



QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY¹

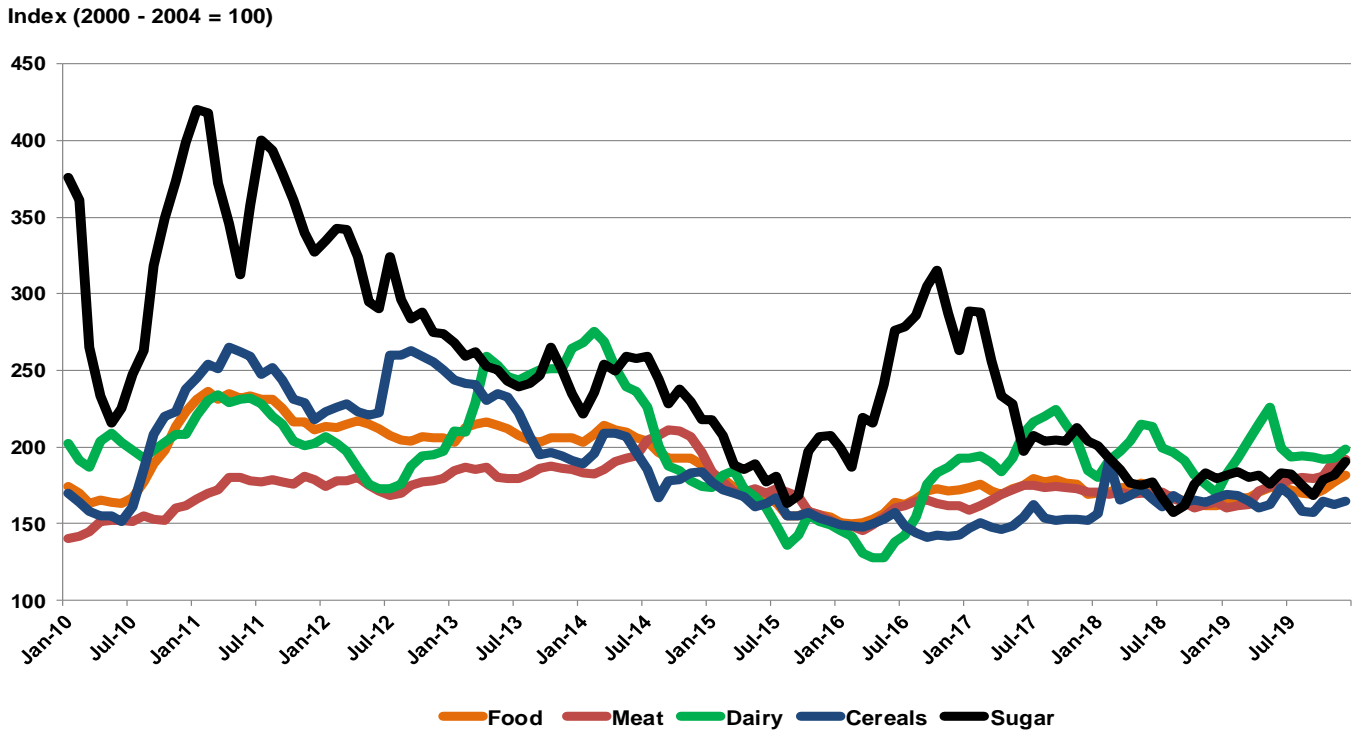
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4 th Quarter 2019

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

1. INTERNATIONAL MARKET

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



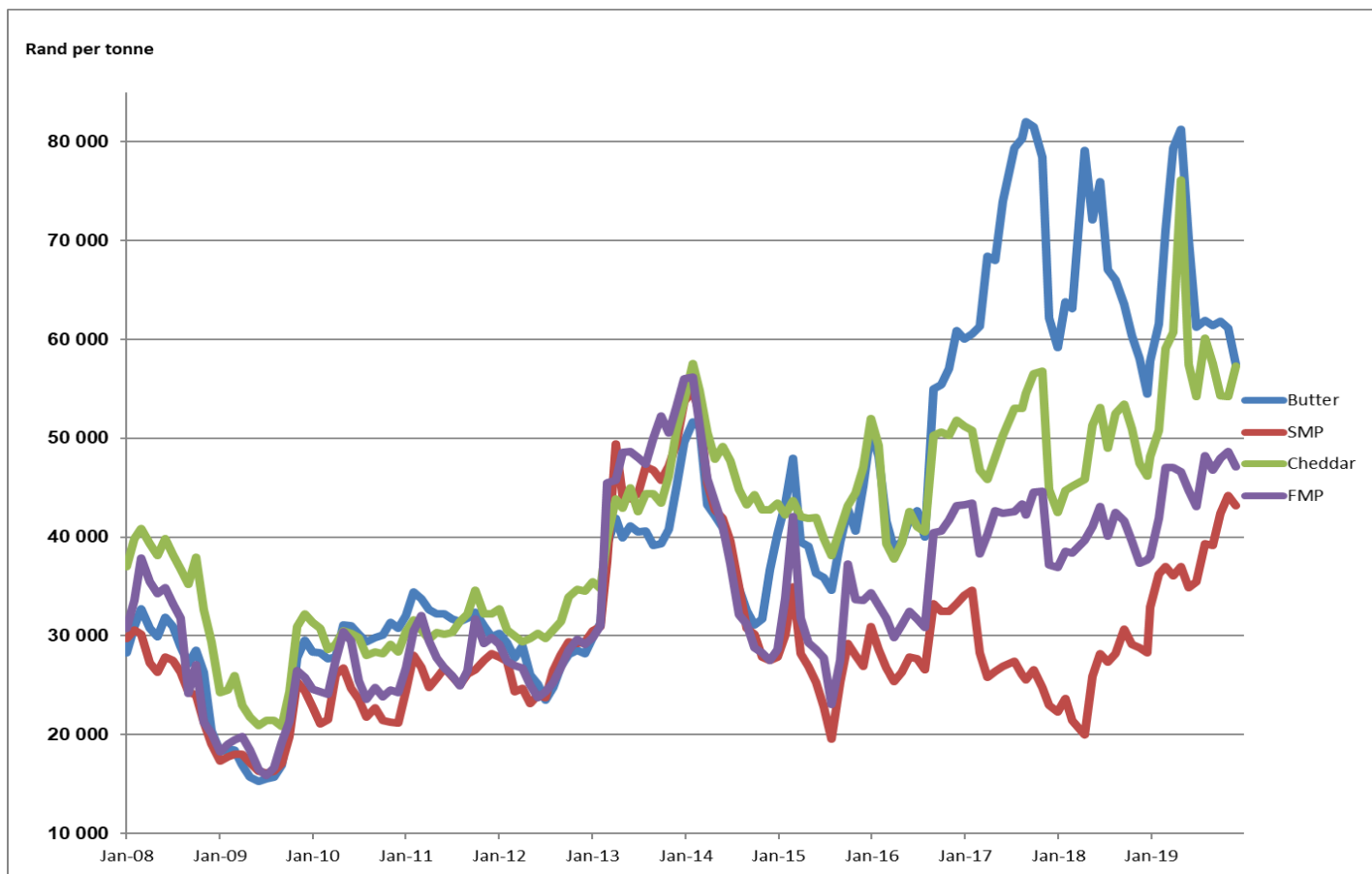
Source: FAO Food price index, Jan. 2020

The FAO Food Price Index in December 2019 is 4.4 points (2.5%) higher than the previous month marking the third consecutive month of increase. Buoyant prices in all the commodities, with the exception of cereals fuelled the index to its highest level since December 2014. However, as a whole the index is significantly lower (25%) than the peak in January 2011.

