



QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY¹

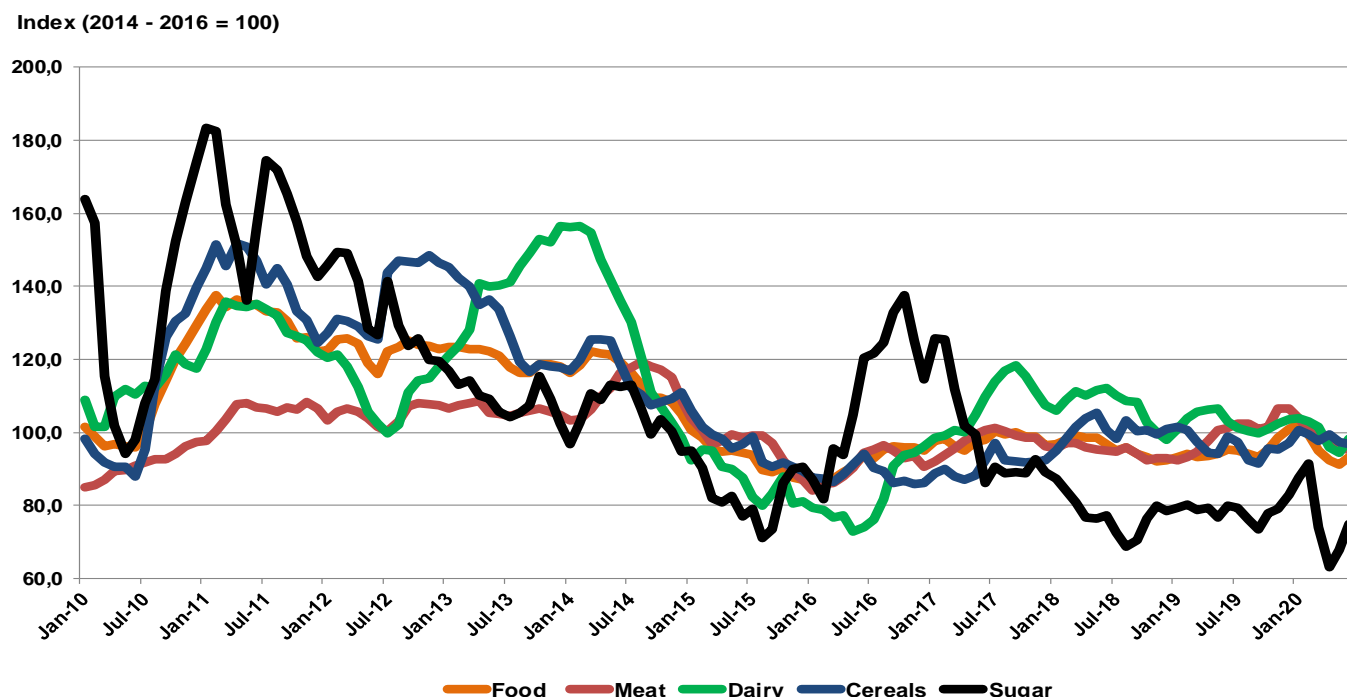
The information in this document is from sources deemed to be correct. Milk SA, the MPO and SAMPRO are not responsible for the results of any decisions taken on the strength of this information.

Second Quarter 2020

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

1. INTERNATIONAL MARKET

FIGURE 1a: FAO FOOD PRICE INDICES, JANUARY 2010 – JUNE 2020



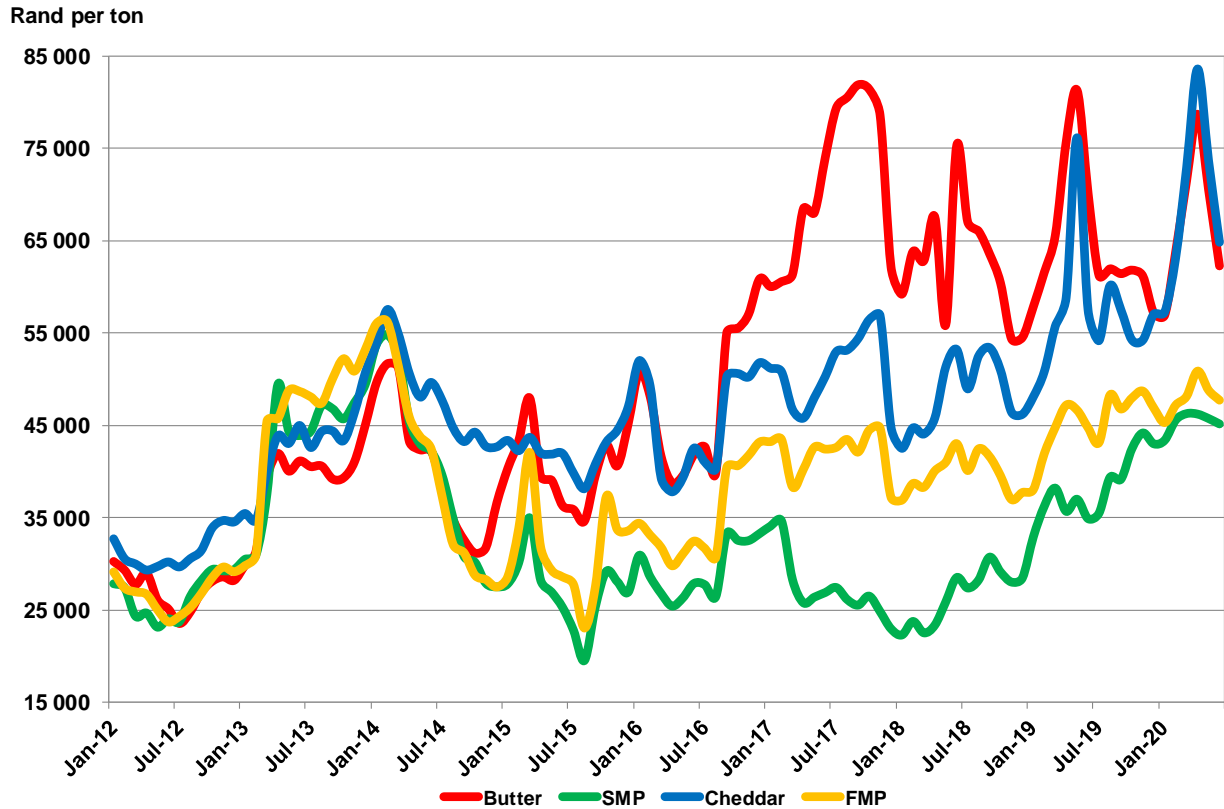
Source: FAO Food price index, June 2020

The FAO Food Price Index* (FFPI) averaged 93.2 points in June 2020, some 2.2 points (2.4 percent) higher than in May, representing the first month-on-month increase since the beginning of the year.

The FAO Dairy Price Index averaged 98.2 points in June, up 3.8 points (4.0 percent) from May. June marked the first increase in the value of the Index after four months of consecutive declines, even though the Index remained 4.6 percent below its level in the corresponding month of 2019. Price quotations for all the dairy products represented in the Index rose, but not to the pre-pandemic levels. Renewed import demand for spot supplies, especially from the Middle East and East Asia, coupled with seasonally declining supplies in Europe and limited availability of uncommitted supplies in Oceania, underpinned the recent price increases.

The FAO Meat Price Index** averaged 95.2 points in June, down marginally (0.6 percent) from May and 6.1 points (6.0 percent) below its June 2019 level.

