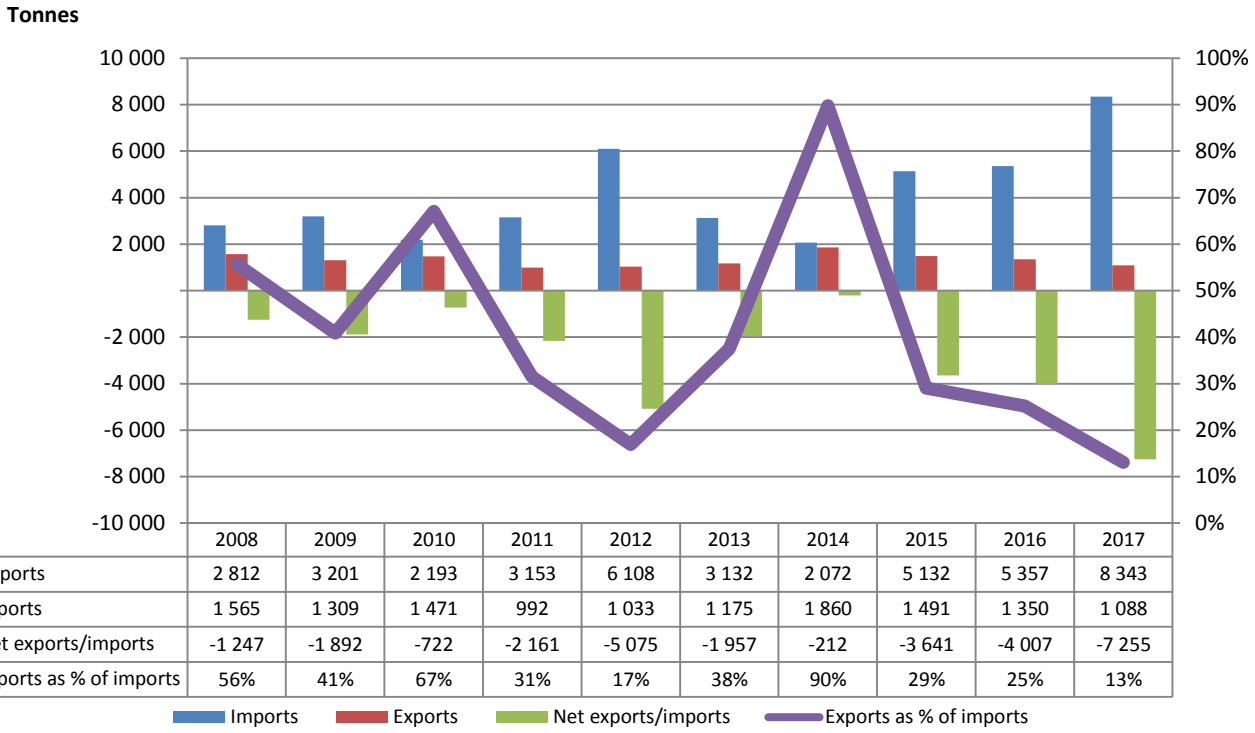
FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, (04.04)