The Dairy price Index in December 2019 is 3.3% up from November 2019 to a level 0.1 percent higher than in December 2018. Cheese prices surged with 8% in December 2019 once again underpinned by strong global import demand with tight export availability from the EU and Oceania. Skimmed milk powder prices pointed higher in December 2019 while in contrast weak global demand for butter and full cream milk powder resulted in softer prices in December 2019. The overall index level indicates marked buoyancy in the dairy market that was present from January 2019 mainly due to limited export availability while demand is holding steady. World economic growth in the fourth quarter of 2019 slowed down marginally while demand for food was maintained. Export availability from the major export countries and regions was tight (lower supply) providing momentum for the dairy index to point north. Growth in milk production in Western Europe was less than expected due to low feed quality and quantity, a result of adverse weather the previous year. Milk production in Australia continues to struggle due to the nationwide fire crisis and adverse climate

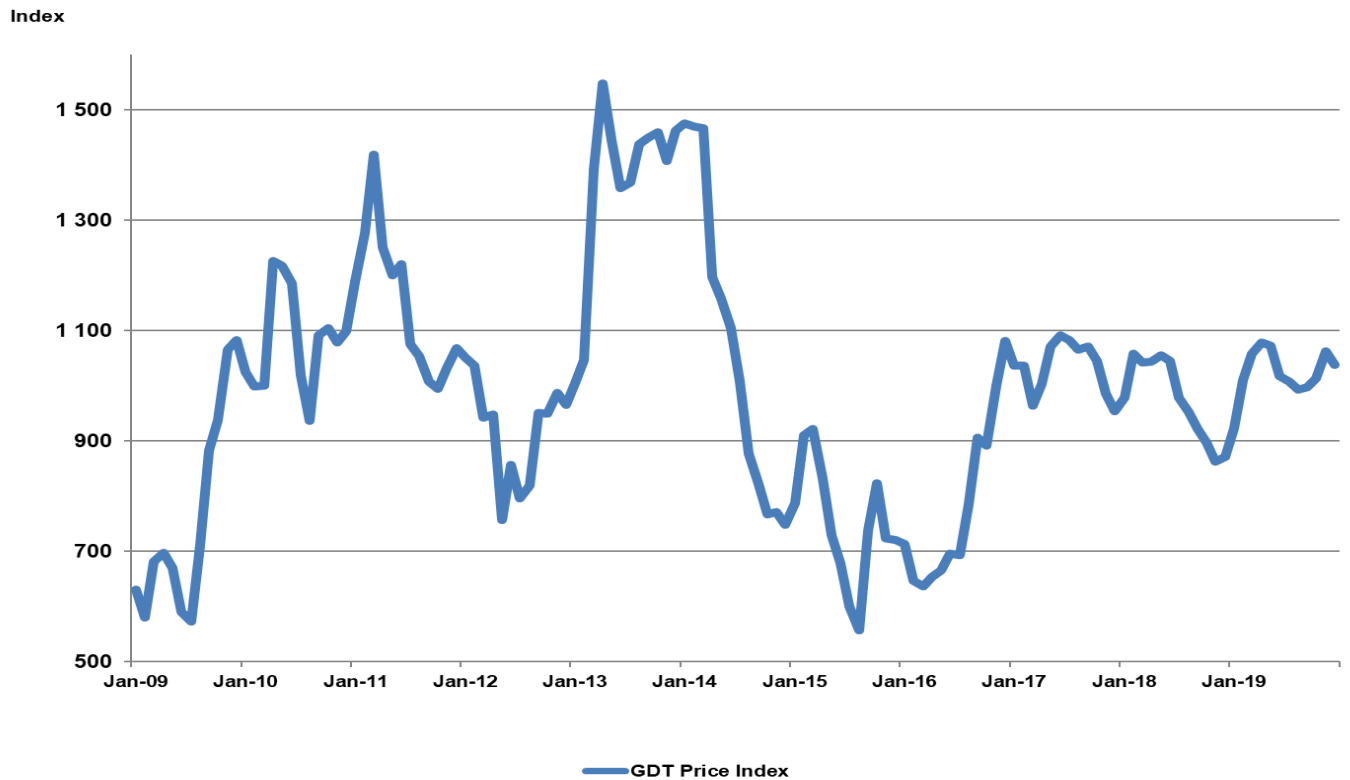
conditions. Fires started burning in Australia last year in May and continued into January 2020. Estimates are that 70 000 dairy cows died as a result of the fires. In New Zealand agricultural lenders are increasingly concerned about dairy producer debt. This has led to conservative lending practices that could have curtailed milk production growth in 2019. In 2019 milk production in South America began very slow in the first half of 2019, picking up in the second half but not reaching the same levels as in 2018. Unfavourable weather conditions in the first half of 2019 being the culprit. Growth in milk production in the US was subdued mainly due to the restructuring of the industry on the back of a period of low producer prices resulting in small dairy farmers exiting the industry. Figure 1b is reflecting dairy product prices.

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



Source: USDA

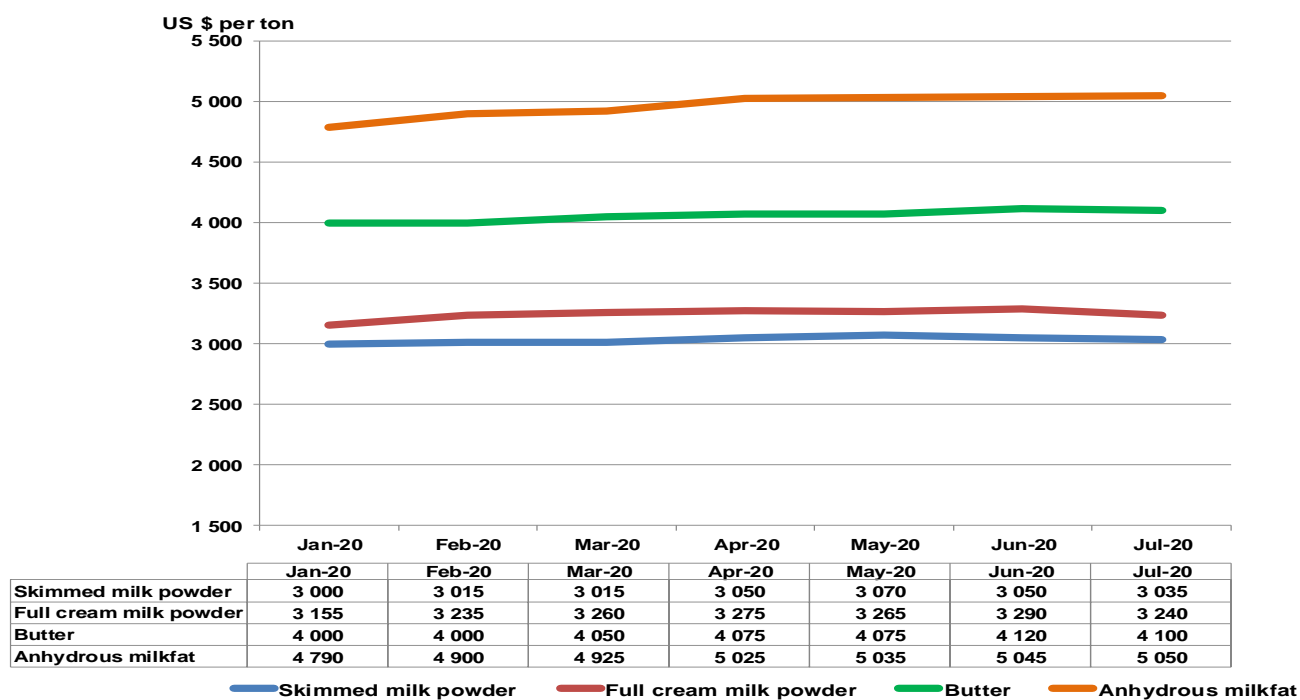
FIGURE 2a: Global dairy trade-weighted price index. Jan 2009 – Dec 2019



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 December 2019. There is a clear price support level at 900 index points and a price resistance level at 1100 index points. The December price slowed down once again confirming the 1100 resistance level.

FIGURE 2b: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX) ON 16 Jan 2020: Jan 2020 – July 2020



Source: NZX Futures, Jan 2020

The New Zealand Future Exchange reflects hardened prices for anhydrous milkfat and butter for the first half of 2020, skimmed milk powder (SMP) prices moving sideways while full cream milk powder (FMP) prices increase in February 2020, then moving sideways with a decrease in July 2020.

International stock levels are a mixed bag of growth and decline. Butter stock levels in the US are 4.9% higher than a year ago while the EU butter stock level is the same as a year ago. Skimmed milk powder (SMP) stock levels in the US is 4% down compared to year ago while the EU stock is 100% down with the intervention stock being depleted. Cheese stock levels in the US is marginally higher at 0.2% compared to a year ago.

FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2015 – 2019 (1st 11 months)

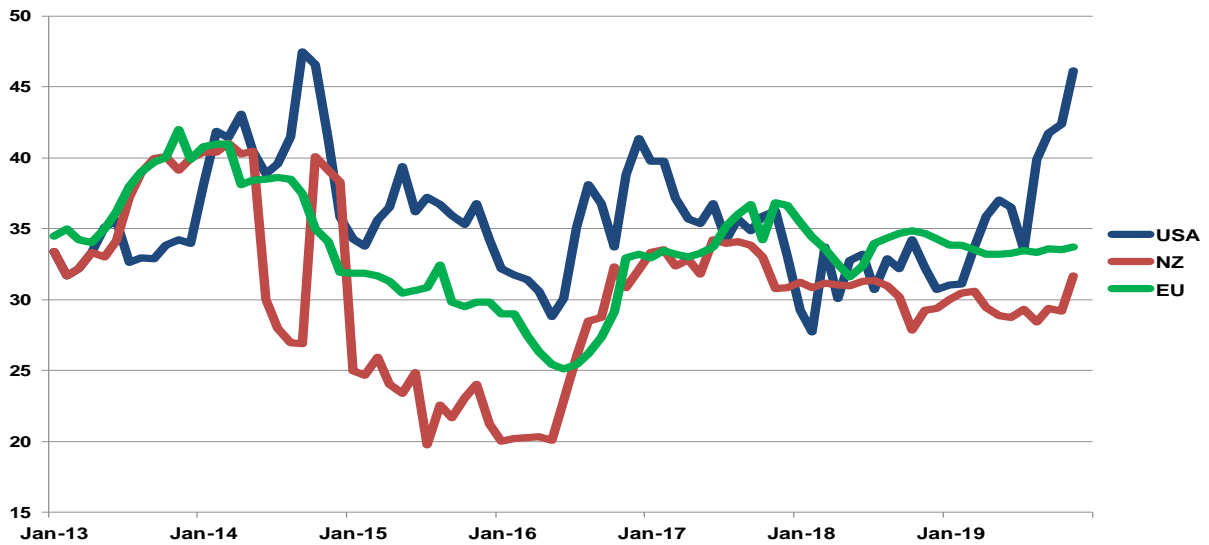


Source: CLAL, Jan 2020

The first eleven months in 2019, compared to the first eleven months of 2018, is a picture of negative growth, zero growth and 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 to the relatively low level of some of these prices during 2018 and 2019 also played a role.

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

Euro per 100 kg (4.2%fat and 3.4% proteien)



Source: LTO Nederland, Jan. 2020

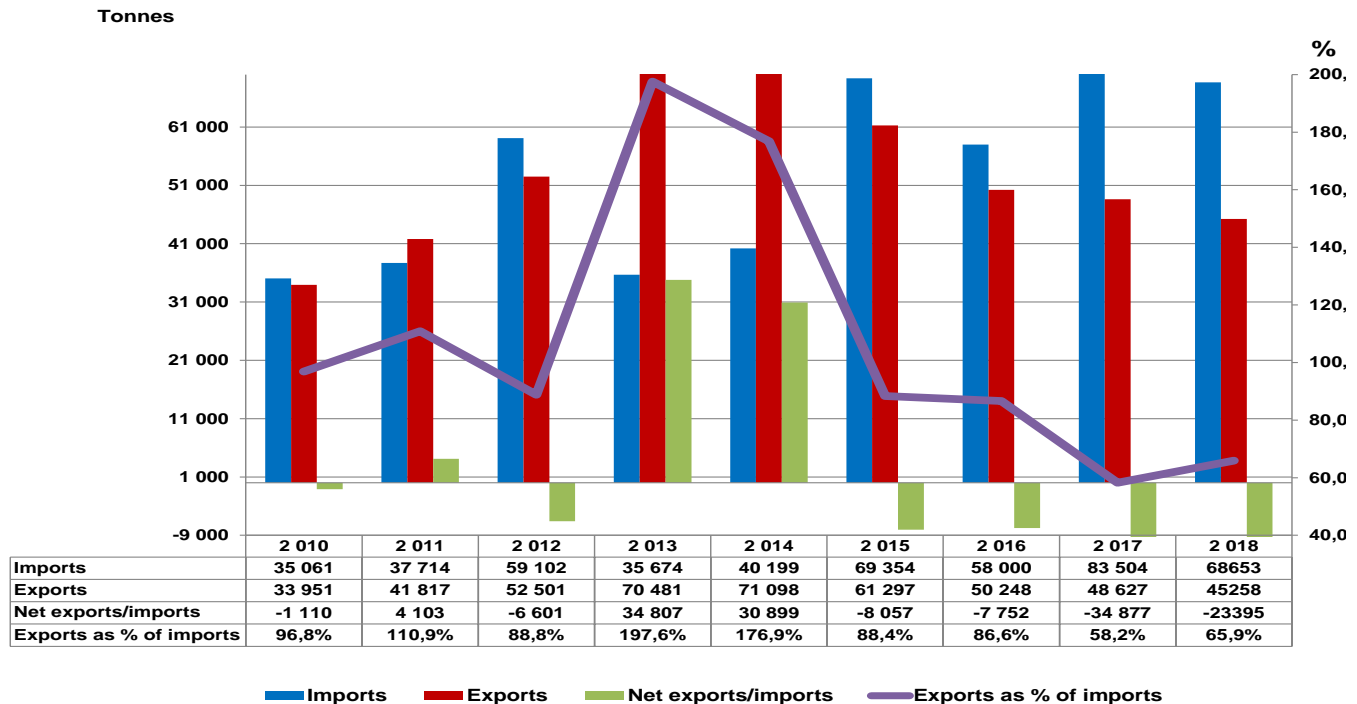
The marked convergence of producer prices since middle 2017 with producer prices staying within the 30 to 35 Euros per 100kg price band seems to be something of the past. Producer price volatility is starting to come back reflecting to a larger extent country specific industry circumstance. In the above graph prices are pointing north.

Since the beginning of 2018 USA producer prices are on an upward trend with prices breaking through 35 Euros per 100kg in March 2019 and now going north of 45 Euros per 100kg. The low growth in unprocessed milk production in the USA clearly fuelling the upward trend. Producer prices in the EU have been moving sideways since the beginning of 2019 but are now showing some upward momentum while New Zealand prices sliced through the 30 Euros per 100kg level in November 2019 showing some kinetic energy in reserve.

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 mass of imports and exports in 2018, showed that South Africa was a net importer of milk and cream (04.01), concentrated milk (04.02), whey (04.04), butter (04.05) and cheese (04.06) and a net 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