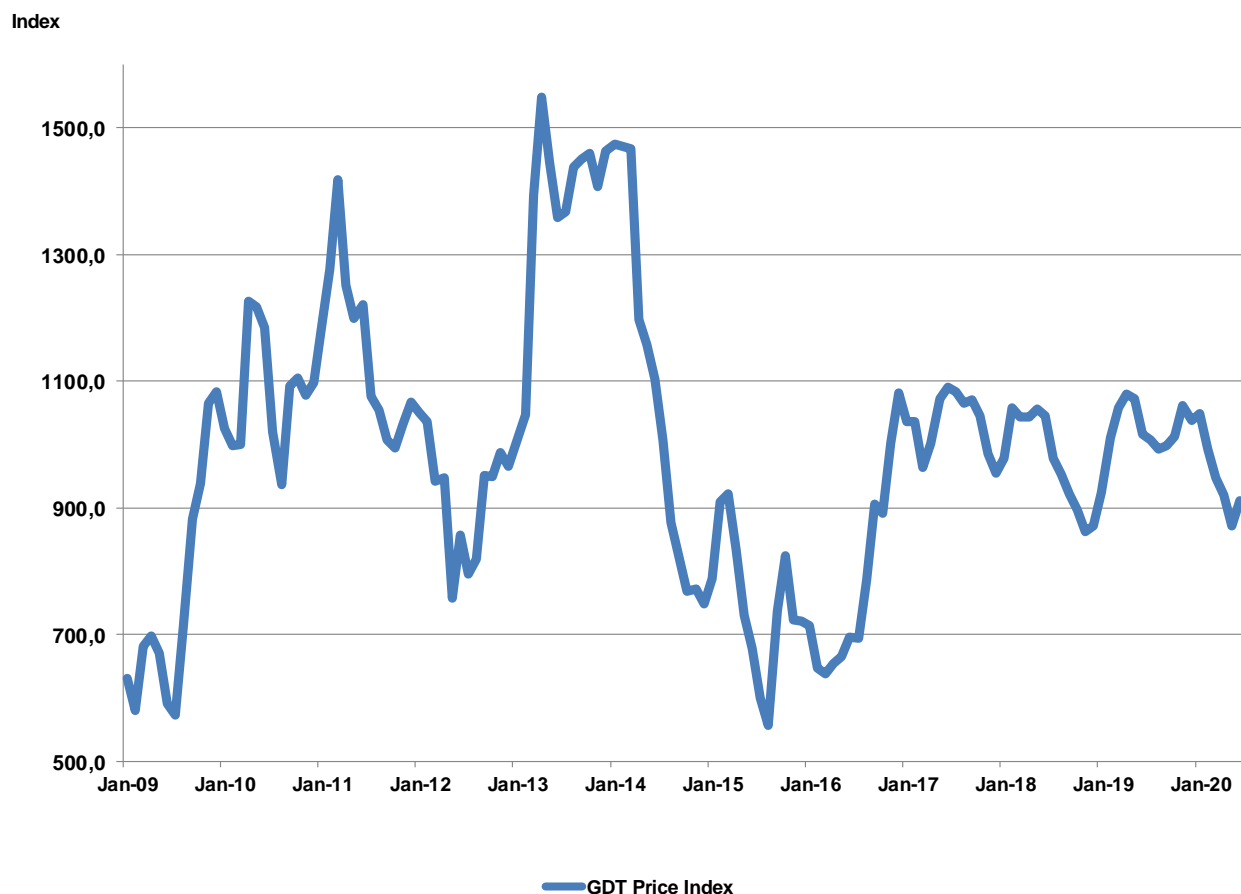
FIGURE 1b: International Dairy Product Prices: Jan 2012 – June 2020



Source: USDA

In USD terms all dairy product prices in the second quarter of 2020 retreated with the exception of skimmed milk powder (SMP); up by 10%. The price of butter down sharply with 24%, cheddar down 4% and full milk powder (FMP) went south with 9% (comparisons year on year). During the second quarter of 2020 the Rand clawed back some value moving from R18,57 to the USD in April 2020 to R17,11 in June 2020. However, on a year on year basis the Rand still depreciated in June 2020 with 17%. The result was that all dairy product prices in Rand terms increased with the exception being butter that decreased with 11% due to the sharp decline in the international price. The Rand price of SMP up by 29%, cheddar 13% and FMP up by 7%.

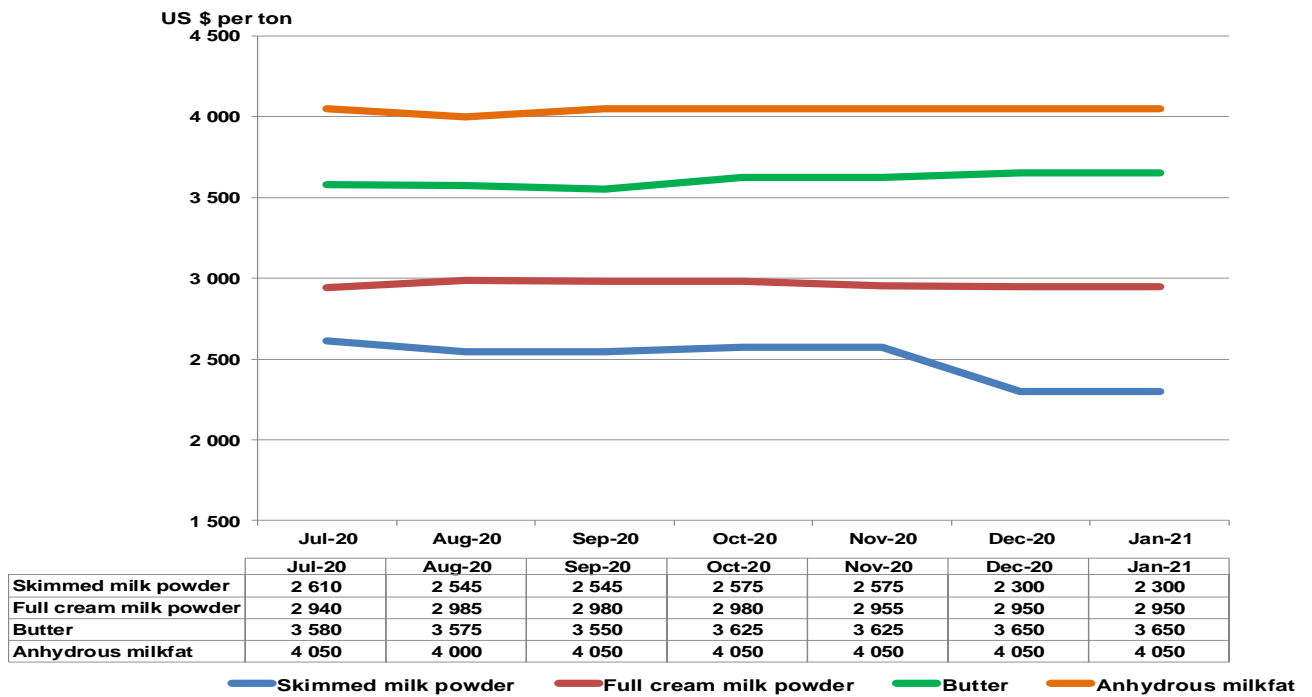
FIGURE 2a: Global dairy trade-weighted price index. Jan 2009 – June 2020



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 2020. The sharp decline in dairy product prices that commenced in February 2020 is clearly visible. The role of the 900 index support level is remarkable. Although the May 2020 level breached the support level, velocity was insufficient with June bouncing back above the support. Given the circumstances of the worldwide pandemic and the resultant uncertainties, this illuminates the strength that the support level has built up over the past 42 months