2008 – 2017



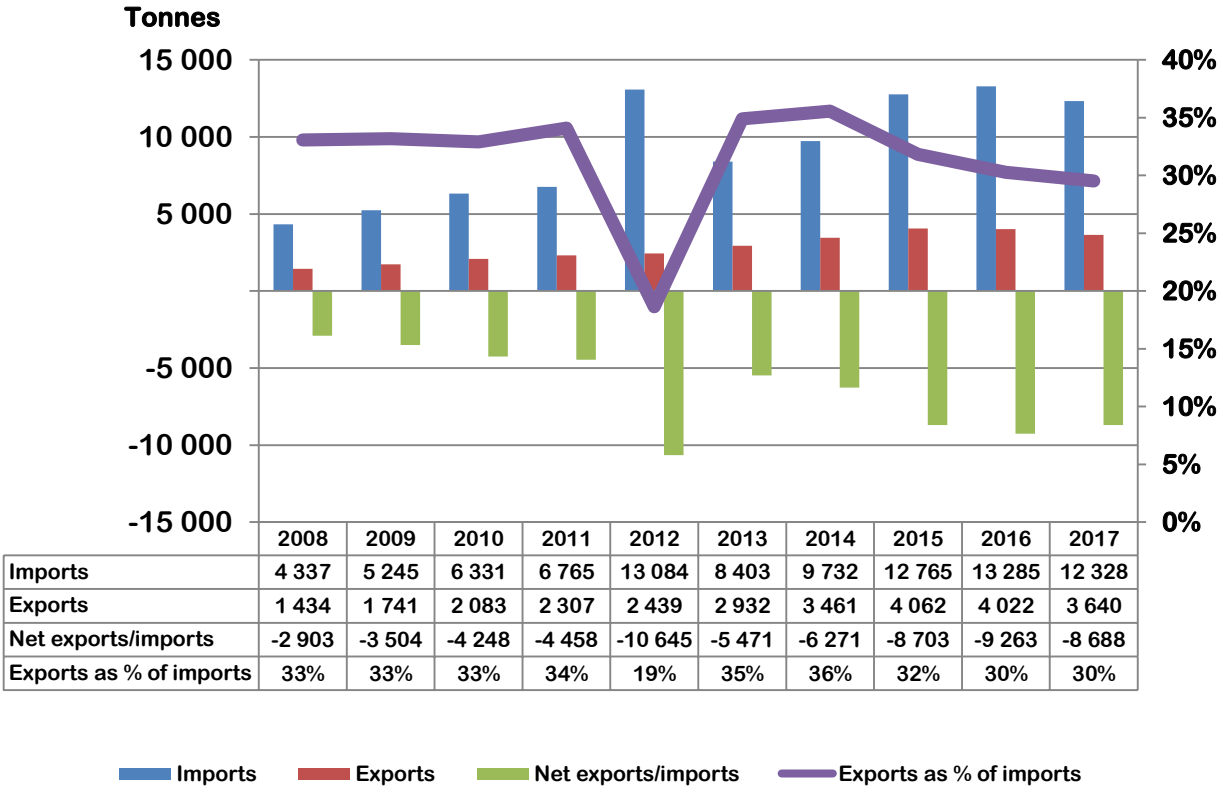
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	7 539	6 260	7 268	9 445	9 267	11 165	9 480	9 365	7 096	7 674
Exports	3 928	3 853	3 805	1 256	1 384	2 466	1 868	4 232	3 817	3 978
Net exports/imports	-3 611	-2 407	-3 463	-8 189	-7 883	-8 699	-7 612	-5 133	-3 279	-3 696
Exports as % of imports	52%	62%	52%	13%	15%	22%	20%	45%	54%	52%

FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2008 – 2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	2 812	3 201	2 193	3 153	6 108	3 132	2 072	5 132	5 357	8 343
Exports	1 565	1 309	1 471	992	1 033	1 175	1 860	1 491	1 350	1 088
Net exports/imports	-1 247	-1 892	-722	-2 161	-5 075	-1 957	-212	-3 641	-4 007	-7 255
Exports as % of imports	56%	41%	67%	31%	17%	38%	90%	29%	25%	13%

FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, (04.06) 2008 – 2017



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	4 337	5 245	6 331	6 765	13 084	8 403	9 732	12 765	13 285	12 328
Exports	1 434	1 741	2 083	2 307	2 439	2 932	3 461	4 062	4 022	3 640
Net exports/imports	-2 903	-3 504	-4 248	-4 458	-10 645	-5 471	-6 271	-8 703	-9 263	-8 688
Exports as % of imports	33%	33%	33%	34%	19%	35%	36%	32%	30%	30%