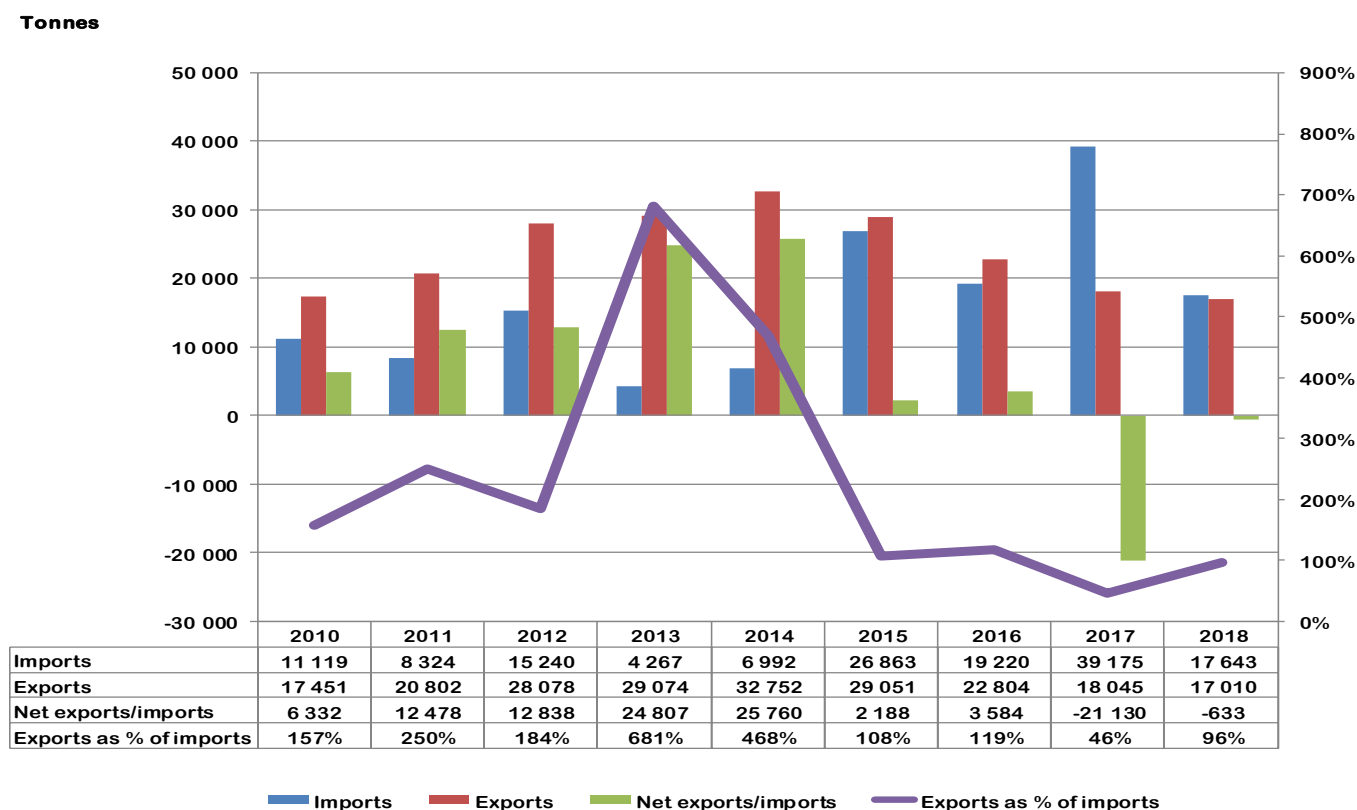


FIGURE 7: SOUTH AFRICAN IMPORTS AND EXPORTS OF CONCENTRATED MILK, (04.02) 2010 – 2018

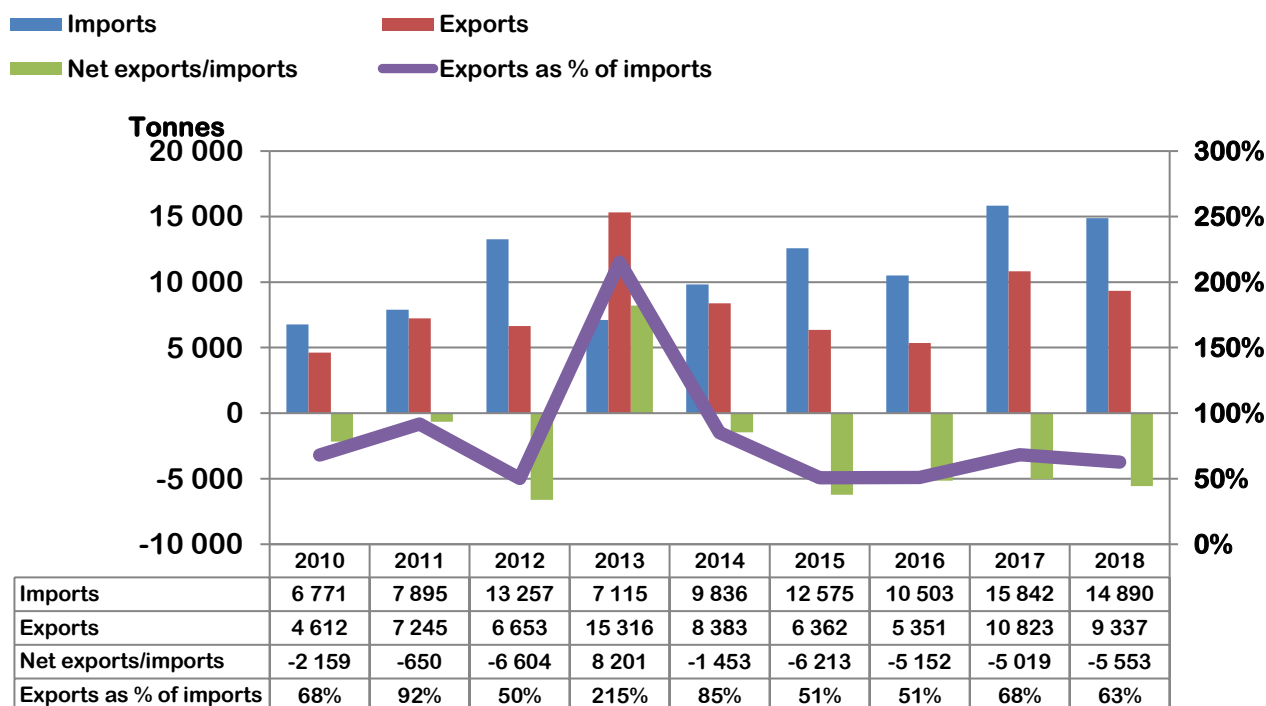


FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, (04.03) 2010 – 2018

