



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

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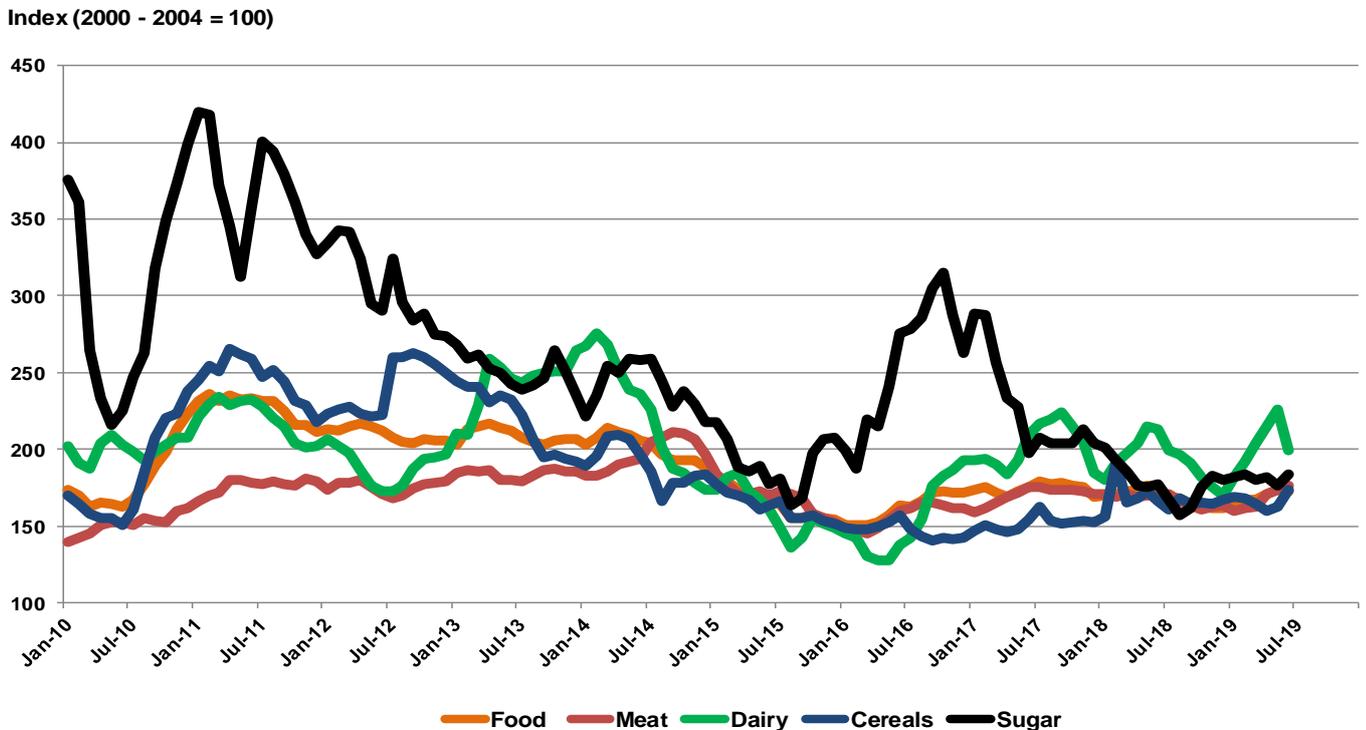
2 nd Quarter 2019

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

# 1. INTERNATIONAL MARKET

FIGURE 1a: FAO FOOD PRICE INDICES, JANUARY 2010 – JUNE 2019

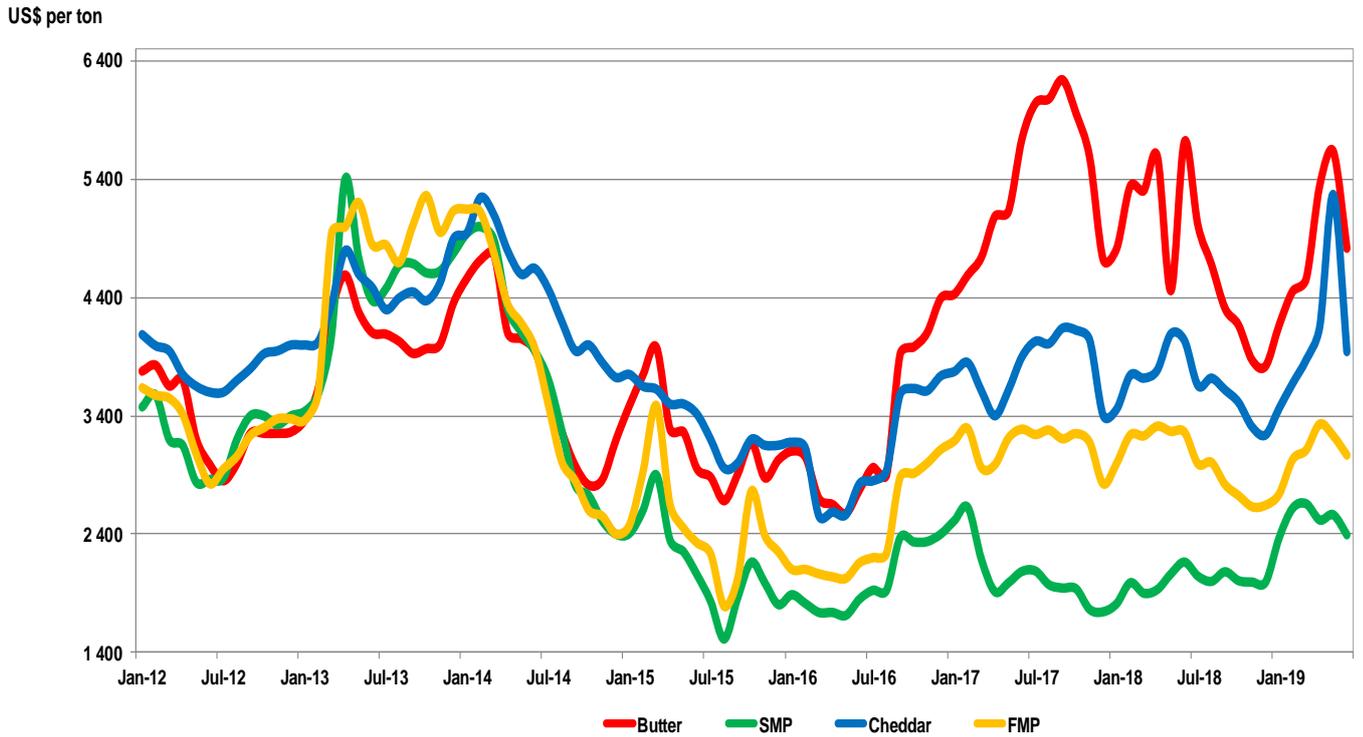


Source: FAO Food price index, 2019

All food price indices shown in figure 1, except sugar, 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 price 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 foodstuffs.

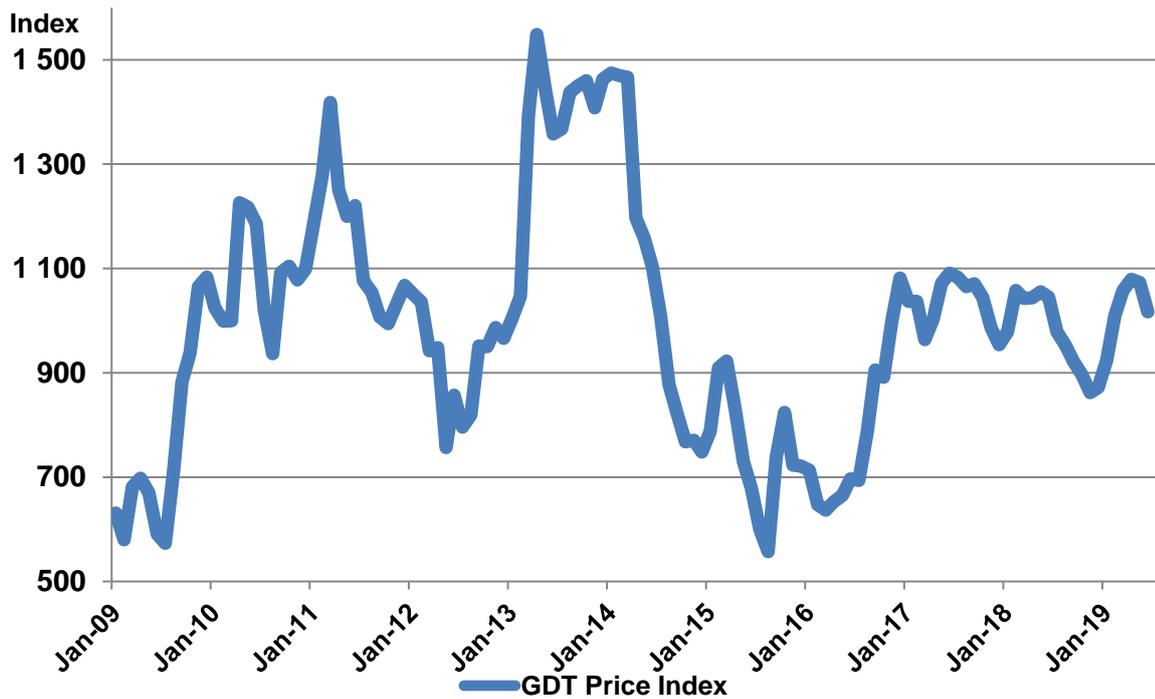
The dairy index shows strong growth since the middle of 2016. In December 2018 the dairy product price index was 170 points and increased to 204 points in March 2019. The upward trend continued in April with May peaking at 226 points while June pulled back to 199 points. The upward trend from December 2018 to May 2019 was underpinned by increased international import demand amidst limited export availability on the back of the seasonal decline in milk production in Oceania. The decline in milk production in Oceania is exacerbated by the drought in Australia. In the EU milk supply fell behind the level of the previous year providing further impetus to increased dairy prices. Milk production in most other important dairy exporting countries are also lagging behind or are stagnant. International import demand softened in June resulting in prices pulling back strongly but are still 17% higher than in December 2018. Figure 1b is reflecting dairy product prices.