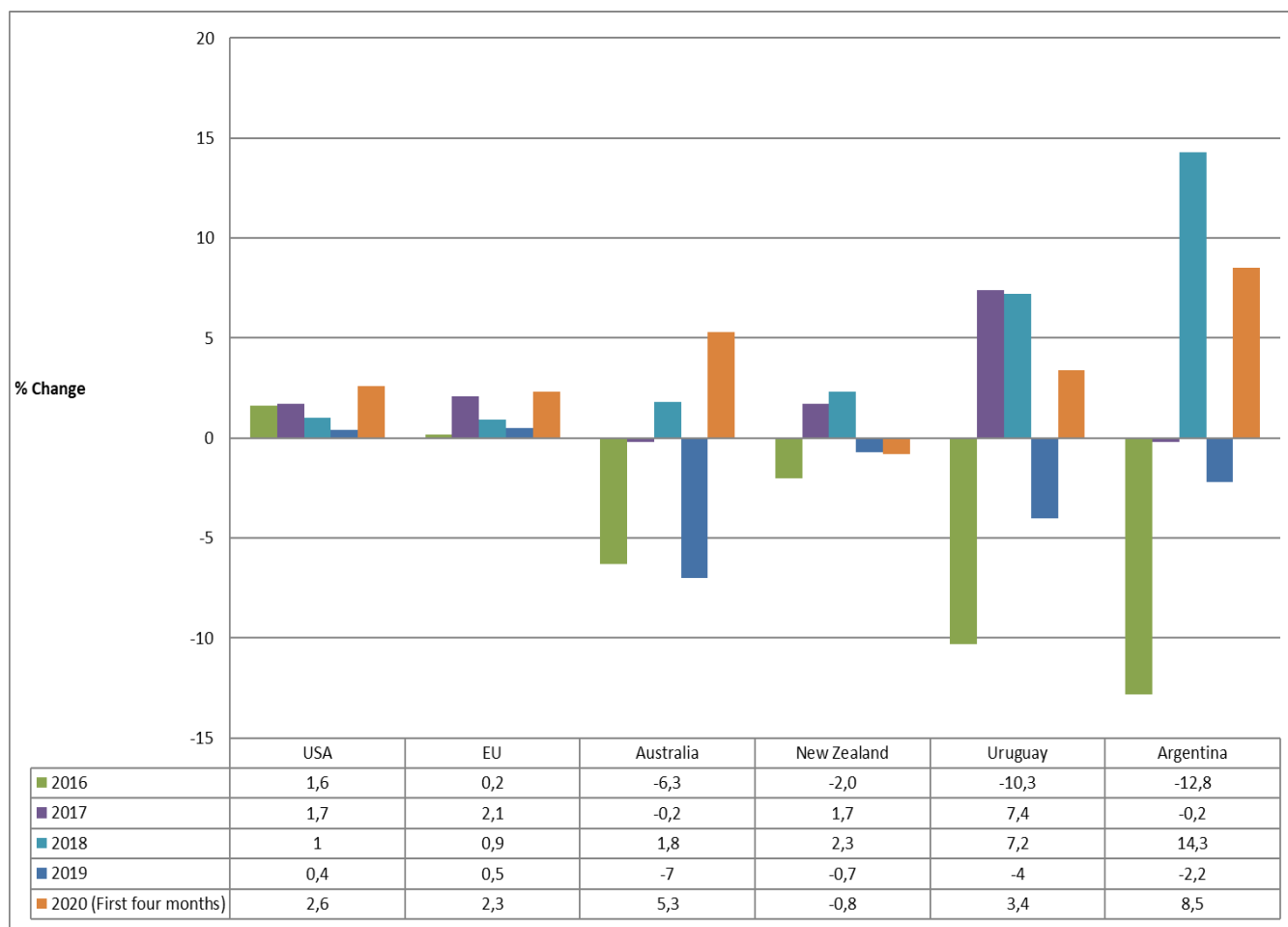
FIGURE 2b: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX): Jul 2020 – Jan 2021



Source: NZX Futures, June 2020

The New Zealand Future Exchange reflects most prices moving sideways, but a decline in SMP prices towards the end of the year.

FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2015 – 2020 (first four months)



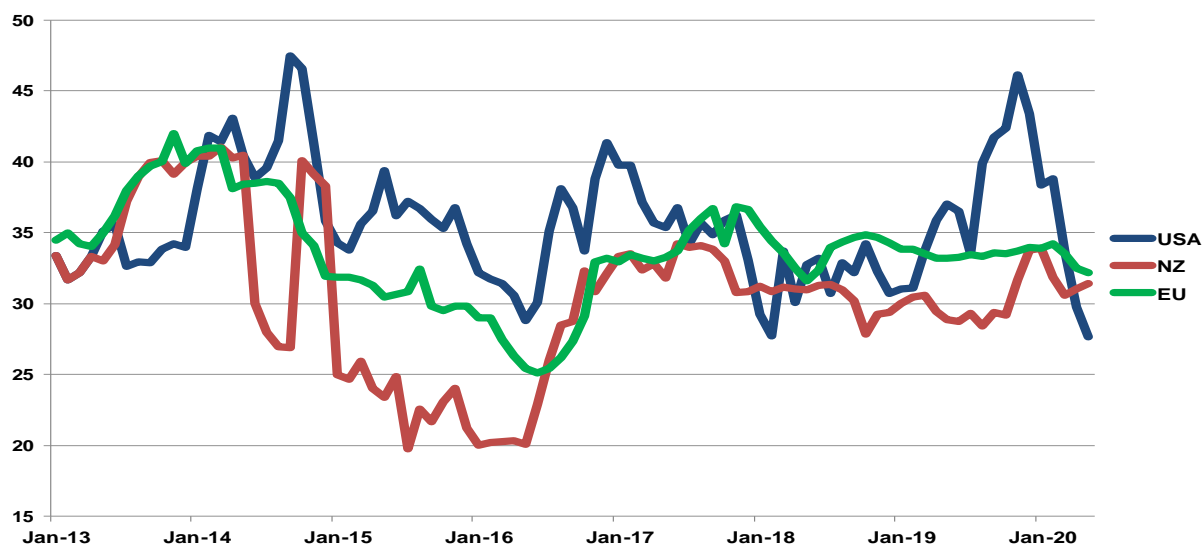
Source: CLAL, April 2020

Unprocessed milk production during 2019 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 contributed 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.

However, these prices improved in the third and fourth quarter of 2019 and the result can be seen in first four months of 2020 with production improving substantially in all these countries if compared over the same period last year, except for New Zealand.

FIGURE 4: PRODUCER PRICES OF UNPROCESSED MILK IN THE EU, USA AND NEW ZEALAND IN EURO PER 100 KG, January 2013 – May 2020

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



Source: LTO Nederland, May 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.

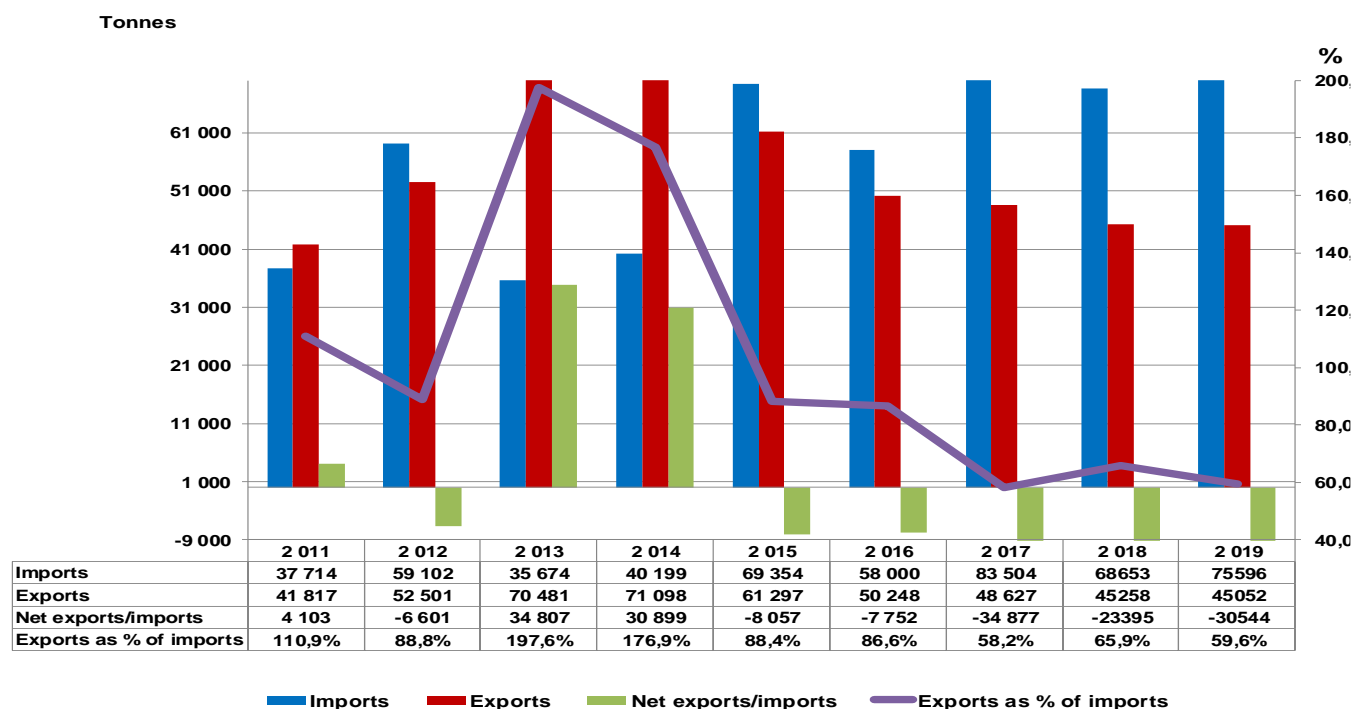
Since the beginning of 2018 USA producer prices was on an upward trend with prices breaking through 35 Euros per 100kg in March 2019 and going north of 45 Euros per 100kg in Oct 2019. Since then the trend reversed with unseen severity moving to levels last tested in February 2018.