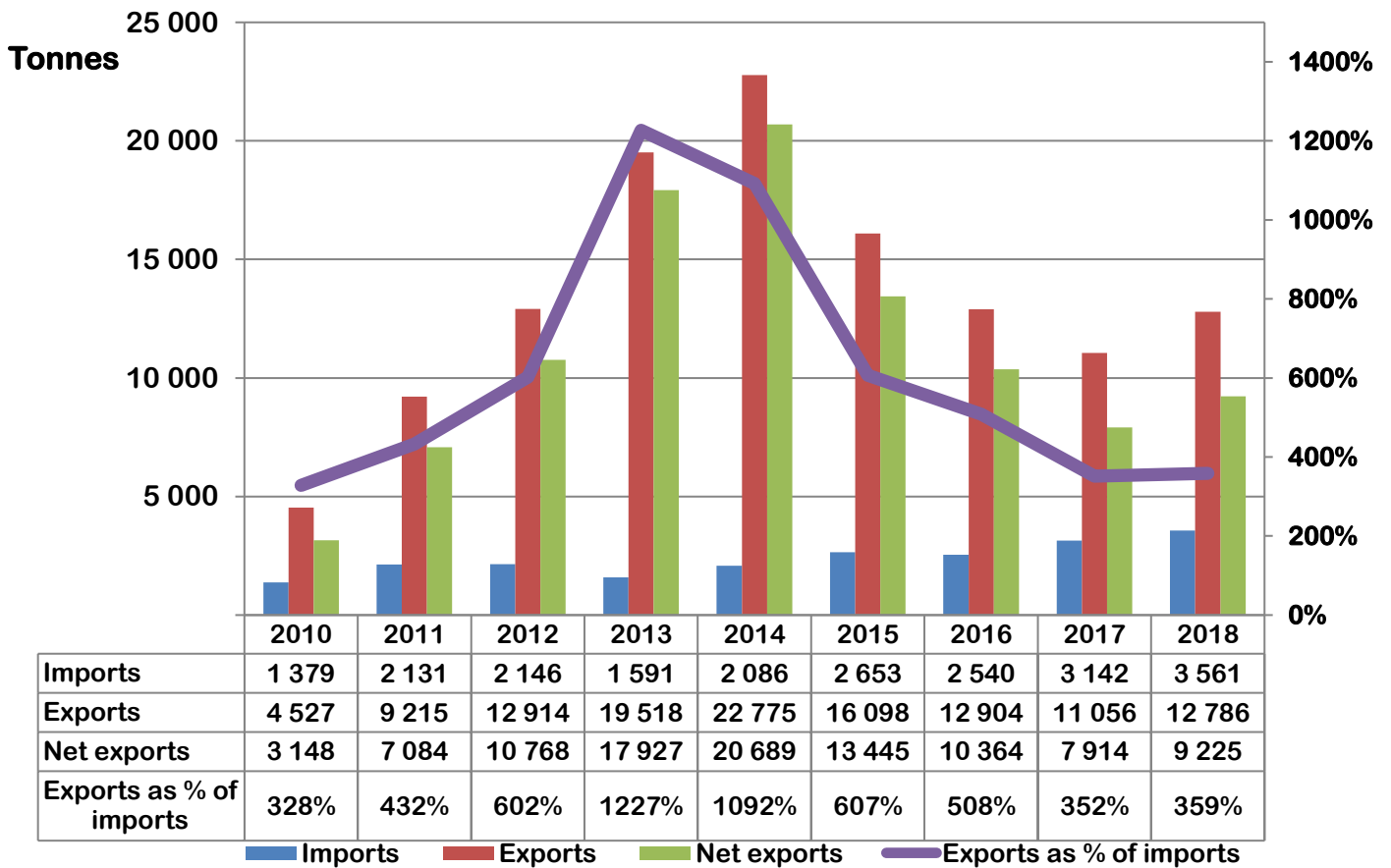


FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, (04.04) 2010 – 2018

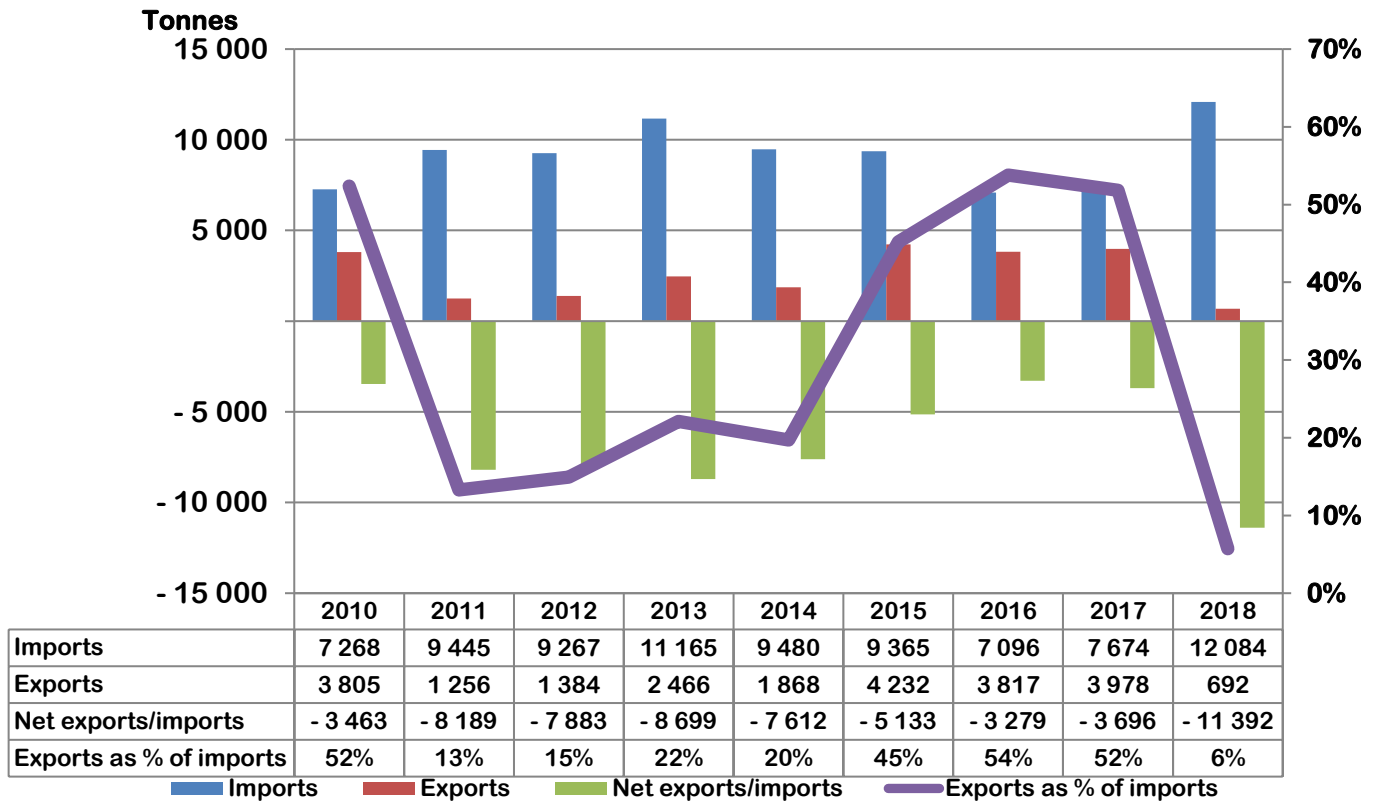
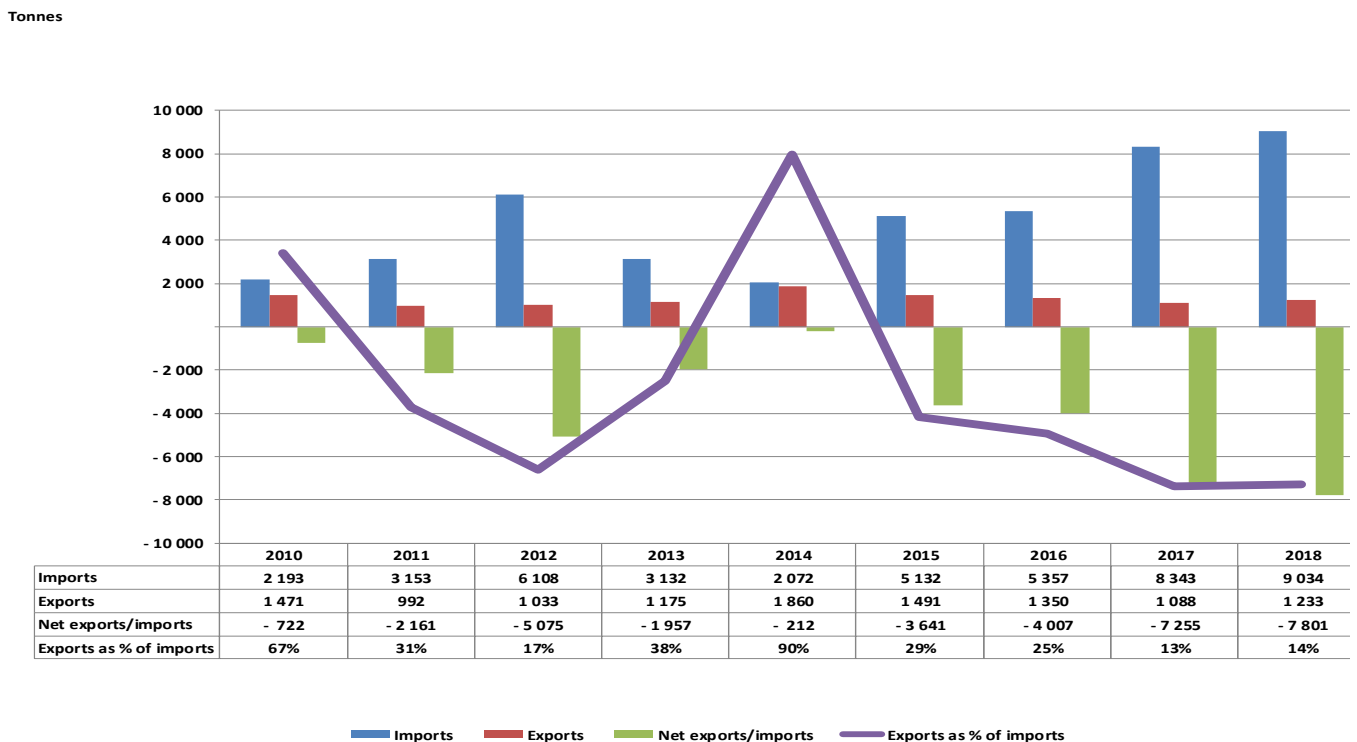


FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2010 – 2018



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

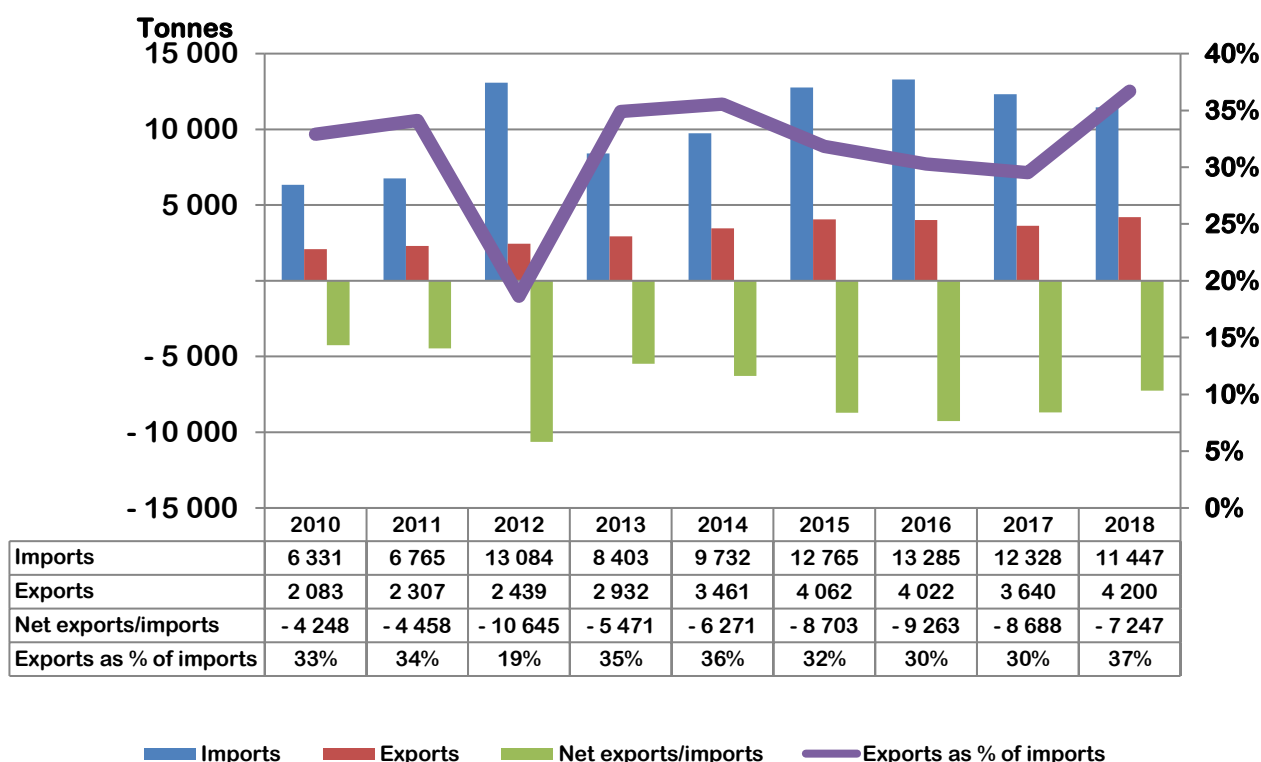


TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT FOB-PRICES FOR DAIRY PRODUCTS, 2014– 2018

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

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.

TABLE 2: PERCENTAGE CHANGE IN RETAIL SALES QUANTITIES FOR MAJOR DAIRY PRODUCTS FOR THE 12 MONTH PERIOD FROM OCTOBER 2017 TO SEPTEMBER 2018 COMPARED TO THE 12 MONTH PERIOD FROM OCTOBER 2018 TO SEPTEMBER 2019 AND THE CHANGE IN RETAIL PRICES FROM SEPTEMBER 2018 TO SEPTEMBER 2019

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-3.2	5.4
Long-life milk (UHT)	4.2	13.8
Flavoured milk	4.0	9.0
Yoghurt	9.3	2.2
Maas	22.3	1.9
Pre-packaged cheese	4.6	5.7
Cream cheese	-0.3	3.0
Butter	5.3	-1.2
Cream	-2.8	8.8

Source: Nielsen figures supplied by SAMPRO

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

Fresh and long-life milk (UHT) (Unflavoured and unsweetened milk) utilize approximately 54.00 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 (%)				
	Sept 19 vs Sept 18 1 month	Jul - Sept 19 vs Jul- Sept 18 3 months	Apr19-Sept19 vs Apr18-Sept18 6 months	Jan19-Sept19 vs Jan18-Sept1 9 months	Oct18 – Sept19 vs Oct17 – Sept18 12 months
Fresh milk	-0.4	0.2	-1.6	-1.8	-3.2
UHT milk	-9.3	-9.9	-5.1	0.04	4.2
Flavoured milk	-6.2	-1.1	0.25	2.0	4.0
Yoghurt	8.7	9.0	8.2	9.2	9.3
Maas	12.4	18.5	21.6	22.0	22.3
Pre- packaged cheese	-2.7	4.1	5.3	5.5	4.6
Cream cheese	0.9	-0.8	-0.5	-0.5	-0.3
Butter	-6.3	-0.6	2.7	4.9	5.3
Cream	-8.0	-6.1	-4.5	-2.6	-2.8

Source: Nielsen as supplied by SAMPRO

In the one month, six months, nine months and 12 months periods which ended in September 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, the profile of new consumers and the decrease in the gap between the retail price of fresh milk and UHT-milk which took place in the last number of years. Cream cheese gained some ground in the one-month period while cream lost ground in all the period of 2019 compared to the same periods of 2018. Pre-packed cheese lost ground in the one-month period and butter in the one- and three-month periods.

Two of the nine dairy products, namely yoghurt and maas, recorded increased sale quantities in each of the different periods mentioned in table 3 with the increase in the respect of maas, being exceptionally high but starting to taper off in the one-month period.

Notable is that retail sales quantities of UHT-milk in the year which ended in September 2019 was significantly lower for the one, three- and six-month periods. Overall sales quantities of the dairy products being monitored started to reduce since the three-month period with six of the nine products registering negative growth in the one-month period as oppose to only three reducing in the 12-month period.