**FIGURE 1b: International Dairy Product Prices: Jan 2012 – June 2019**



Source: USDA

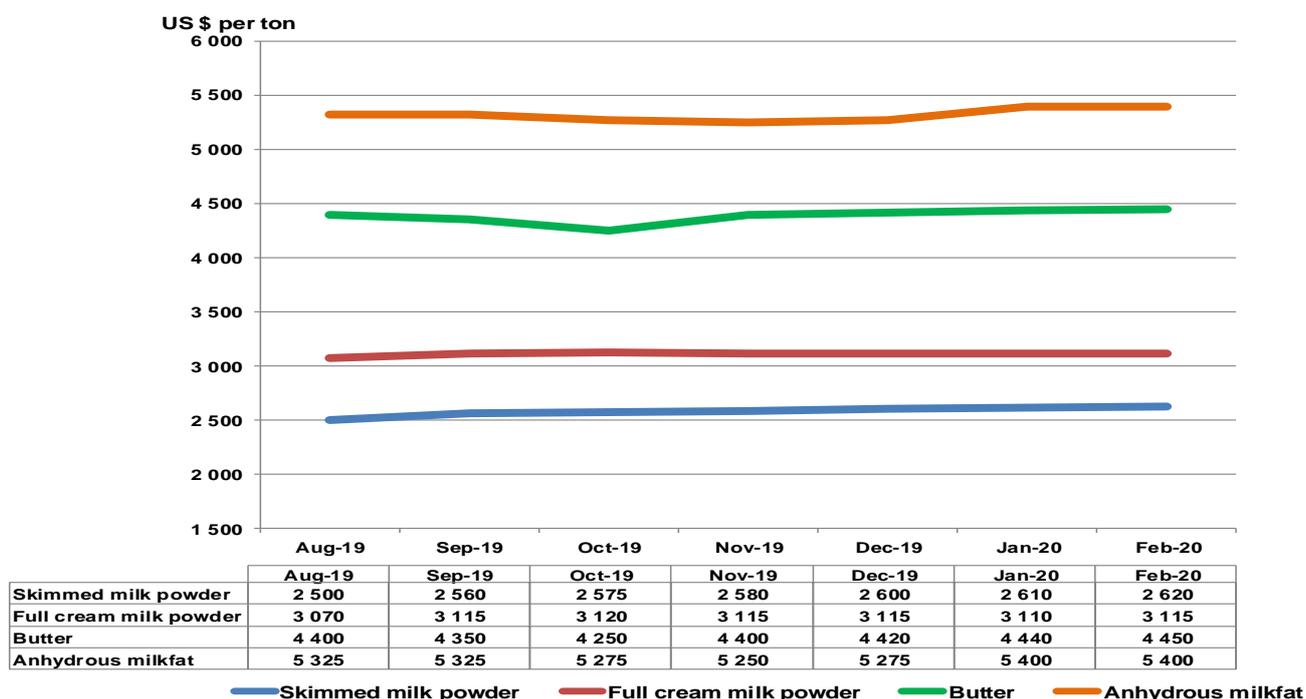
**FIGURE 2a: Global dairy trade-weighted price index. Jan 2009 – June 2019**



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 2019. There is a clear price support level at 900 index points and a price resistance level at 1100 index points. The May price slowed down near the 1100 resistance level and June came down to 1017 points.

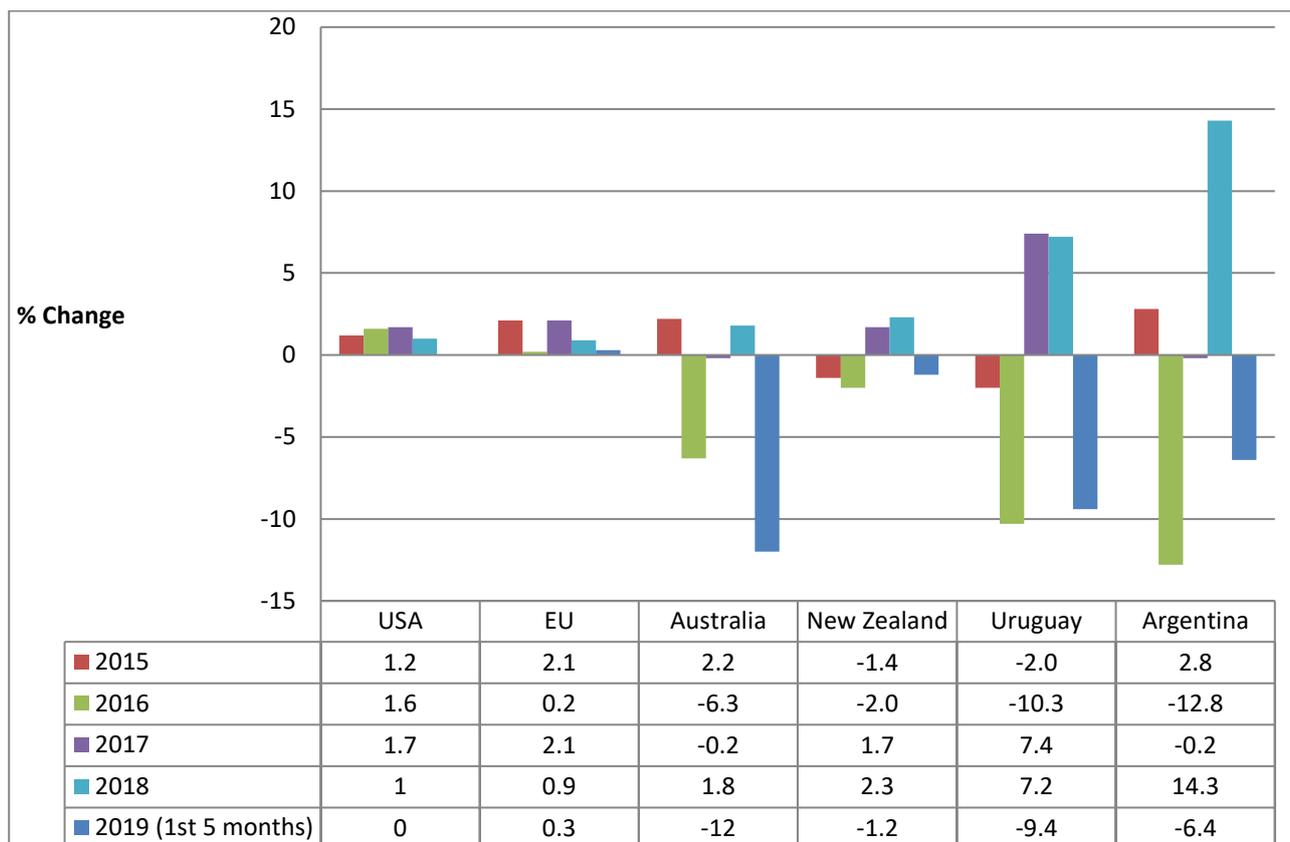
**FIGURE 2b: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX) ON 24 July 2019: Aug 2019 – Feb 2020**



Source: NZX Futures, July 2019

The New Zealand Future Exchange reflects stable prices for skimmed milk powder (SMP) and for full cream milk powder (FMP) over the next 7 months. Anhydrous milk fat are declining slowly until the end of 2019 where after the price start to increase in January and February 2020. The price of butter is declining over the next three months but start to bounce back in November 2019 with hardened prices through February 2020.

**FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2015 – 2019 (1<sup>st</sup> 5 months)**



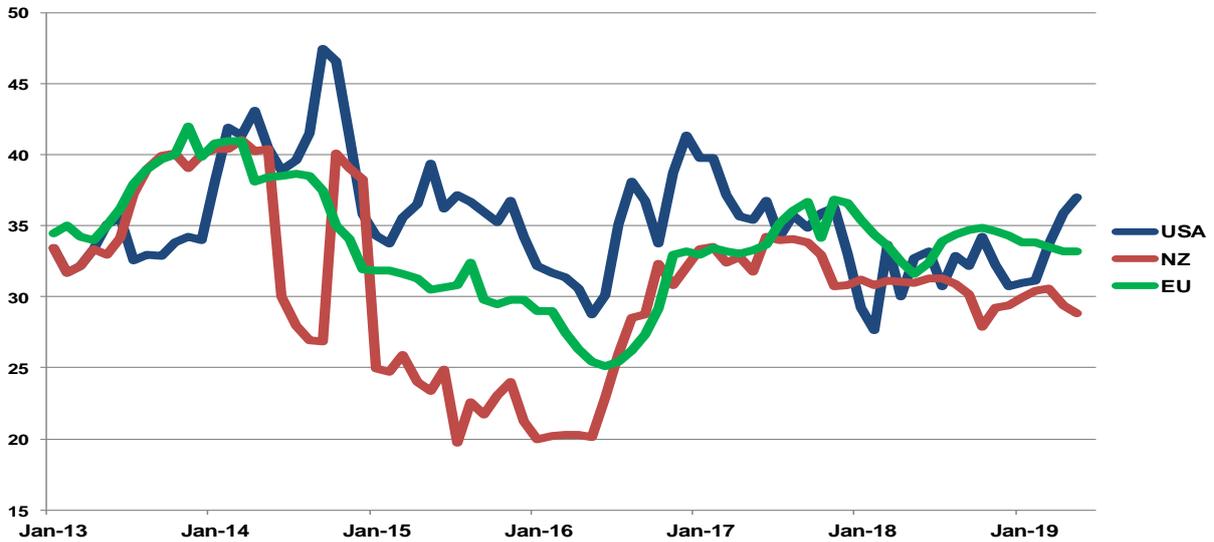
Source: CLAL, June 2019

Growth in unprocessed milk production in Oceania, Uruguay and Argentina was strong in 2018 with the USA and EU growing rather slowly.

The first five months in 2019 compared to the first five months of 2018 is a picture of negative growth to zero growth to very little growth in the major dairy exporting countries. The climatic conditions in the different countries are contributing to the negative growth picture while the declining trend in producer prices for some parts of 2018 coupled with the relative low level of some of these prices during 2018 also played a role. These prices are illustrated in figure four.

**FIGURE 4: PRODUCER PRICES OF UNPROCESSED MILK IN THE EU, USA AND NEW ZEALAND IN EURO PER 100 KG, JANUARY 2013 - MAY 2019**

Euro per 100 kg



Source: LTO Nederland, July 2019

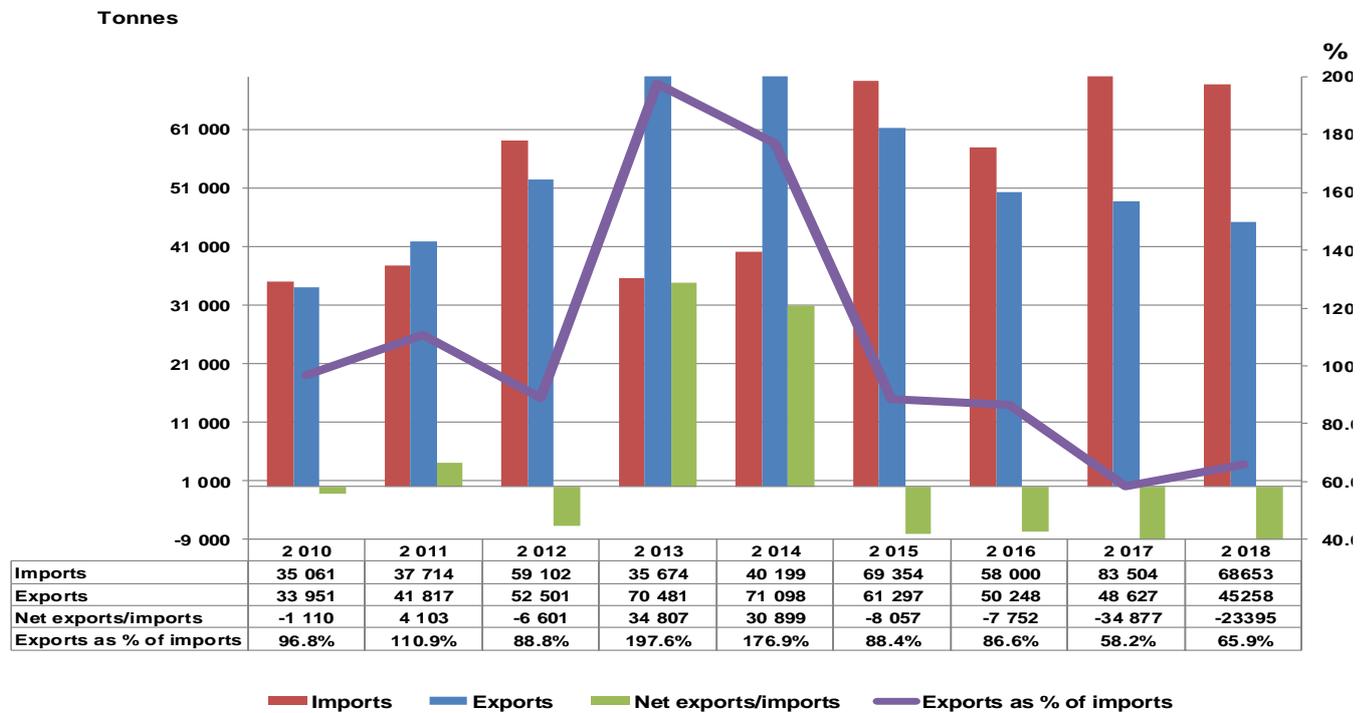
At the beginning of 2019 prices in the USA increased to above the €35 /100kg level, while EU prices decreased slightly and New Zealand prices dived to below €30/100kg.

There was a marked convergence of producer prices since middle 2017 similar to the situation at the beginning of 2013. This convergence continued in 2019 with producer prices staying within the 30 to 35 Euros per 100kg price band. Producer price volatility has decreased since the middle of 2017 which could be a sign of market forces being allowed to play a more significant role to determine market signals.

## 2. SOUTH AFRICAN DAIRY MARKET

Import and export figures from SARS are supplied by SAMPRO.