Producer prices in the EU have been moving sideways since the beginning of 2019 but are now showing a declining trend while New Zealand prices reflect and upward trend in the second quarter of 2020.

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, 2011 – 2019



The information regarding imports and exports by South Africa of dairy products in 2019, showed that:

- The mass of imports of dairy products in 2019 was 10.1 percent higher than in 2018. The increase from 2018 to 2019 is due to the increase in imports of three of the six categories of dairy products.
- The mass of exports of dairy products in 2019 was 0.8 percent lower than in 2018. The decrease from 2018 to 2019 is due to the decrease in exports of four of the six categories of dairy products.
- The mass of imports and exports in 2019, showed that South Africa was a net importer of, concentrated milk (04.02), whey and whey powder (04.04), butter and milk fats (04.05) and cheese and curd (04.06) but a net exporter of milk and cream (04.01) and buttermilk and yoghurt (04.03).
- The mass of sales by South Africa to the other members of the Southern African Customs Union (Botswana, Namibia, Lesotho and Swaziland), in period 2019, of each of the six categories of dairy products, was higher than the mass of South African exports of the dairy products in the same period.

**FIGURE 6: SOUTH AFRICAN IMPORTS AND EXPORTS OF MILK AND CREAM (04.01),
2011 – 2019**

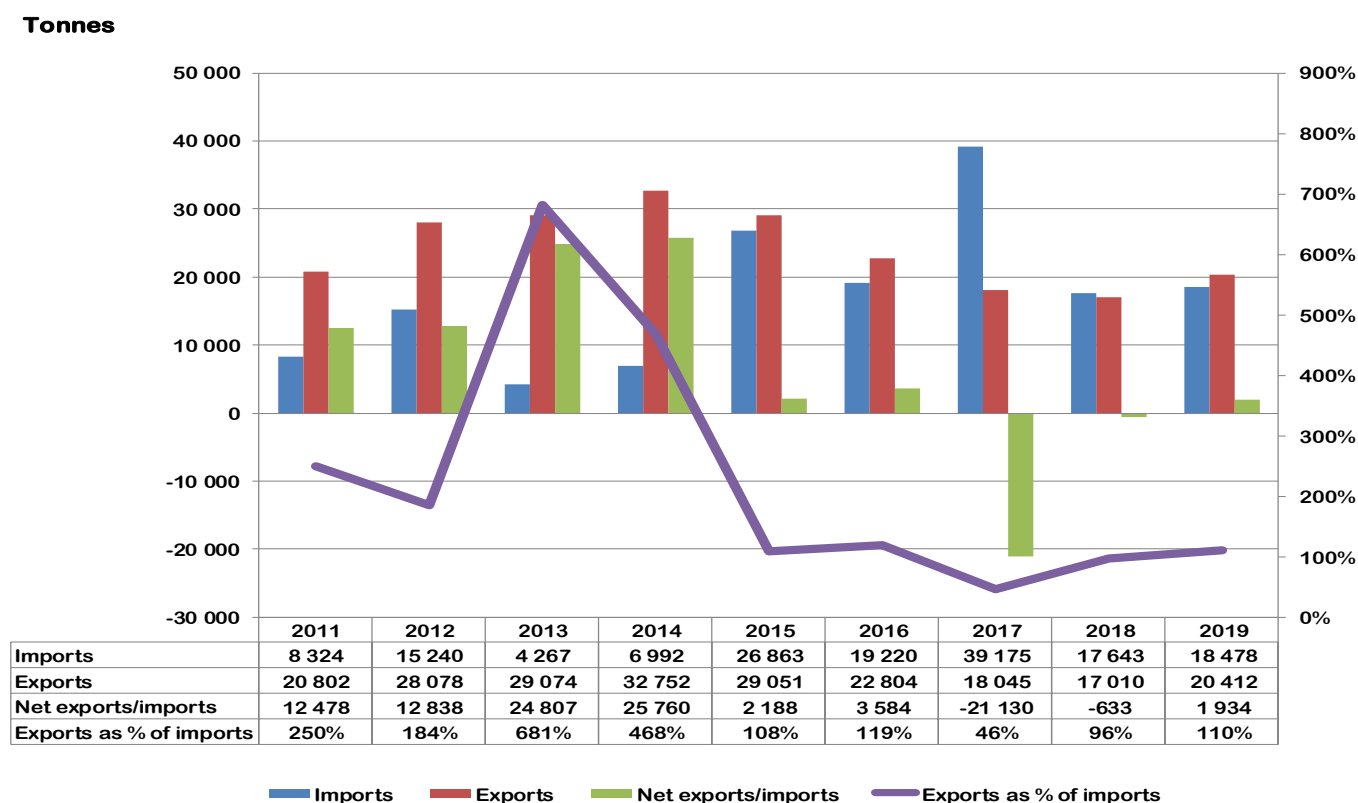


FIGURE 7: S.A. IMPORTS AND EXPORTS OF CONCENTRATED MILK, (04.02) 2011 – 2019

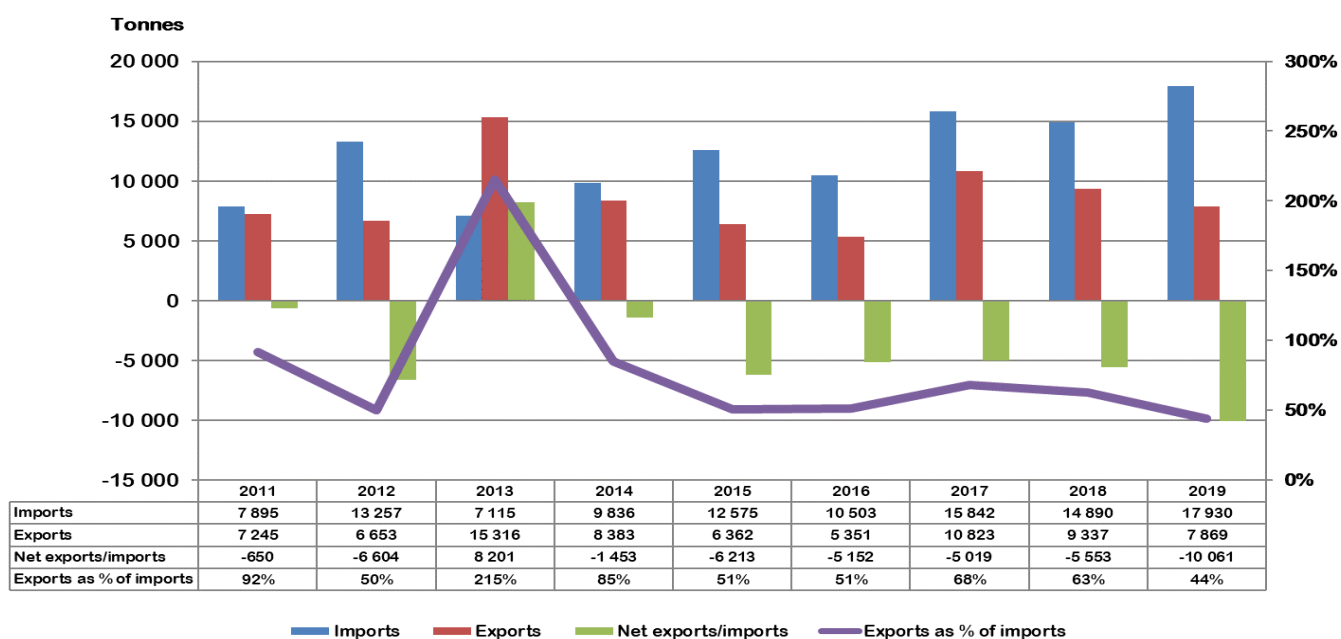


FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, (04.03) 2011 – 2019

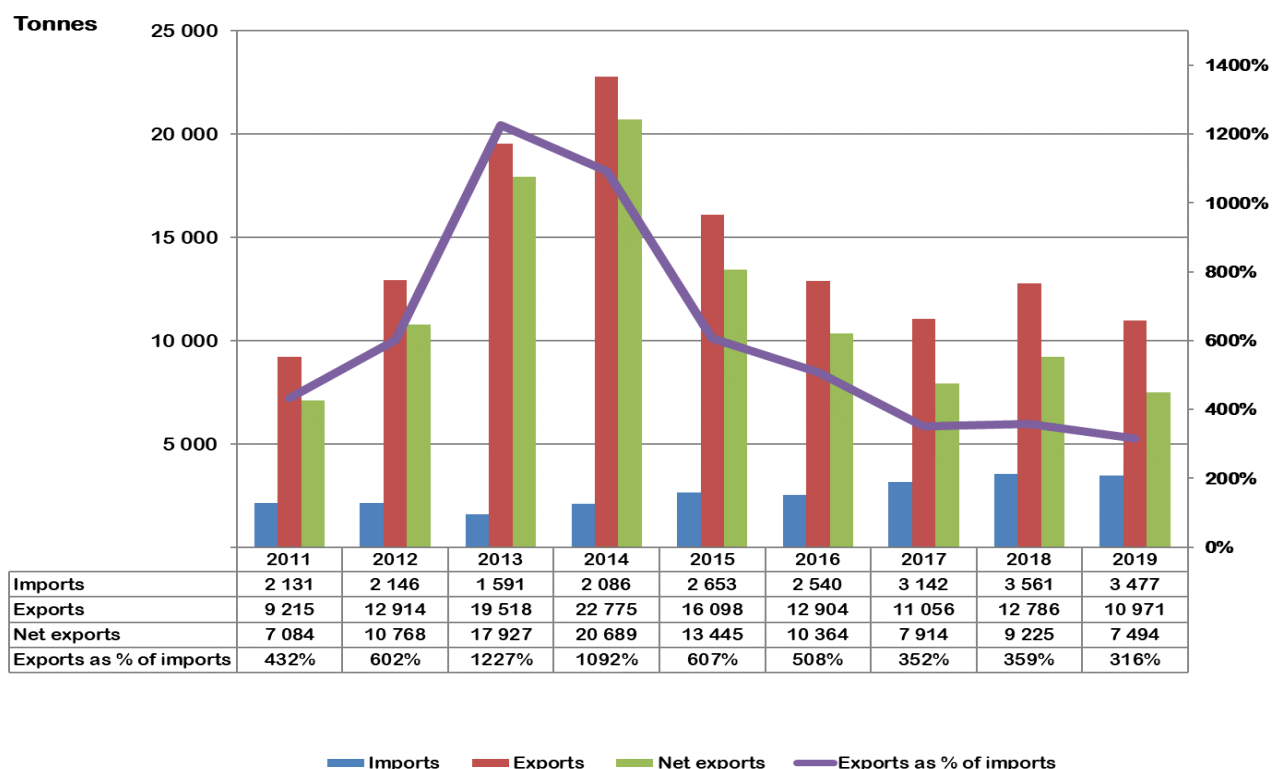


FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, (04.04) 2011 – 2019



FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2011 – 2019

Tonnes

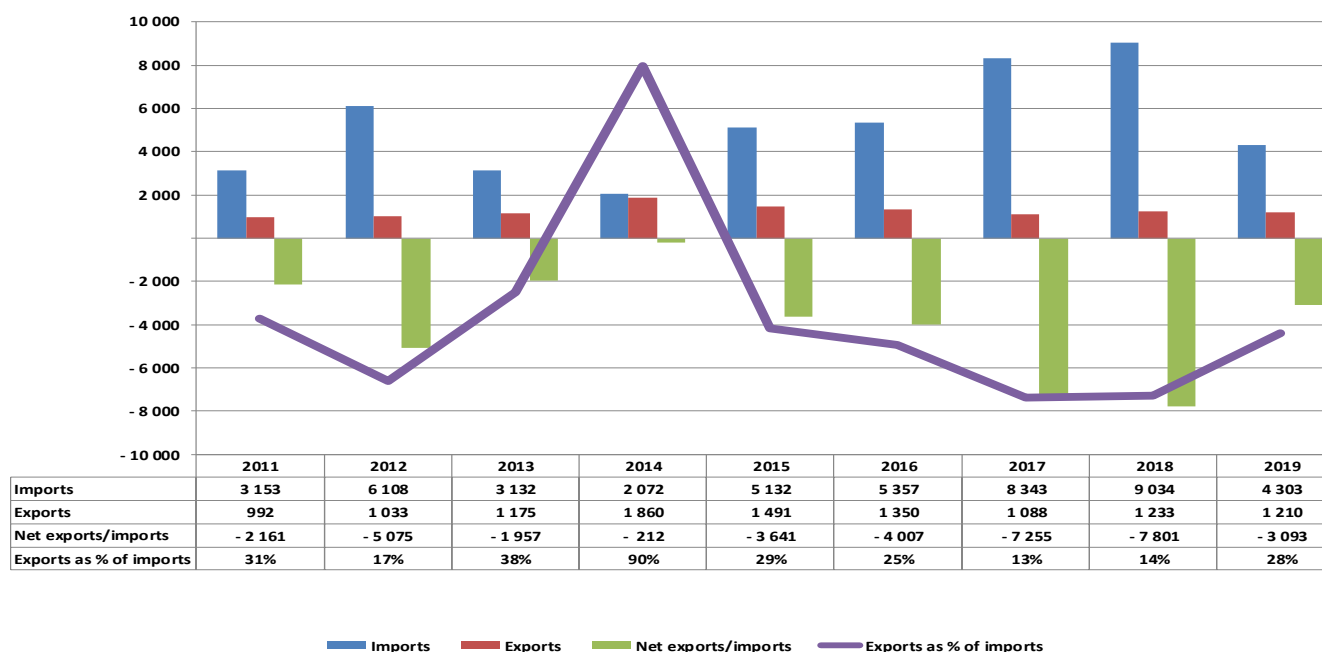


FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, (04.06) 2011 – 2019

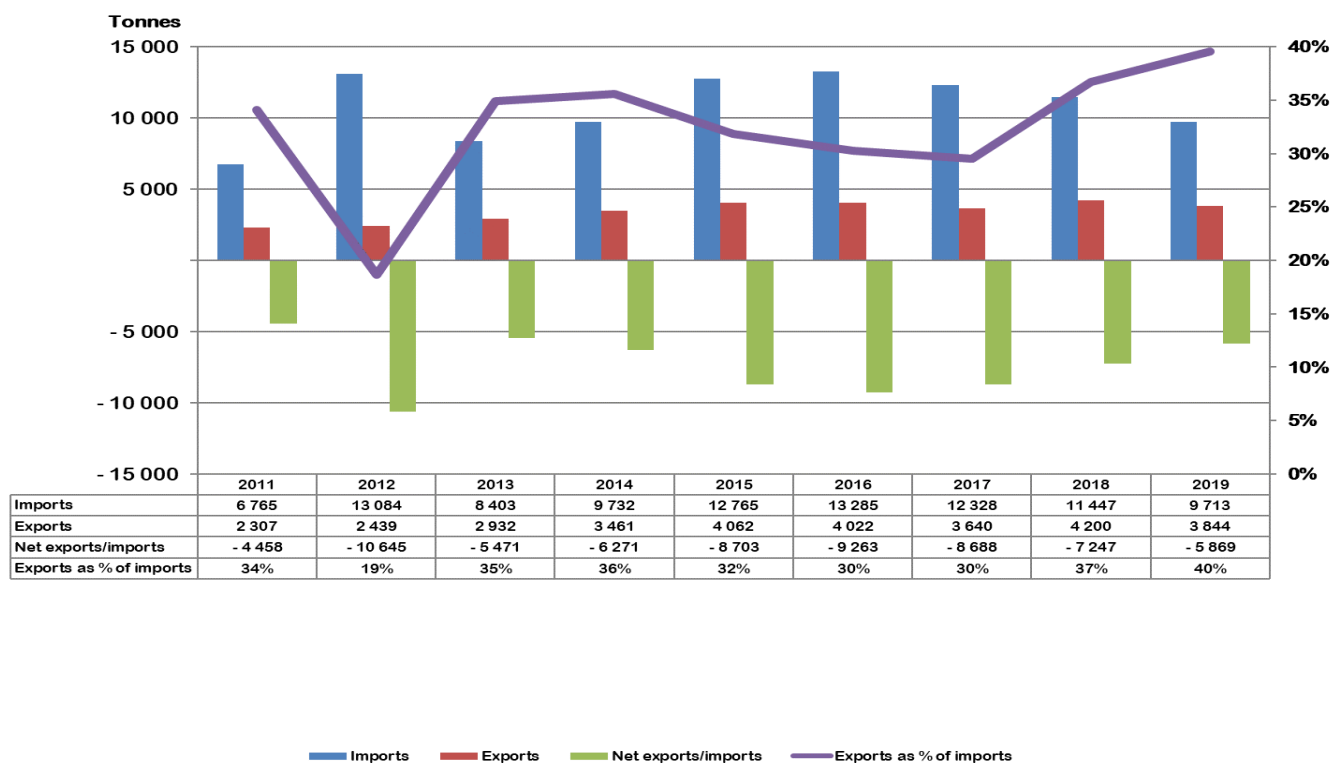


TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT FOB-PRICES FOR DAIRY PRODUCTS, 2015– 2019