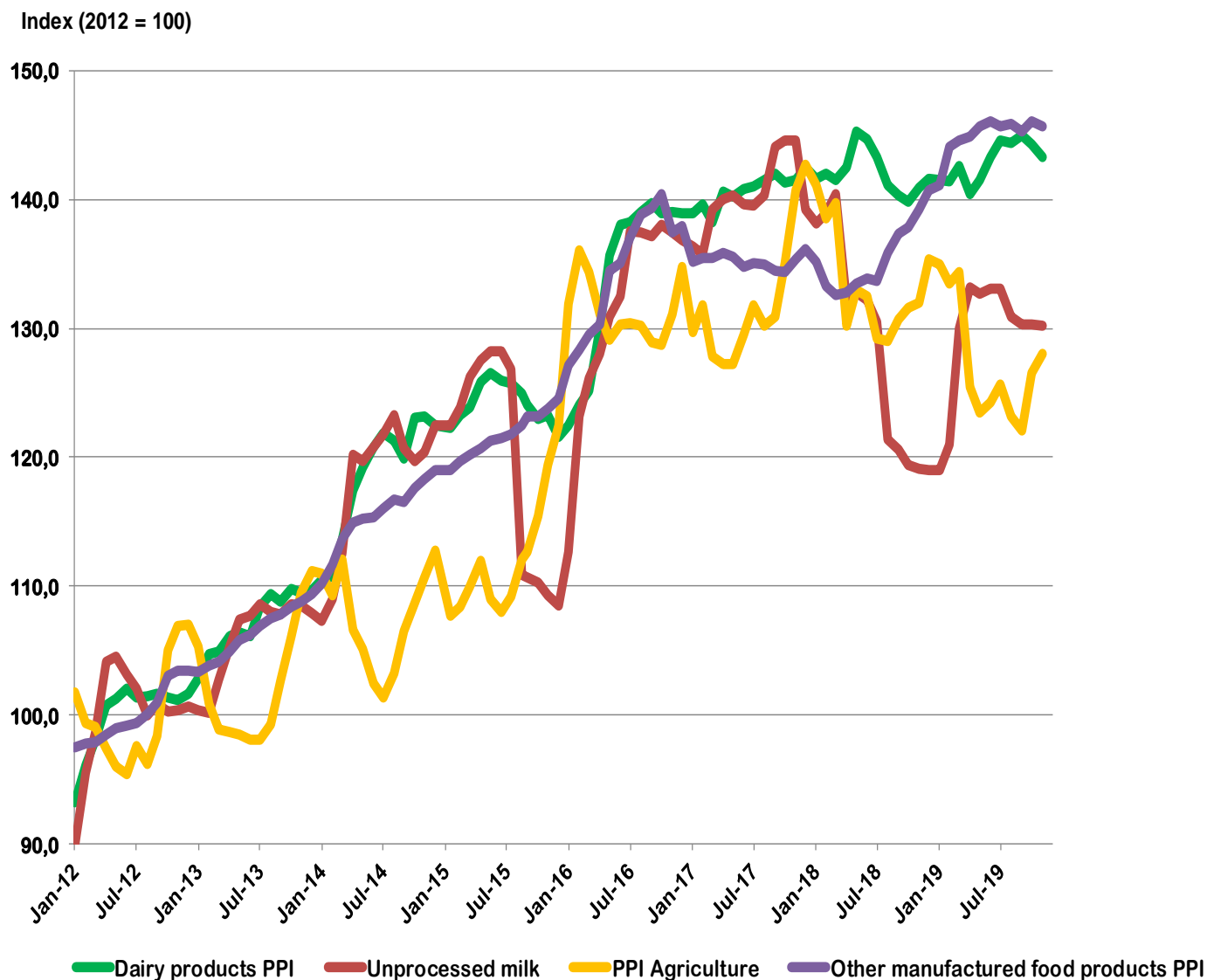
TABLE 4: CHANGES IN THE RETAIL PRICES OF CERTAIN DAIRY PRODUCTS

Product	Change in retail prices compared to same period previous year (%)					
	Sept 19 vs Aug 19 1 month	Sept 19 vs June 18 3 months	Sept 19 vs March 18 6 months	Sept 19 vs Dec 18 9 months	Sept 19 vs Sept 18 12 months	Sept 19 vs March 18 18 months
Fresh milk	-0.07	1.3	3.3	4.9	5.4	4.1
UHT milk	0.1	3.6	9.3	13.2	13.8	9.5
Flavoured milk	2.2	2.6	6.0	10.8	9.0	12.5
Yoghurt	-2.3	-1.1	-0.3	3.1	2.2	1.0
Maas	-0.7	0.6	2.0	3.6	1.9	-3.3
Pre-packaged cheese	-0.8	-1.9	1.3	2.2	5.7	3.3
Cream cheese	-0.5	-0.06	3.0	5.3	3.0	7.3
Butter	4.5	1.6	0.2	0.01	-1.2	-6.8
Cream	1.2	3.8	8.3	6.1	8.8	12.1

Source: Nielsen as supplied by SAMPRO

From September 2018 to September 2019 the price of one of the nine products decreased with butter registering a decrease of 1.2%. With the exception of the prices of UHT-milk, flavoured milk and cream, the retail prices recorded in table 4 registered decreases or small increases. Four of the nine dairy product prices over the 12-month period that ended in September 2019 increased with less than the inflation rate.

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



Source: Stats SA

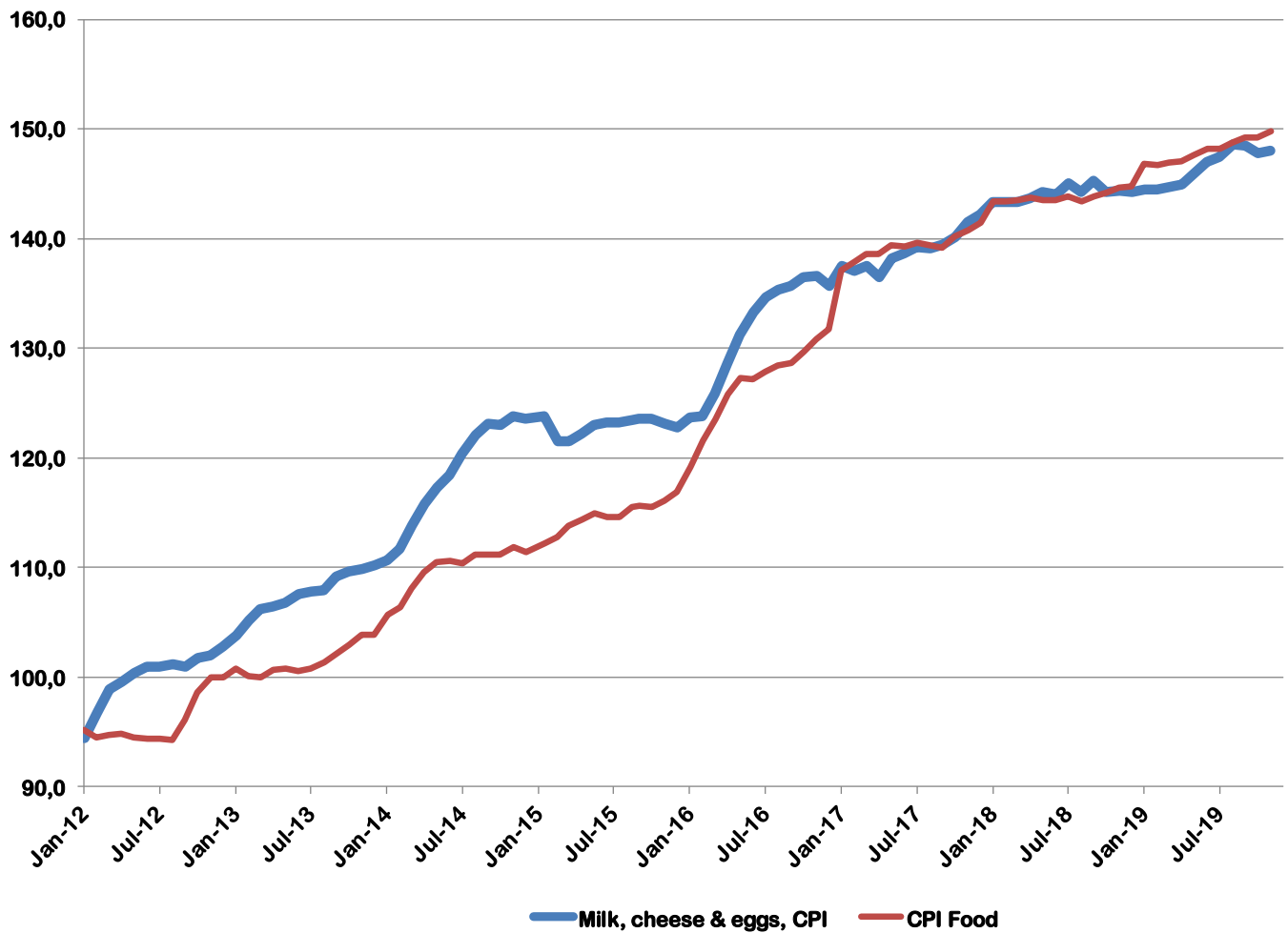
The producer prices for agriculture in general and for unprocessed milk did not recover from the drop in prices experienced in 2018 and 2019.

The PPI for Other manufactured food products increased from January 2019 to February 2019 with 2% and since moved sideways for the first 11 months of 2019.

The highest level of the PPI for Dairy products in 2019 (first 11 months) was 145 index points, an increase of 2.3% but the index lost ground in November falling back with 1.1%.

The PPI for unprocessed milk increased from January 2019 to June 2019 with 12% but since dropped back by 2% in November 2019 (first 11 months).