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 JULY 2017 TO JUNE 2018 COMPARED TO THE 12 MONTH PERIOD FROM JULY 2016 TO JULY 2017 AND THE CHANGE IN RETAIL PRICES FROM JUNE 2017 TO JUNE 2018

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-3.2	-0.8
Long-life milk (UHT)	9.6	-3.5
Flavoured milk	1.3	2.5
Yoghurt	-1.8	2.8
Maas	8.8	-4.4
Pre-packaged cheese	9.7	-3.4
Cream cheese	-8.8	3.6
Butter	-4.7	20.8
Cream	-0.9	9.7

Source: Nielsen figures supplied by SAMPRO

In the year that ended in June 2018, the retail sales quantities of 5 of the 9 dairy products were lower than in the previous year. In the three months and the six months periods which ended in June 2018, the retail sales quantities of 5 of the 9 dairy products were lower than in the same periods of 2017.

The retail sales prices of 5 of the 9 dairy products, increased from June 2017 to June 2018 and the increases of 3 of the 9 products were more than the inflation rate. From December 2017 to June 2018 the prices of 5 of 9 products increased and from March 2018 to June 2018 the prices of 6 of the 9 dairy products decreased.

In the two years from June 2016 to June 2018, the highest retail price decrease of 3.5 percent was in respect of maas and the highest increase of 41.7 percent, in respect of butter.

The total estimated retail sales quantity of unflavoured and unsweetened milk (fresh and long-life milk) in the year which ended in June 2018, is 4.3 percent higher than in the previous year. Unflavoured and unsweetened milk utilize approximately 50.4 percent of the total raw milk production in South Africa.

The changes in the retail sales quantities and retail prices indicated in Table 2, do not mean that the sales quantities changed continuously at the same rate during the period concerned. This situation is illustrated in Table 3 and Table 4.

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 18 vs June 17	Apr – Jun 18 vs Apr – Jun 17	Jan17 – Jun18 vs Jan16 – Jun17	Oct17 – Jun18 vs Oct16 – Jun17	Jun17 – Jul18 vs Jun16 – Jul17
Fresh milk	-8.3	-4.8	-4.0	-2.8	-3.2
UHT milk	8.6	11.4	10.7	9.8	9.6
Flavoured milk	2.7	2.3	3.6	3.0	1.3
Yoghurt	0.1	-0.2	-1.0	-1.2	-1.8
Maas	21.1	14.5	10.9	9.5	8.8
Pre-packaged cheese	10.9	10.6	8.5	10.1	9.7
Cream cheese	-4.8	-5.4	-7.0	-9.1	-8.8
Butter	5.1	-0.5	-4.3	-4.5	-4.7
Cream	-4.0	-3.1	-1.8	-1.3	-0.9