Tariff heading	Description	Import price (R/kg)					Export price (R/kg)				
		2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
04.01	Milk & cream	7.65	7.44	7.65	8.00	8.95	10.30	10.18	10.93	11.20	11.30
04.02	Concentrated milk	30.92	32.94	32.31	30.84	36.49	30.97	37.00	41.51	36.56	36.97
04.03	Buttermilk & yoghurt	28.06	25.57	28.39	23.51	32.27	18.76	21.27	37.12	18.45	21.02
04.04	Whey	31.98	28.90	31.24	29.33	25.77	10.51	25.46	13.27	18.71	18.03
04.05	Butter	39.56	46.87	68.89	72.84	70.17	40.66	49.40	59.94	67.27	56.89
04.06	Cheese	54.94	57.21	62.19	62.92	69.85	45.50	51.99	60.86	53.15	56.25

Source: SARS as supplied to SAMPRO

The average f.o.b. export prices in 2019, of four of the six different categories of dairy products, are higher than in 2018.

TABLE 2: PERCENTAGE CHANGE IN RETAIL SALES QUANTITIES FOR MAJOR DAIRY PRODUCTS FOR THE 12 MONTH PERIOD FROM April 2018 TO March 2019 COMPARED TO THE 12 MONTH PERIOD FROM April 2019 TO March 2020 AND THE CHANGE IN RETAIL PRICES FROM March 2019 TO March 2020

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-2.5	5.3
Long-life milk (UHT)	-3.1	6.7
Flavoured milk	-3.3	5.2
Yoghurt	7.5	2.1
Maas	15.8	4.6
Pre-packaged cheese	6.9	2.2
Cream cheese	-1.2	5.0
Butter	1.0	10.0
Cream	-5.0	10.3

Source: Nielsen figures supplied by SAMPRO

In the period that ended in March 2020, the retail sales quantities of four of the nine dairy products were higher than in the previous period. The retail prices of all nine dairy products increased from March 2019 to March 2020.

Fresh and long-life milk (UHT) (Unflavoured and unsweetened milk) utilize approximately 53.00 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	Sales in the month of March 2020 versus the sales in the month of March 2019	Sales in the 3 months from January 2020 to March 2020 versus the sales in the 3 months from January 2019 to March 2019	Sales in the 6 months from October 2019 to March 2020 versus the sales in the 6 months from October 2018 to March 2019	Sales in the 9 months from July 2019 to March 2020 versus the sales in the 9 months from July 2018 to March 2019	Sales in the 12 months from April 2019 to March 2020 versus the sales in the 12 months from April 2018 to March 2019