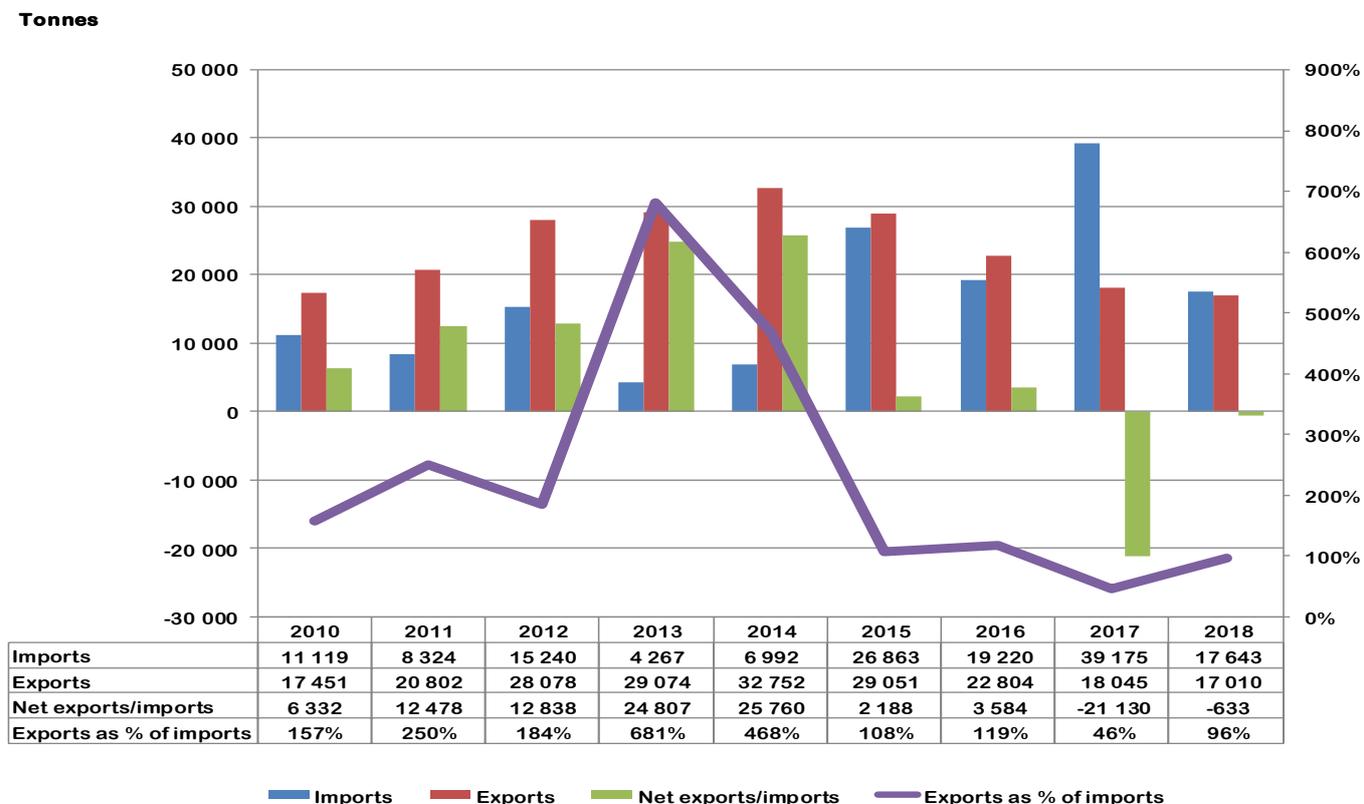
**FIGURE 5: TOTAL SOUTH AFRICAN IMPORTS AND EXPORTS OF DAIRY PRODUCTS, 2010 – 2018**



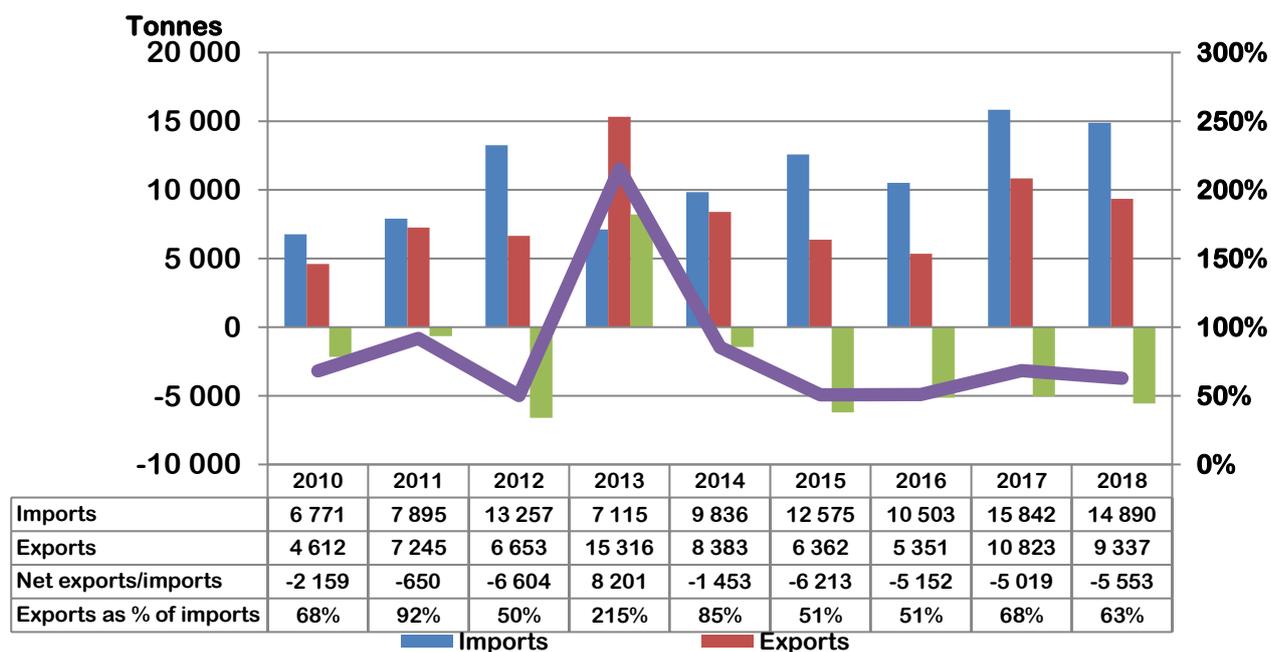
The information regarding imports and exports by South Africa of dairy products in 2018, showed that:

- The mass of imports of dairy products in 2018 was 17.7 percent lower than in 2017. The decrease from 2017 to 2018 is due to the decrease in imports of three of the six categories of dairy products.
- The mass of exports of dairy products in 2018 was 6.9 percent lower than in 2017. The decrease from 2017 to 2018 is due to the decrease in exports of three of the six categories of dairy products.
- The average f.o.b. export prices in January to December 2018, of three of the six different categories of dairy products, are higher than in 2017.
- The mass of imports and exports in 2018, showed that South Africa was a nett importer of milk and cream (04.01), concentrated milk (04.02), whey (04.04), butter (04.05) and cheese (04.06) and a nett exporter of buttermilk and yoghurt (04.03).
- The pattern of import and export during each year (import and export per month during the year) differs from year to year. In the second half of 2018, the mass of imports of five of the six types of dairy products, was lower than in the first half of 2018 while in the second half of 2017, the mass of imports of two of the six types of dairy products was lower than in the first half of 2017. The mass of sales by South Africa to the other members of the Southern African Customs Union was in 2018, higher than the mass of South African exports of the dairy products concerned.

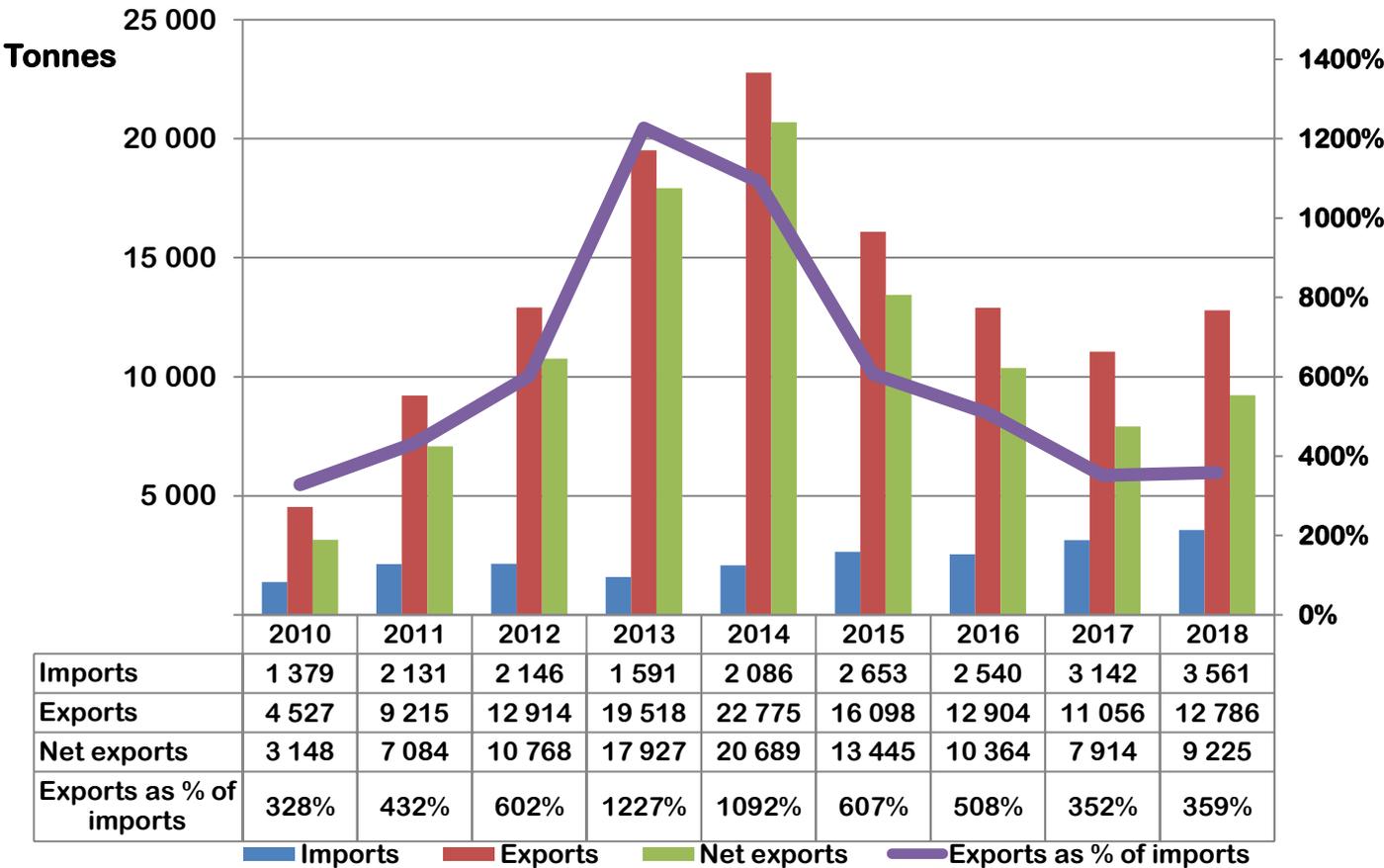
**FIGURE 6: SOUTH AFRICAN IMPORTS AND EXPORTS OF MILK AND CREAM (04.01), 2010 – 2018**