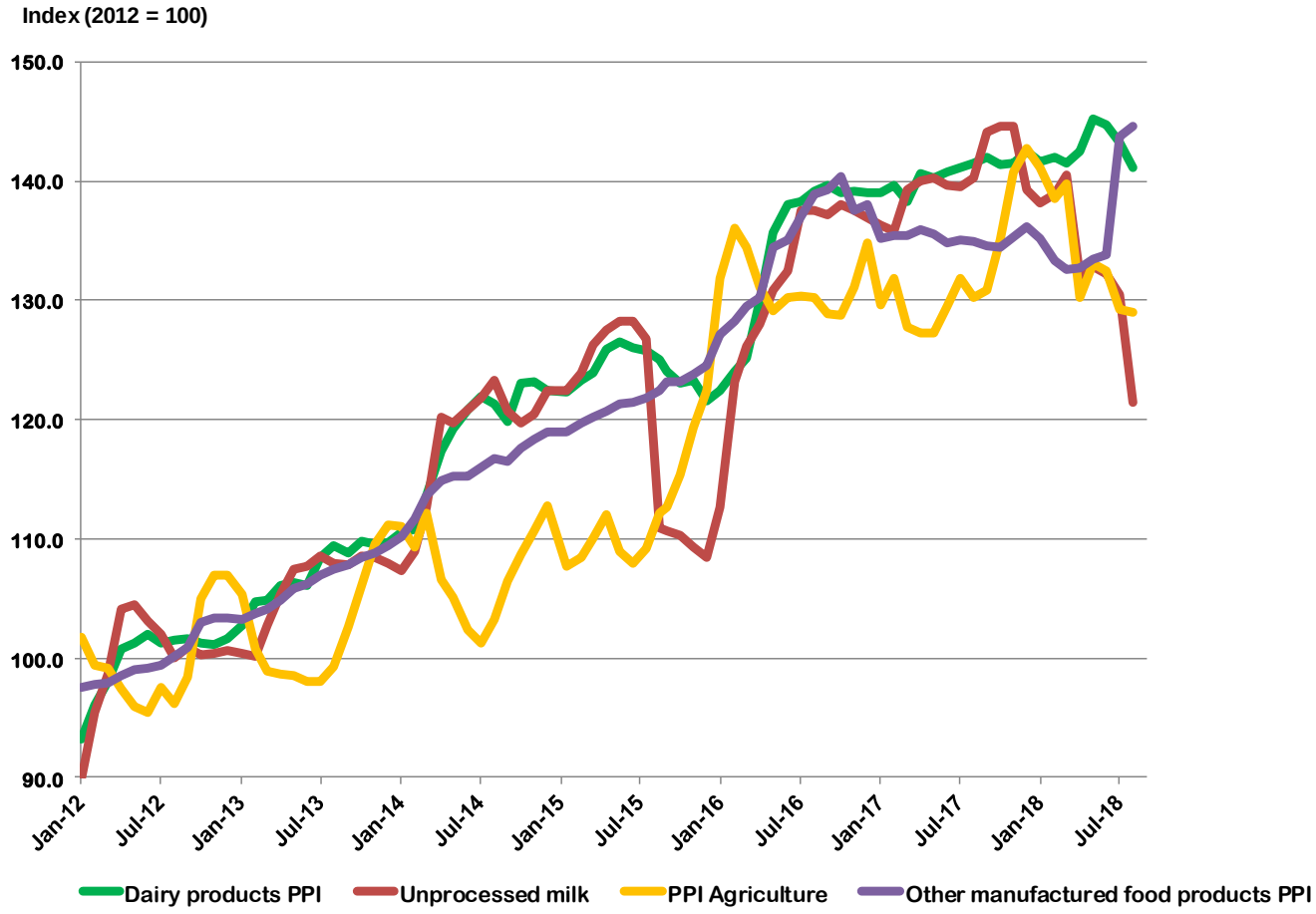
Source: Nielsen as supplied by SAMPRO

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

Product	Change in retail prices compared to same period previous year (%)				
	Jun 18 vs May 18	Jun 18 vs March 17	Jun 18 vs Dec 17	Jun 18 vs Sep 17	Jun 18 vs Jun 17
Fresh milk	-1.5	-1.9	0.0	-0.3	-0.8
UHT milk	-1.9	-1.5	-2.8	-2.5	-3.5
Flavoured milk	-0.6	2.5	3.9	1.6	2.5
Yoghurt	-1.1	-0.8	1.9	0.0	2.8
Maas	-2.6	-2.9	-2.8	-3.8	-4.4
Pre-packaged cheese	-1.4	-0.1	0.7	-2.8	-3.4
Cream cheese	2.3	4.6	1.8	5.3	3.6
Butter	0.2	-1.0	2.6	8.6	20.8
Cream	0.6	1.1	-2.1	8.7	9.7