	percent	percent	percent	percent	percent
Fresh Milk	-4.2	-5.5	-3.5	-2.2	-2.5
UHT milk	22.0	3.9	-1.1	-4.1	-3.1
Flavoured milk	-6.4	-9.3	-6.9	-4.9	-3.3
Yoghurt	9.5	5.6	6.7	7.5	7.5
Maas	9.0	10.3	10.8	13.2	15.8
Prepackaged cheese	23.0	11.3	8.3	7.0	6.9
Cream cheese	2.5	-1.4	-1.8	-1.5	-1.2
Butter	0.2	0.1	-0.6	-0.6	1.0
Cream	-2.0	-4.9	-5.4	-5.6	-5.0

Source: Nielsen as supplied by SAMPRO

In March 2020, the retail sales quantities of three of the nine dairy products were from 2.0 to 6.4 percent lower while the retail sales quantities of six of the dairy products were from 0.2 to 23.0 percent higher than in March 2019. The highest increases of 22.0 and 23.0 percent were respectively recorded in respect of UHT milk and prepackaged cheese.

The dramatic higher retail sales quantities of UHT milk and prepackaged cheese in March 2020, are indicative of the extent of stockpiling by consumers in response to Covid19 and the related “lockdown” measures of the Government;

The retail sales quantity of fresh milk, in the year which ended in March 2020, was 2.5 percent lower and that of UHT milk 3.1 percent lower than in the year that ended in March 2019. The total estimated retail sales quantity of unflavoured and unsweetened milk (fresh and long-life milk), was 2.9 percent lower in the year which ended in March 2020 than in the previous year.

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

PRODUCT	March 2020 versus February 2020 (1 month ago)	March 2020 versus December 2019 (3 months ago)	March 2020 versus September 2019 (6 months ago)	March 2020 versus June 2019 (9 months ago)	March 2020 versus March 2019 (12 months ago)	March 2020 versus September 2019 (18 months ago)	March 2020 versus March 2018 (24 months ago)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
FRESH MILK	0.4	1.3	1.9	3.2	5.3	7.5	6.1
UHT MILK	-0.7	2.0	-2.4	1.1	6.7	11.1	6.9
FLAVOURED MILK	-0.5	10.4	-0.7	1.8	5.2	8.2	11.6
YOGHURT	0.1	7.7	2.4	1.3	2.1	4.7	3.4
MAAS	-0.5	3.9	2.5	3.1	4.6	4.5	-0.8
PREPACKAGED CHEESE	1.2	2.0	0.8	2.7	2.2	6.6	4.2
CREAM CHEESE	0.3	0.9	1.8	1.8	5.0	4.9	9.3
BUTTER	9.9	13.3	9.8	11.6	10.0	8.5	2.3
CREAM	1.3	0.1	1.8	5.7	10.3	10.8	14.2