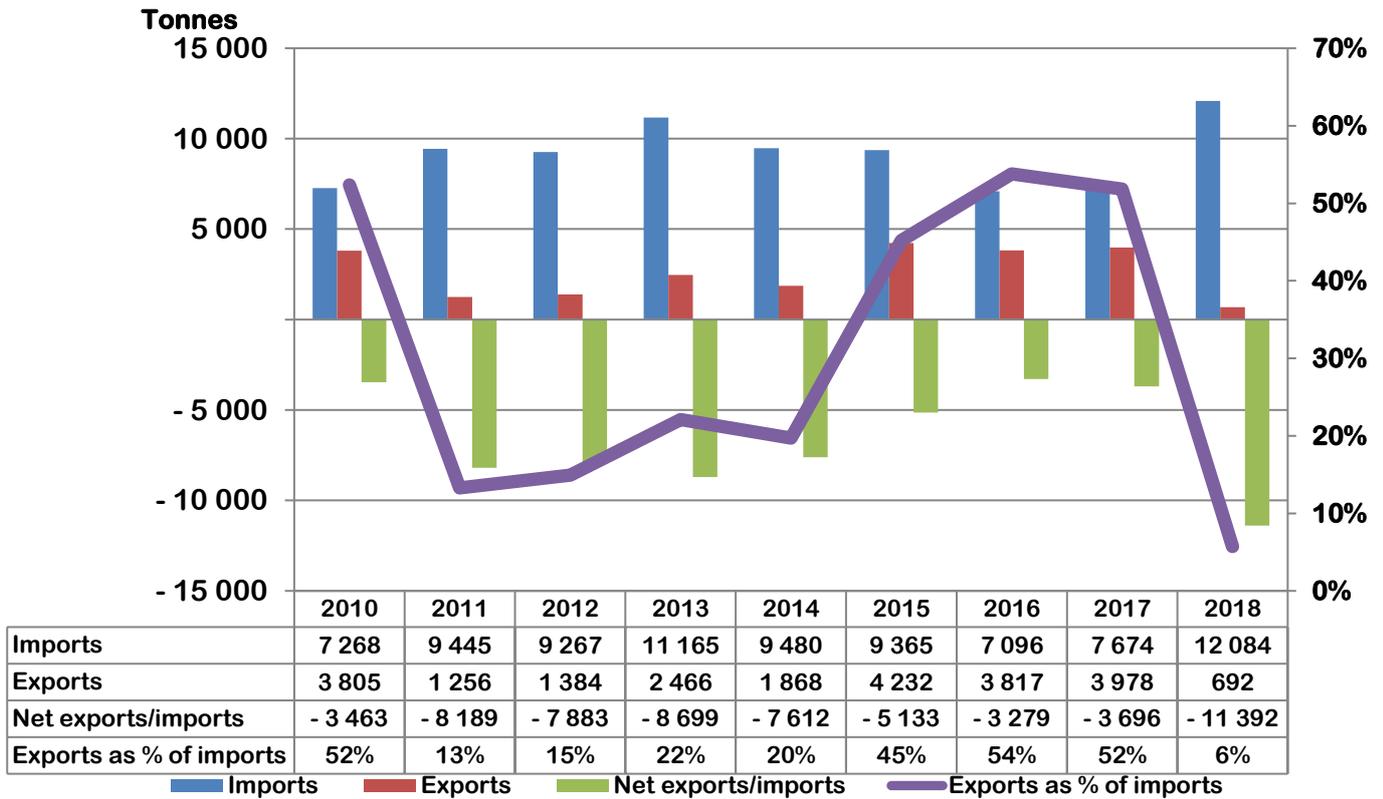
**FIGURE 7: SOUTH AFRICAN IMPORTS AND EXPORTS OF CONCENTRATED MILK, (04.02) 2010 – 2018**



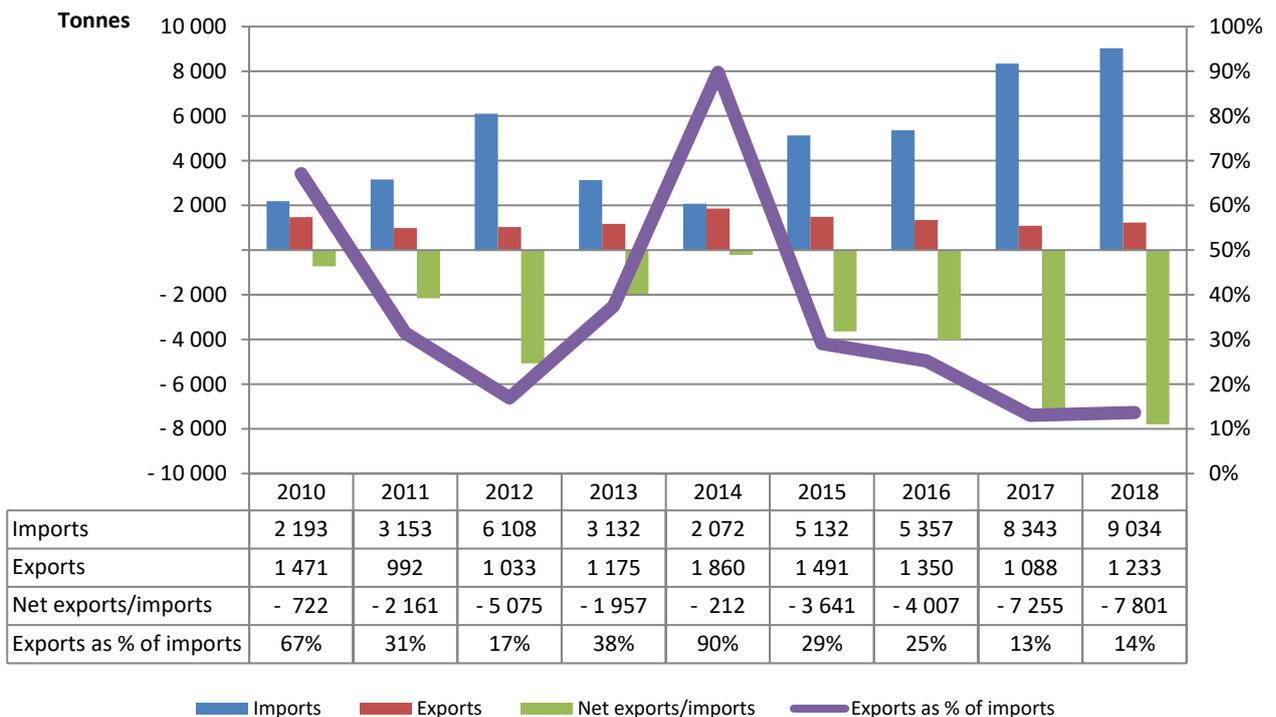
**FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, (04.03) 2010 – 2018**