Source: Nielsen as supplied by SAMPRO

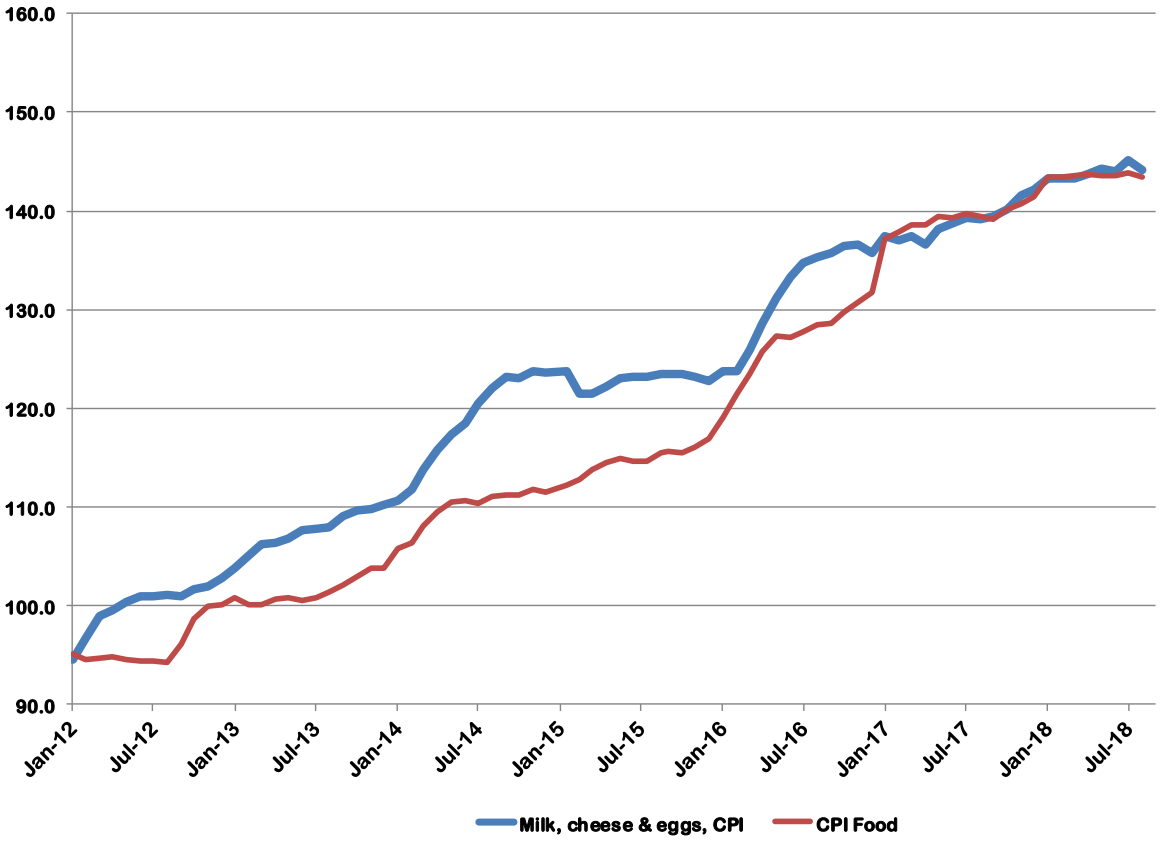
FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, JANUARY 2012 – AUG 2018



Source: Stats SA

The above graph indicates that all the product prices continued the same upward trend since Jan 2012 albeit for Agricultural producer prices and unprocessed milk prices that started a downward trend from Jan 2018. The milk producer price is taking a severe knock. The reduced field crop prices, coupled with the lower producer prices for milk and livestock would be the main drivers for the downward trend in the PPI for agriculture since January 2018. The price of unprocessed milk started a downward trend since November 2017 and the price of dairy products since May 2018 due to the high production of unprocessed milk and the high supply levels of other dairy products as well as the low economic growth rate of South Africa.