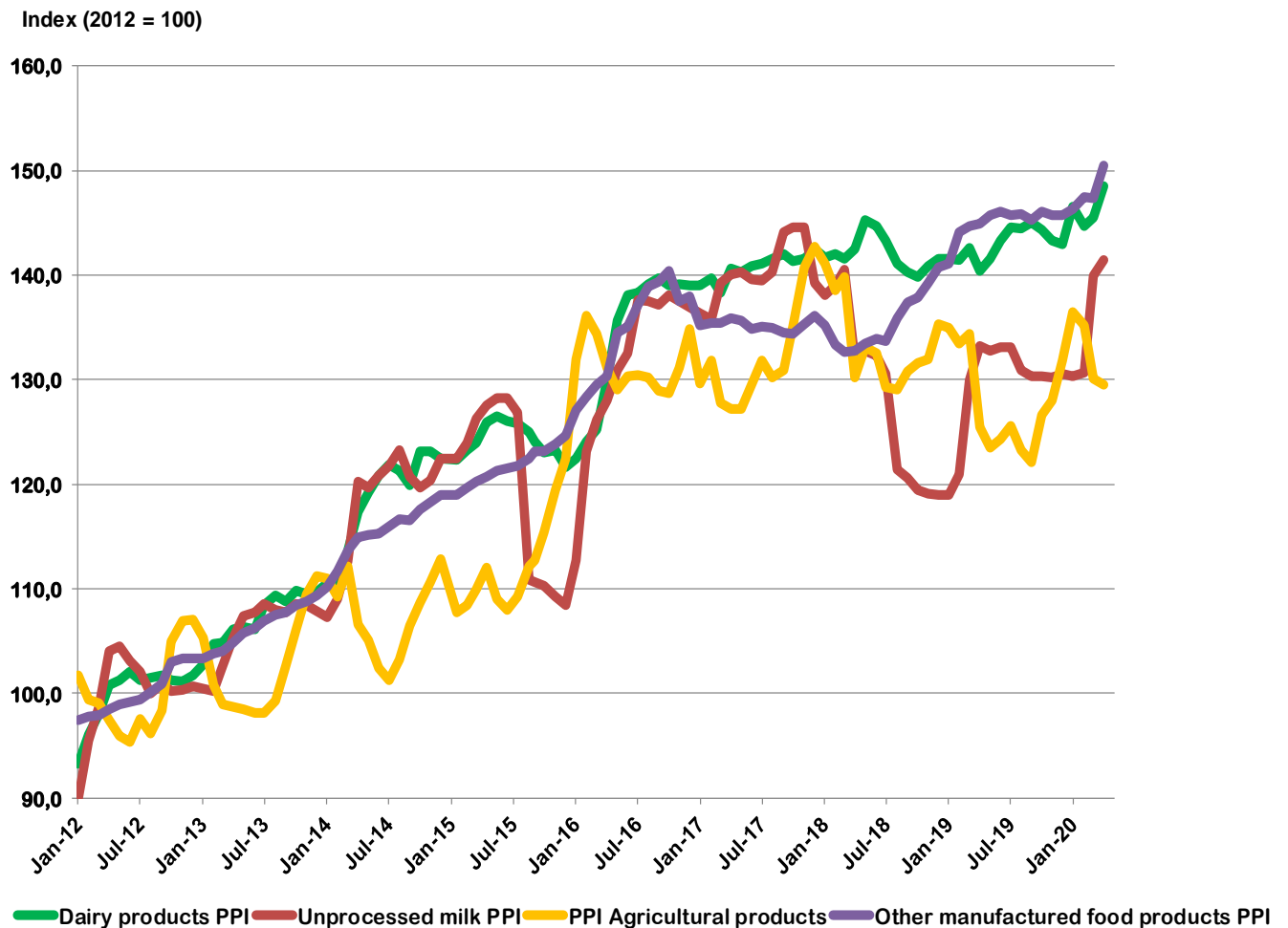
Source: Nielsen as supplied by SAMPRO

In the year which ended in March 2020, the retail sales prices of all nine dairy products increased with 2.1 to 10.3 percent. In the quarter which ended in March 2020 the retail sales prices of all nine dairy products increased with 0.1 to 13.3 percent.

The increases in the quantity of retail sales from the year which ended in March 2019, to the year which ended in March 2020, of maas of 15.8 percent and of yoghurt of 7.5 percent, are the highest, but the retail sales prices of the two products in March 2020, were respectively 0.8 percent lower and only 3.4 percent higher than two years ago, namely March 2018.

Three of the nine product prices over the 12-month period that ended in March 2019 increased with less than the inflation rate.

FIGURE 12: PRODUCER PRICE INDICES OF SOUTH AFRICAN AGRICULTURAL AND FOOD PRODUCTS, January 2012 – April 2020.



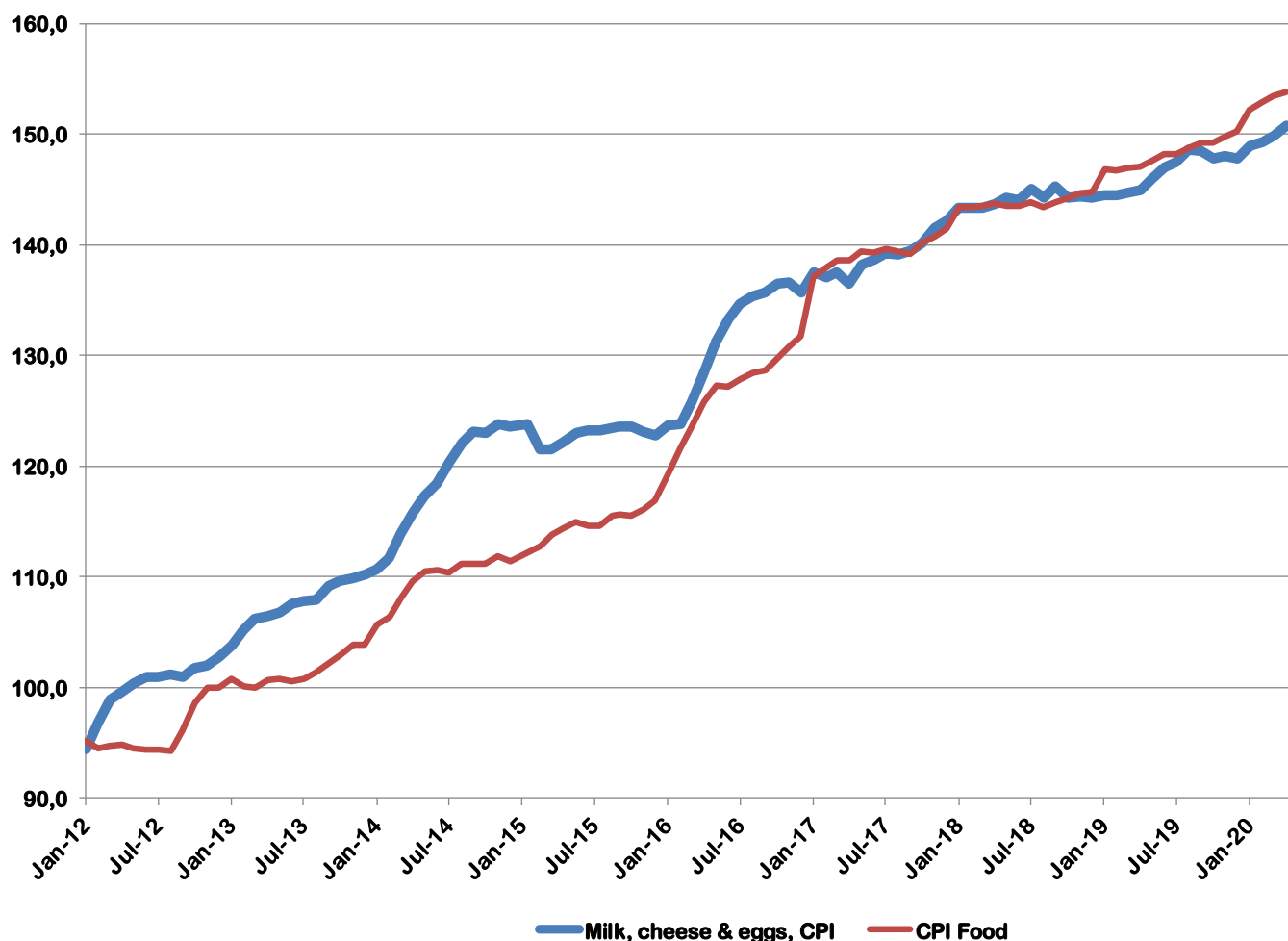
Source: Stats SA

The PPI for Other Manufactured Food Products moved sideways from April 2019 to December 2019 but changing to an upward trend for the first four months of 2020.

In January 2020 the PPI for Dairy Products increased to 146.5 index points (from 143 in Dec 2019) but reversed back with 1,2% in February 2020 to 144.7 index points. The index increased marginally in March and more noteworthy in April reaching 148.5 some 1,4% up from January 2020.

In January 2020 PPI for Unprocessed milk decreased marginally to 130.3 index points (from 130.5 in Dec 2019) and increased to 130.7 index points in February 2020. The index increased sharply in March 2020 with 7% to 139.9 index points, reaching 141.4 in April.