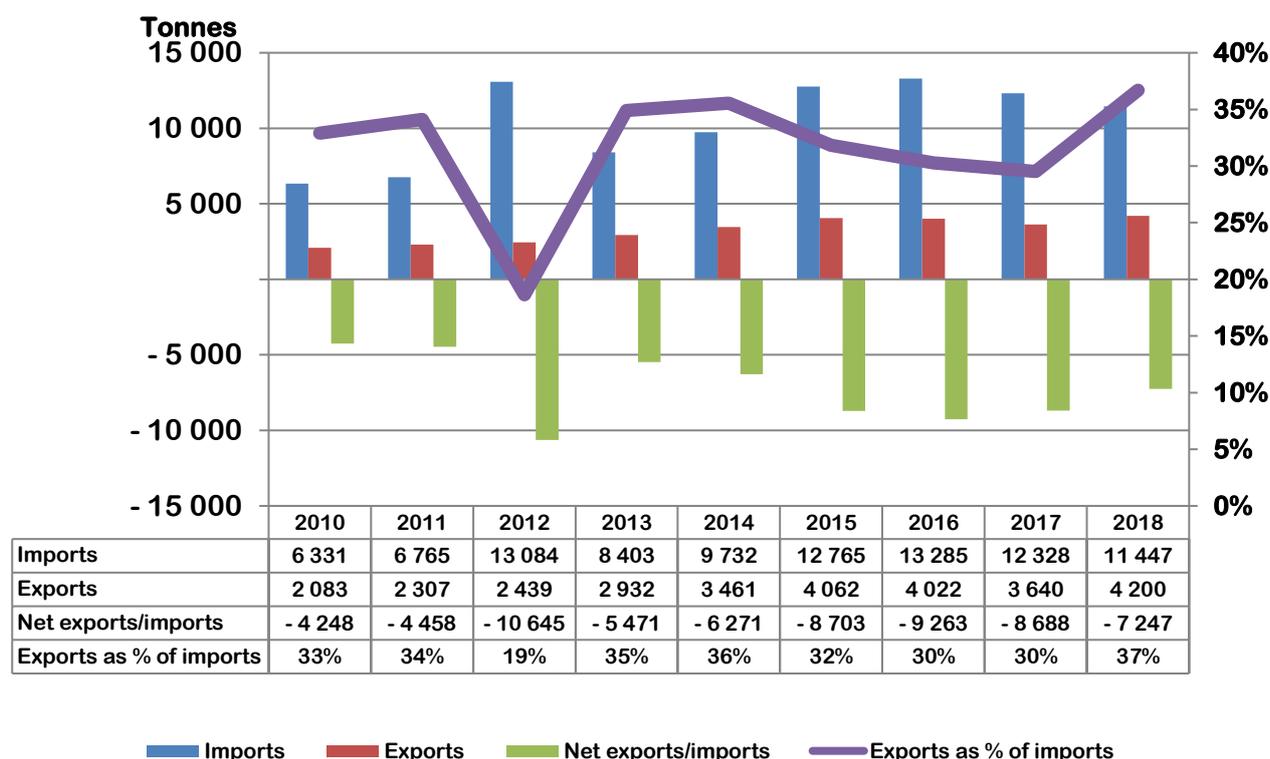
**FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, (04.04) 2010 – 2018**



**FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2010 – 2018**



**FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, (04.06)  
2010 – 2018**



**TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT FOB-PRICES FOR DAIRY PRODUCTS, 2014– 2018**

Tariff heading	Description	Import price (R/kg)					Export price (R/kg)				
		2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
04.01	Milk & cream	8.50	7.65	7.44	7.65	8.00	9.45	10.30	10.18	10.93	11.20
04.02	Concentrated milk	42.62	30.92	32.94	32.31	30.84	30.04	30.97	37.00	41.51	36.56
04.03	Buttermilk & yoghurt	42.09	28.06	25.57	28.39	23.51	19.97	18.76	21.27	37.12	18.45
04.04	Whey	34.82	31.98	28.90	31.24	29.33	14.85	10.51	25.46	13.27	18.71
04.05	Butter	48.13	39.56	46.87	68.89	72.84	40.37	40.66	49.40	59.94	67.27
04.06	Cheese	61.70	54.94	57.21	62.19	62.92	46.11	45.50	51.99	60.86	53.15

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 2018 TO MARCH 2019 AND THE CHANGE IN RETAIL PRICES FROM MARCH 2018 TO MARCH 2019**

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-4.5	0.73
Long-life milk (UHT)	14.1	-0.08
Flavoured milk	5.7	7.09
Yoghurt	6.3	1.12
Maas	19.9	-5.26
Pre-packaged cheese	7.0	1.90
Cream cheese	-2.2	3.90
Butter	5.4	-7.00
Cream	-1.8	3.65

Source: Nielsen figures supplied by SAMPRO

In the period that ended in March 2018, the retail sales quantities of six of the nine dairy products were higher than in the previous period. The retail prices of six of the nine dairy products, increased from March 2018 to March 2019.

The total estimated retail sales quantity of unflavoured and unsweetened milk (fresh and long-life milk) in the period which ended in March 2019 is 7.2 percent higher than in the previous period. Unflavoured and unsweetened milk utilize approximately 54.7 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	Change in quantities of sales compared to same period previous year (%)				
	March 19 vs March 18	Jan - Mch 19 vs Jan- Mch 18	Oct18-Mch19 vs Oct17-Mch18	Jul18-Mch19 vs Jul18-Mch19	Apr18 – Mch19 vs Apr17 – Mch18
Fresh milk	-1.3	-2.2	-4.9	-4.8	-4.5
UHT milk	8.3	11.7	14.8	14.7	14.1
Flavoured milk	6.6	4.7	6.7	6.8	5.7
Yoghurt	14.9	10.7	10.1	8.3	6.3
Maas	29.9	22.7	22.9	21.4	19.9
Pre- packaged cheese	6.0	7.2	4.8	5.8	7.0
Cream cheese	-1.9	-0.5	0.04	-1.2	-2.2
Butter	11.6	9.8	8.2	7.3	5.4
Cream	-2.7	1.3	-1.3	-1.8	-1.8

Source: Nielsen as supplied by SAMPRO

In the one month, three months, six months, nine months and 12 months periods which ended in March 2019, the retail sales quantities of fresh milk were lower than in the same periods of 2018. The driver of the negative trend in fresh milk is the changing profile of the traditional consumer and the profile of new consumers. Cream cheese gained some ground in the six-month period while cream gained some ground in the three-month period where sales quantities increased compared to the same periods of 2018. In the other periods sales reduced compared to the same periods of 2018.

In the one month, three-month, six-month, nine-month and 12-month period that ended in March 2019 both UHT milk, maas and yoghurt achieved phenomenal growth in quantities sold spanning from 29.9% to 6.3% growth. Flavoured milk, prepacked cheese and butter experienced increased sales in all the time periods.