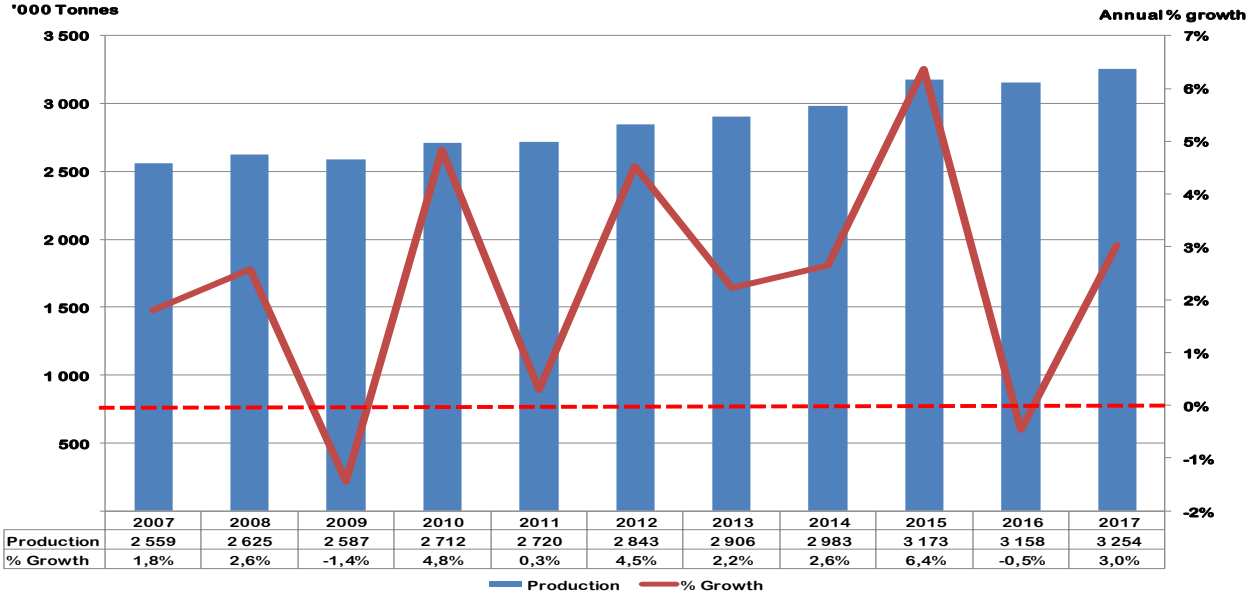
FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – AUG 2018



Source: Stats SA

Price increases in the collective food market and the combined prices of milk, cheese and eggs have basically come to a standstill. Both indices are staying on the 143 index level moving sideways since January 2018. Reduced grain and dairy prices supported this trend and will keep on doing so depending on how the summer rain fall season. The record 2017 summer-grain crop and carry-over stocks resulted in lower grain prices and futures prices for 2018 and 2019. The Rand remains weak and vulnerable and will provide support to product prices where import parity plays a role.