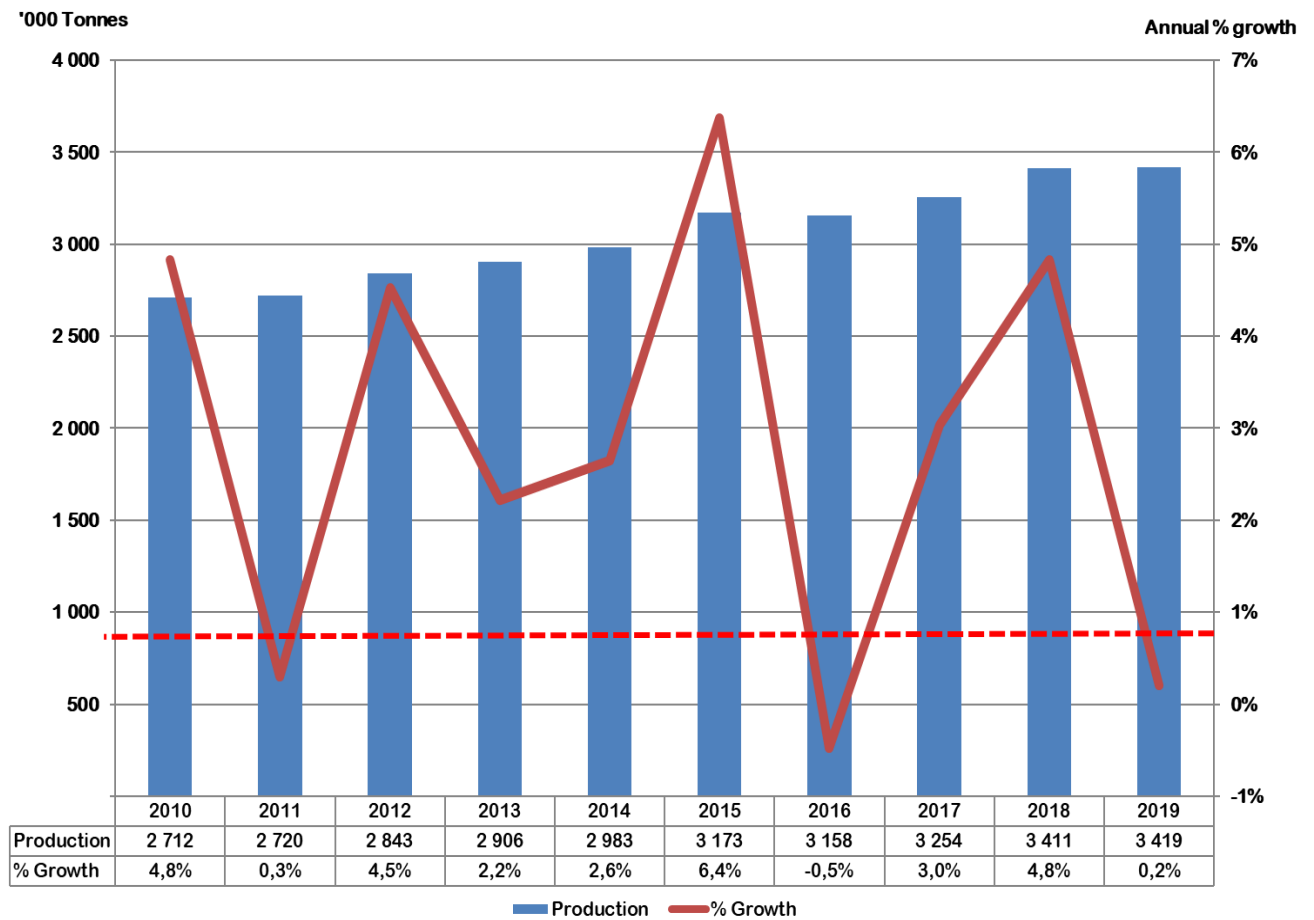
FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – NOVEMBER 2019



Source: Stats SA

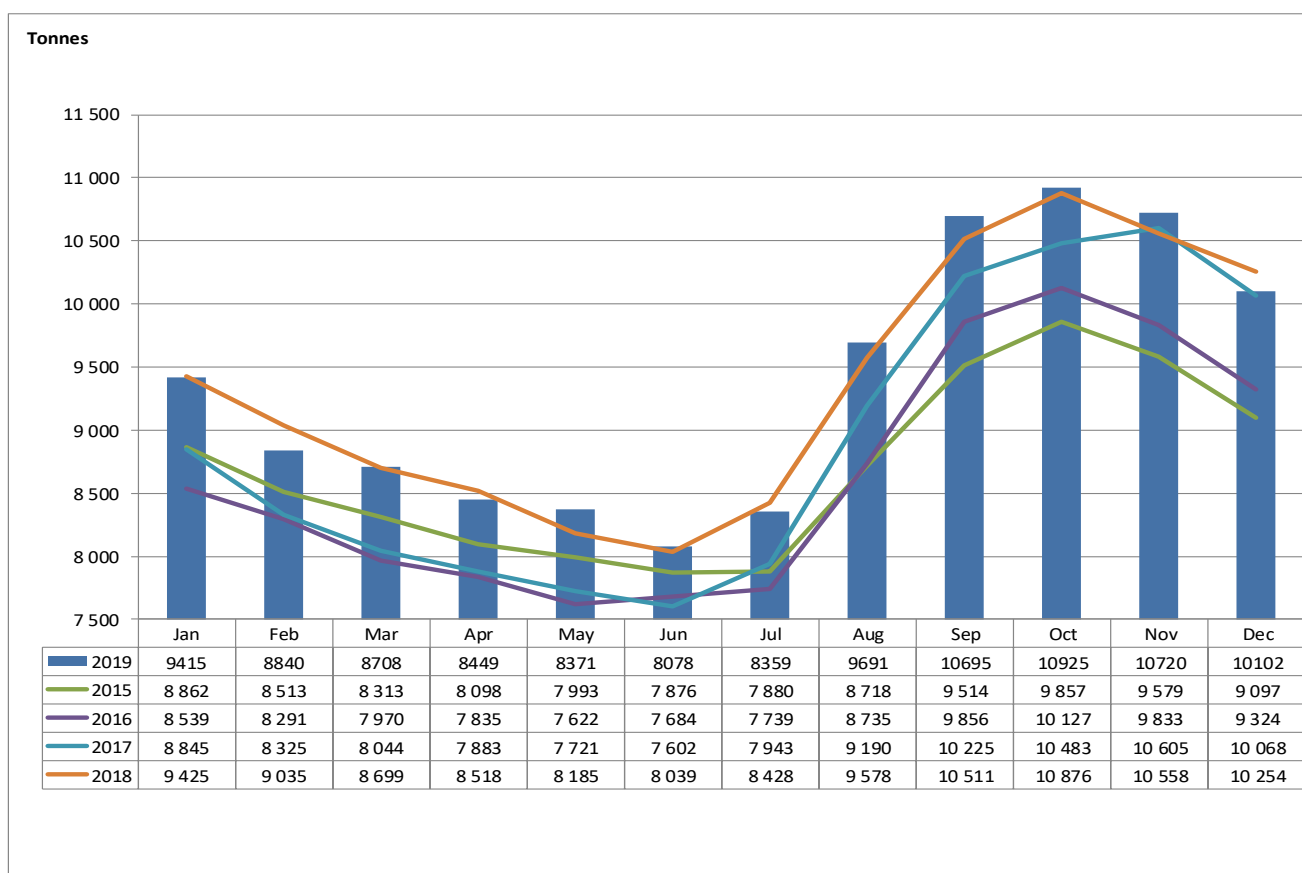
The CPI for milk, cheese and eggs in November 2018 edged below the CPI for food suggesting a pricing strategy that enabled many dairy products to gain and or maintain market share despite consumer disposable income being eroded by increased administered product prices and a weak economy. The CPI for milk, cheese and eggs maintained this position through 2019 (first 11 months) with the aim to keep the dairy portion of the consumer Rand. Table 2 above illustrates the interplay between quantities sold and price changes for dairy products.

**FIGURE 14: ANNUAL SOUTH AFRICAN UNPROCESSED MILK PURCHASES,
2010 – 2019**



Source: Milk SA. November and December 2019 preliminary. (2019 is an estimate figure)

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



Source: Milk SA; *Nov and Dec 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	1 322 326
June	1 497 744	1 454 086	1 460 583	1 565 269	1 564 655
July	1 742 039	1 694 009	1 706 830	1 826 534	1 823 780
August	2 012 295	1 964 790	1 991 715	2 123 446	2 124 215
September	2 297 713	2 260 473	2 298 450	2 438 789	2 445 075
October	2 603 272	2 574 398	2 623 438	2 775 933	2 783 739
November	2 890 637	2 869 392	2 941 589	3 092 669	3 105 351
December	3 172 656	3 158 446	3 253 682	3 410 536	3 418 519

Source: Milk SA statistics. November and December 2019 = estimated.

During 2019, it is estimated that 3 418 519 tonnes of unprocessed milk were purchased, which is 0.23% more than in 2018.

The South African dairy industry, like many other industries in South Africa, is under pressure due to the low economic growth rate of South Africa and other factors such as the unreliable supply of electricity. A meaningful improvement in respect of this situation is not expected in the coming months. As a result, climatic conditions in the coming months are very important as it influences the supply (quantity and prices) of unprocessed milk and thus the supply (quantity and prices) of the different dairy products.

Close monitoring in the coming months is required, of especially:

- Developments in the consumer market taking into account the impact that changes in prices had in 2019 on the retail sales quantities of the different dairy products; and
- The impact of climatic conditions in the supply of unprocessed milk and thus on the supply of dairy products.

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