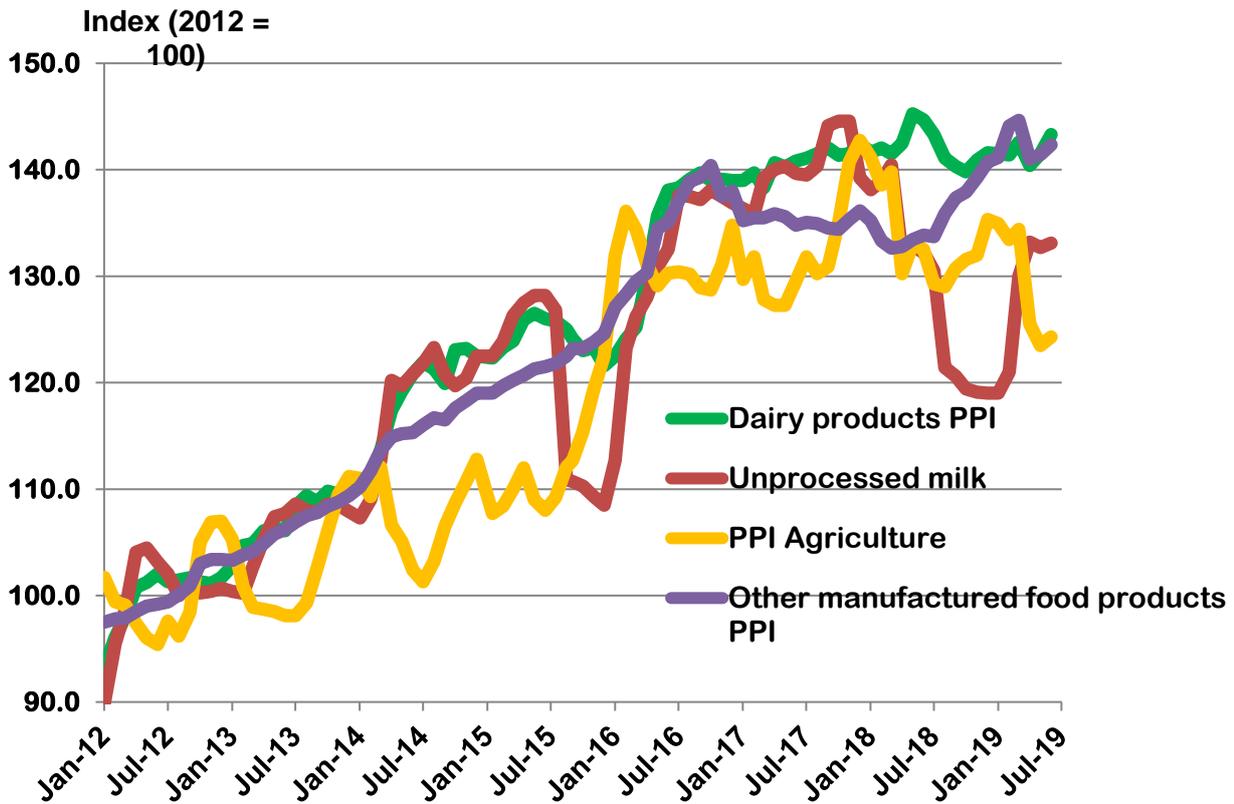
**TABLE 4: CHANGES IN THE RETAIL PRICES OF CERTAIN DAIRY PRODUCTS**

Product	Change in retail prices compared to same period previous year (%)				
	March 19 vs Feb 19	March 19 vs Dec 18	March 18 vs Sep 18	March 19 vs July 18	March 19 vs March 18
Fresh milk	1.0	1.5	2.0	-0.1	0.7
UHT milk	1.4	3.5	4.0	4.1	-0.1
Flavoured milk	3.5	4.5	2.6	4.5	7.1
Yoghurt	0.9	3.4	2.5	2.1	1.1
Maas	-2.4	1.4	-0.2	-2.5	-5.3
Pre-packaged cheese	0.3	0.4	4.6	2.0	1.9
Cream cheese	-0.6	2.0	-0.3	-0.6	3.9
Butter	0.0	-0.2	-1.3	-3.7	-7.0
Cream	0.3	-1.9	0.6	3.2	3.7

Source: Nielsen as supplied by SAMPRO

From March 2018 to March 2019 the prices of three of the nine products decreased with butter registering a decrease of 7.0%, maas 5.3% and UHT milk 0.1%. Overall the table mostly register decreased prices or marginal increases.

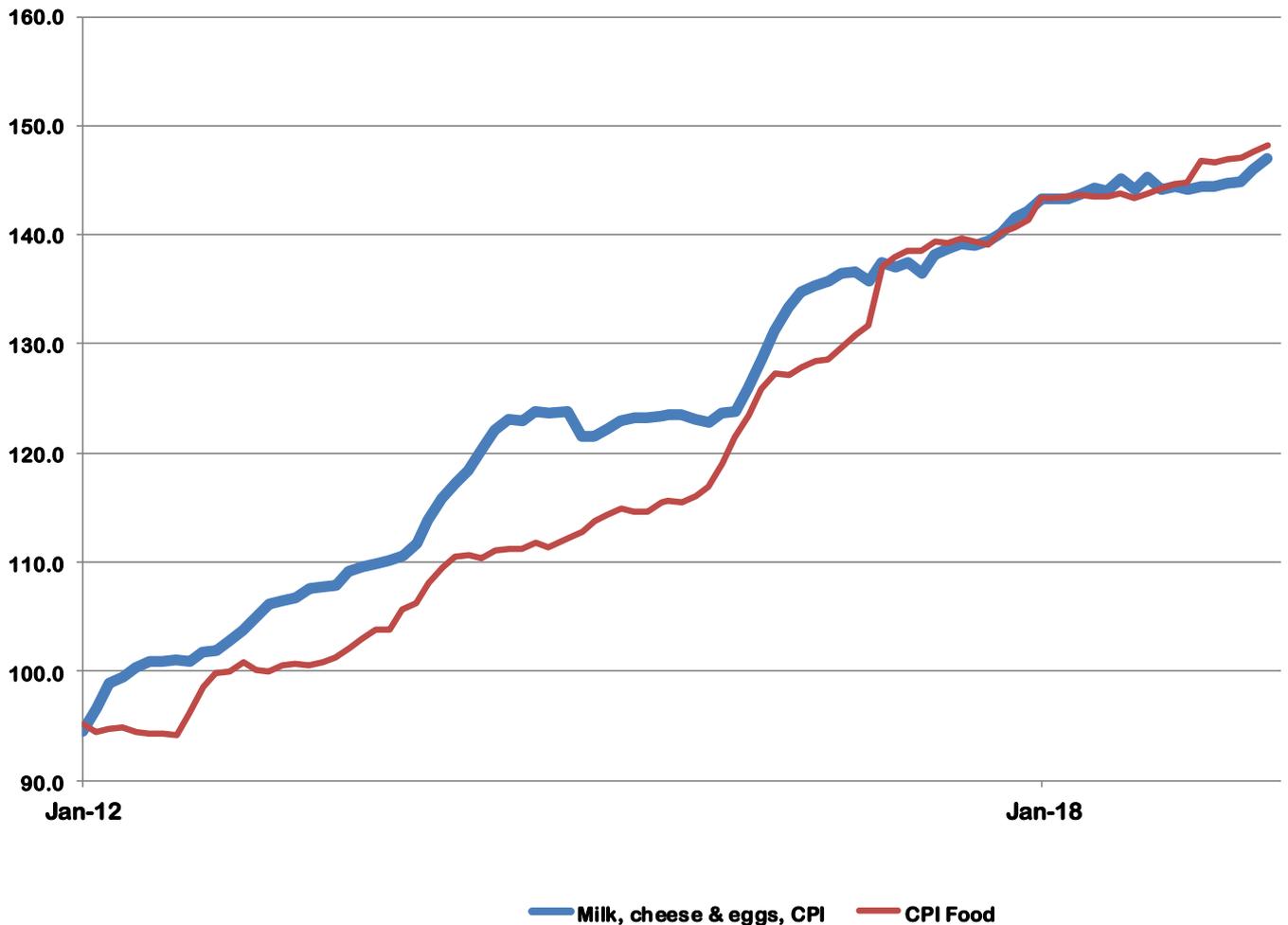
**FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, JANUARY 2012 – June 2019.**



Source: Stats SA

The above graph indicates that all the product prices were on an upward trend since January 2012 with short negative cycles occurring in some of the indices. However, the price of unprocessed milk started a downward trend since November 2017, breaking away from the other indices. The producer price of milk took a beating in 2018 but bounced back in 2019 with the index increasing from 119 points in December 2018 to 130 points in March 2019 (+9.2%). The indices improved further in April 2019 to 133 points and moved sideways in May and June.