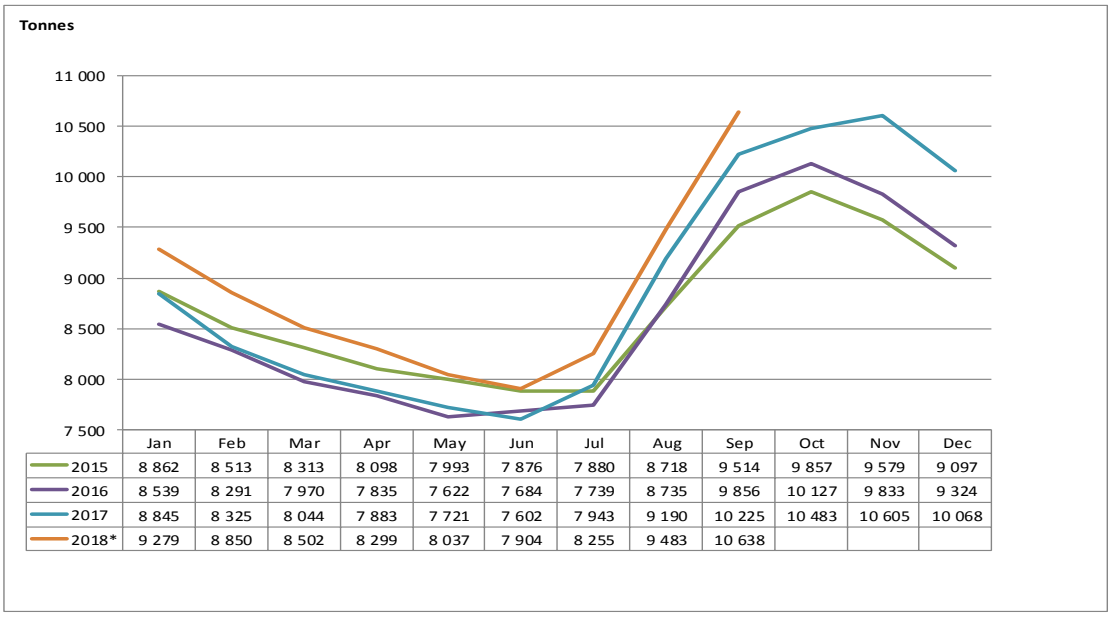
FIGURE 14: ANNUAL SOUTH AFRICAN UNPROCESSED MILK PURCHASES, 2007 – 2017



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Production	2 559	2 625	2 587	2 712	2 720	2 843	2 906	2 983	3 173	3 158	3 254
% Growth	1,8%	2,6%	-1,4%	4,8%	0,3%	4,5%	2,2%	2,6%	6,4%	-0,5%	3,0%

Source: Milk SA

FIGURE 15: SOUTH AFRICAN UNPROCESSED MILK PURCHASES DAILY AVERAGE PER MONTH, JANUARY 2015 – AUGUST 2018



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015	8 862	8 513	8 313	8 098	7 993	7 876	7 880	8 718	9 514	9 857	9 579	9 097
2016	8 539	8 291	7 970	7 835	7 622	7 684	7 739	8 735	9 856	10 127	9 833	9 324
2017	8 845	8 325	8 044	7 883	7 721	7 602	7 943	9 190	10 225	10 483	10 605	10 068
2018*	9 279	8 850	8 502	8 299	8 037	7 904	8 255	9 483	10 638			

Source: Milk SA; *August and September 2018 = Milk SA estimates.

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

Month	2014	2015	2016	2017	2018
January	247 503	274 707	264 711	274 208	287 641
February	458 976	513 058	505 147	507 314	535 441
March	683 061	770 769	752 227	756 690	799 011
April	896 012	1 013 700	987 280	993 180	1 047 971
May	1 118 093	1 261 478	1 223 556	1 232 517	1 297 131
June	1 334 059	1 497 744	1 454 086	1 460 583	1 534 252
July	1 561 984	1 742 039	1 694 009	1 706 830	1 794 590
August	1 819 644	2 012 295	1 964 790	1 991 715	2 091 799
September	2 100 142	2 297 713	2 260 473	2 298 450	2 410 950
October	2 403 060	2 603 272	2 574 398	2 623 438	
November	2 692 478	2 890 637	2 869 392	2 941 589	
December	2 982 735	3 172 656	3 158 446	3 253 682	

Source: Milk SA statistics. August and September 2018 = estimated.

During 2017, 3 253 682 tonnes unprocessed milk were purchased, 3,0% more than in 2016. Unprocessed milk purchases in the first nine months of 2018 are 4.89% higher than in the same months of 2017.

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

- The impact of producer price decreases on the supply of unprocessed milk and other dairy products;
- The climatic conditions in the summer rainfall areas;
- The impact of the low economic growth rate of South Africa on the demand for dairy products; and
- The impact of imports as influenced by the exchange rate, international prices and the expected South African production of unprocessed milk and dairy products.