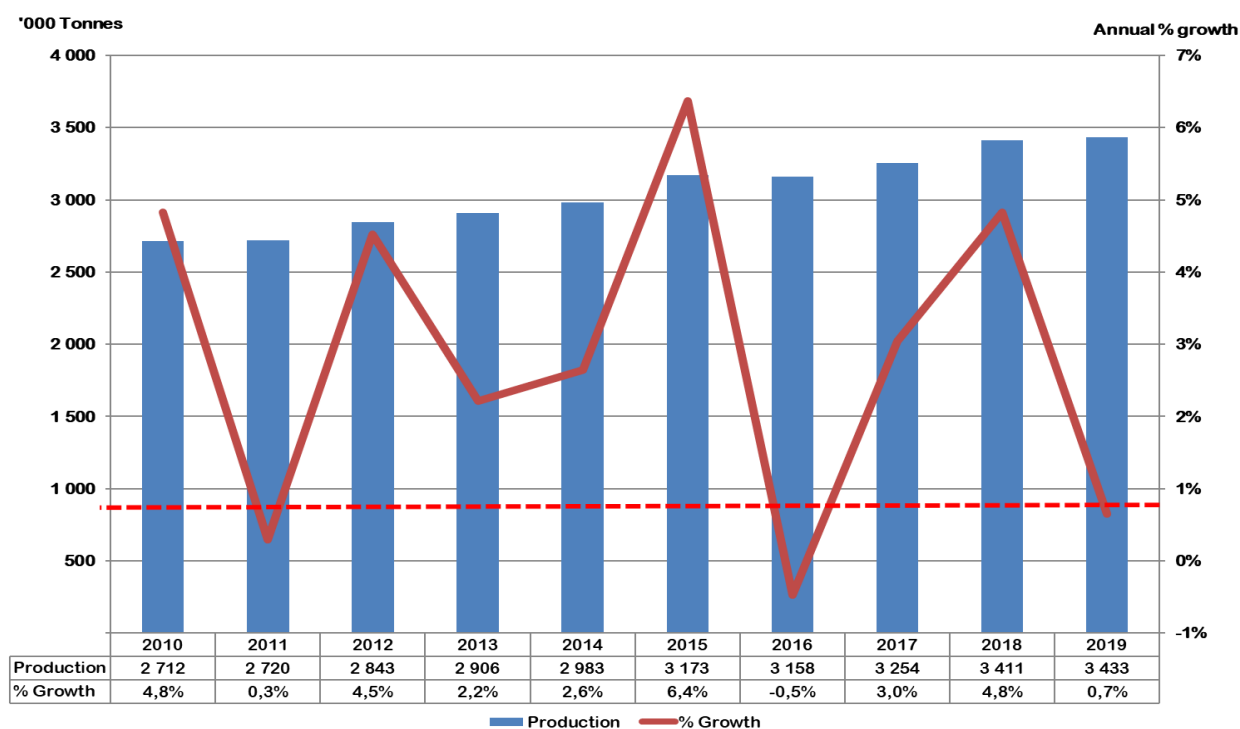
FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – April 2020



Source: Stats SA

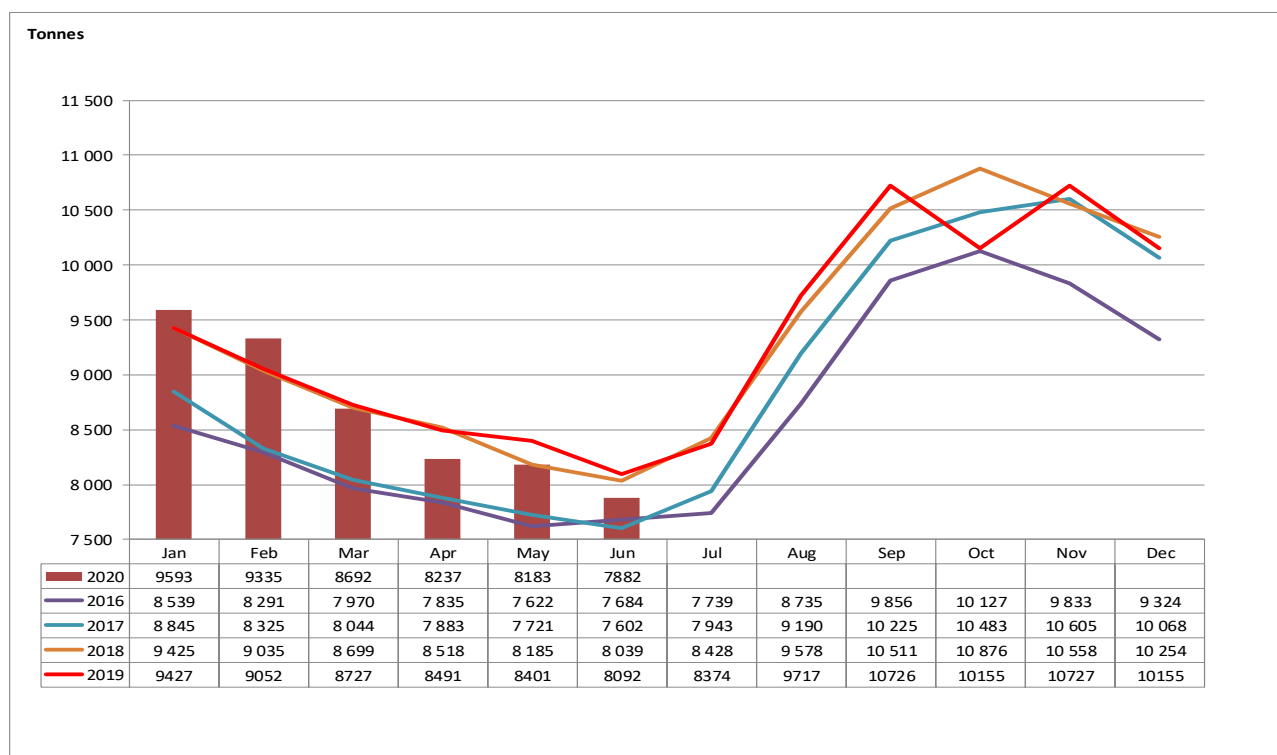
The CPI for milk, cheese and eggs in November 2018 edged below the CPI for food suggesting a pricing strategy that enabled many dairy products to gain and or maintain market share despite consumer disposable income being eroded by increased administered product prices and a weak economy. The CPI for milk, cheese and eggs maintained this position through 2019 and for the first four months of 2020. Indications are that the aim is to maintain the dairy portion of the consumer Rand.

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



Source: Milk SA.

**FIGURE 15: SOUTH AFRICAN UNPROCESSED MILK PURCHASES DAILY AVERAGE PER
MONTH, JANUARY 2016 – JUNE 2020**



Source: Milk SA; May and June 2020 preliminary.

**TABLE 5: CUMULATIVE UNPROCESSED MILK PURCHASES (Tonnes),
2016 – Jun 2020**

Month	2016	2017	2018	2019	2020
January	264 711	274 208	292 171	292 222	297 374
February	505 147	507 314	545 148	545 682	261 390
March	752 227	756 690	814 832	816 208	269 438
April	987 280	993 180	1 070 368	1 070 927	247 120
May	1 223 556	1 232 517	1 324 102	1 331 360	253 658
June	1 454 086	1 460 583	1 565 269	1 574 114	236 449
July	1 694 009	1 706 830	1 826 534	1 833 695	
August	1 964 790	1 991 715	2 123 446	2 134 907	
September	2 260 473	2 298 450	2 438 789	2 456 699	
October	2 574 398	2 623 438	2 775 933	2 796 179	
November	2 869 392	2 941 589	3 092 669	3 117 985	
December	3 158 446	3 253 682	3 410 536	3 432 802	

Source: Milk SA statistics; May and June 2020, preliminary.

For the first six months of 2020, 0.55% less unprocessed milk was purchased compared to the same period in 2019, while milk purchases is on the same level if compared to 2018 over the same period.

The South African dairy industry, like many other industries in South Africa, has been under pressure since 2018 due to the low economic growth in South Africa and other factors such as the unreliable supply of electricity. The last four consecutive quarters of negative growth in 2019/20 exacerbated this situation and the current lock down (due to Covid-19) in SA will further challenge dairy demand.

The outlook for the SA economy is alarmingly negative with economist and international financial institutions predicting a contraction of between 5% and 10% in 2020. In 2009 the SA gross domestic product contracted with 1,5% resulting in an estimated 800 000 job losses. The result of the projected contraction of the South African economy due the lock down will influence consumer spending negatively, changing demand levels in unison.

The document was compiled by Bertus van Heerden with input from:	Project Manager, Milk SA Project – Economies and Markets
Nico Fouché	CEO: Milk SA
Alwyn Kraamwinkel	CEO: SAMPRO
De Wet Jonker	Business Economist: SAMPRO