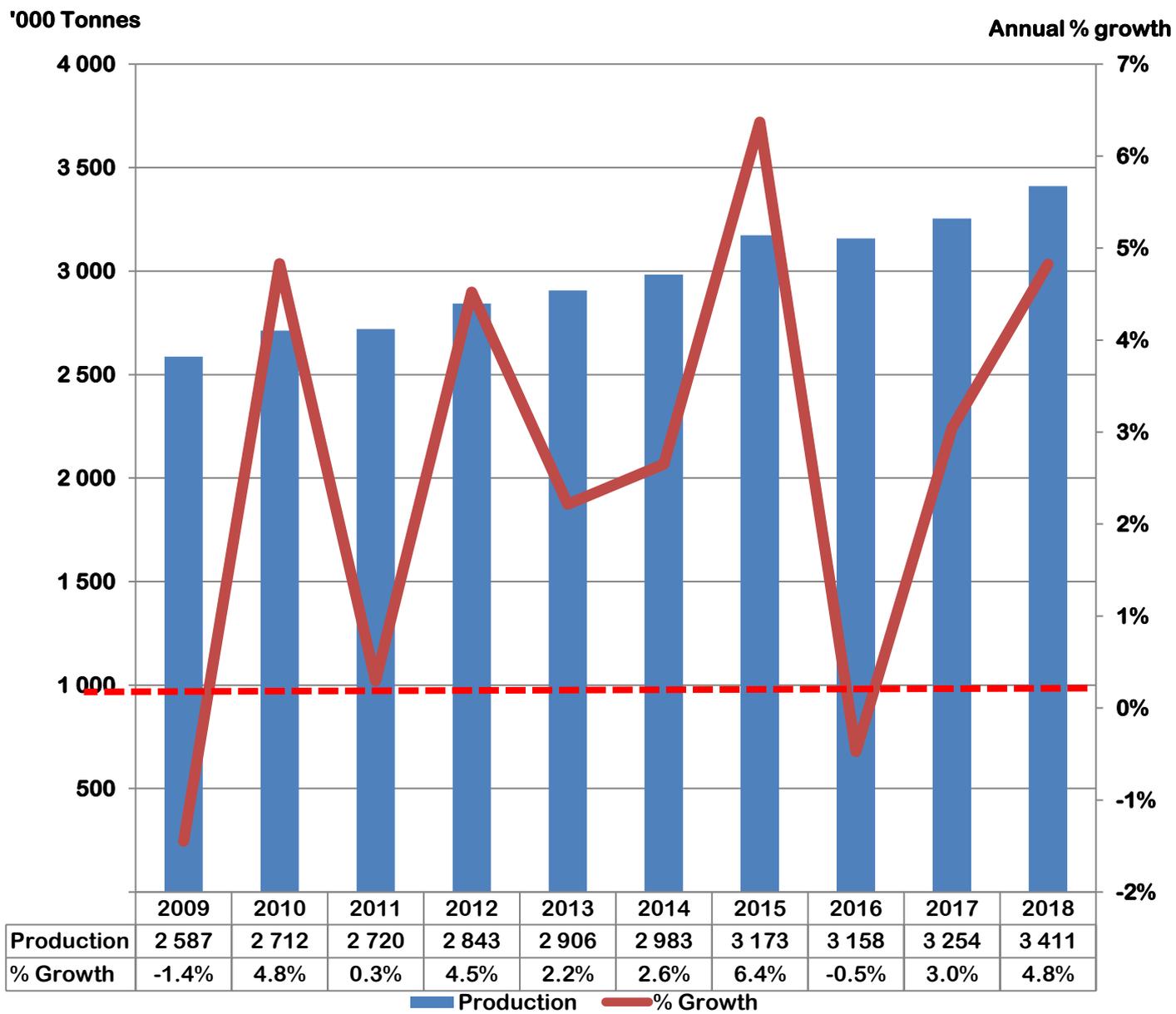
**FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – JUNE 2019**



Source: Stats SA

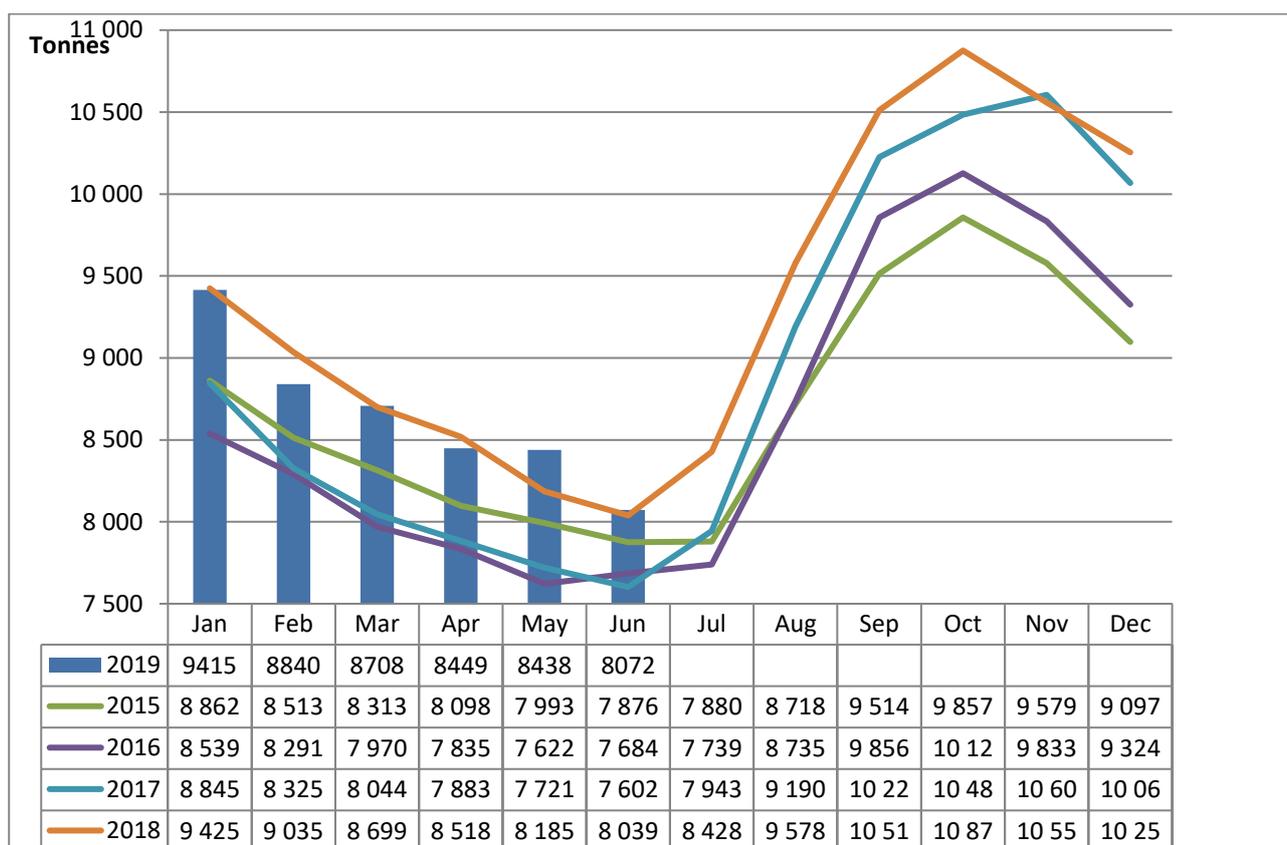
Price increases in the collective food market and the combined prices of milk, cheese and eggs have basically come to a standstill at the end of 2018. Since then the CPI for milk, cheese and eggs moved sideways but started to pick-up in 2019. The CPI for food also started ticking up since the beginning of 2019. The CPI for milk, cheese and eggs edged slightly below the CPI for food suggesting a pricing strategy that enabled many dairy products to gain market share despite consumer disposable income being eroded by increased administered product prices and a weak economy. Table 2 above illustrates the interplay between quantities sold and price changes for dairy products.

**FIGURE 14: ANNUAL SOUTH AFRICAN UNPROCESSED MILK PURCHASES,  
2009 – 2018**



Source: Milk SA

**FIGURE 15: SOUTH AFRICAN UNPROCESSED MILK PURCHASES DAILY AVERAGE PER MONTH, JANUARY 2015 – JUNE 2019**



Source: Milk SA; \*May and June 2019 = Milk SA estimates.

**TABLE 5: CUMULATIVE UNPROCESSED MILK PURCHASES (Tonnes), 2015 – 2019**

Month	2015	2016	2017	2018	2019
January	274 707	264 711	274 208	292 171	291 873
February	513 058	505 147	507 314	545 148	539 406
March	770 769	752 227	756 690	814 832	809 357
April	1 013 700	987 280	993 180	1 070 368	1 062 817
May	1 261 478	1 223 556	1 232 517	1 324 102	1 324 393
June	1 497 744	1 454 086	1 460 583	1 565 269	1 566 560
July	1 742 039	1 694 009	1 706 830	1 826 534	
August	2 012 295	1 964 790	1 991 715	2 123 446	
September	2 297 713	2 260 473	2 298 450	2 438 789	
October	2 603 272	2 574 398	2 623 438	2 775 933	
November	2 890 637	2 869 392	2 941 589	3 092 669	
December	3 172 656	3 158 446	3 253 682	3 410 536	

Source: Milk SA statistics. May and June 2019 = estimated.

During 2018, 3 410 536 tonnes of unprocessed milk were purchased, 4.8% more than in 2017.

**The performance of the South African dairy industry over the next three to five months will be shaped especially by:**

- Dynamic and objective information flow between the different role players in the value chain to enable informed decisions and a high level of responsiveness in the value chain.
- The sustainability unprocessed milk production level which is performing relatively stable thus far.
- The sustainability of the positive growth in consumer demand for key dairy products on the back of lower cumulative milk supply over the first six months of 2019 when compared to 2018, could provide for a dynamic price environment over the ensuing months.
- Weather conditions in especially the Eastern Cape and KZN, in advance to spring.
- The performance of the SA economy.