



QUARTERLY REVIEW OF THE PERFORMANCE OF THE DAIRY INDUSTRY¹

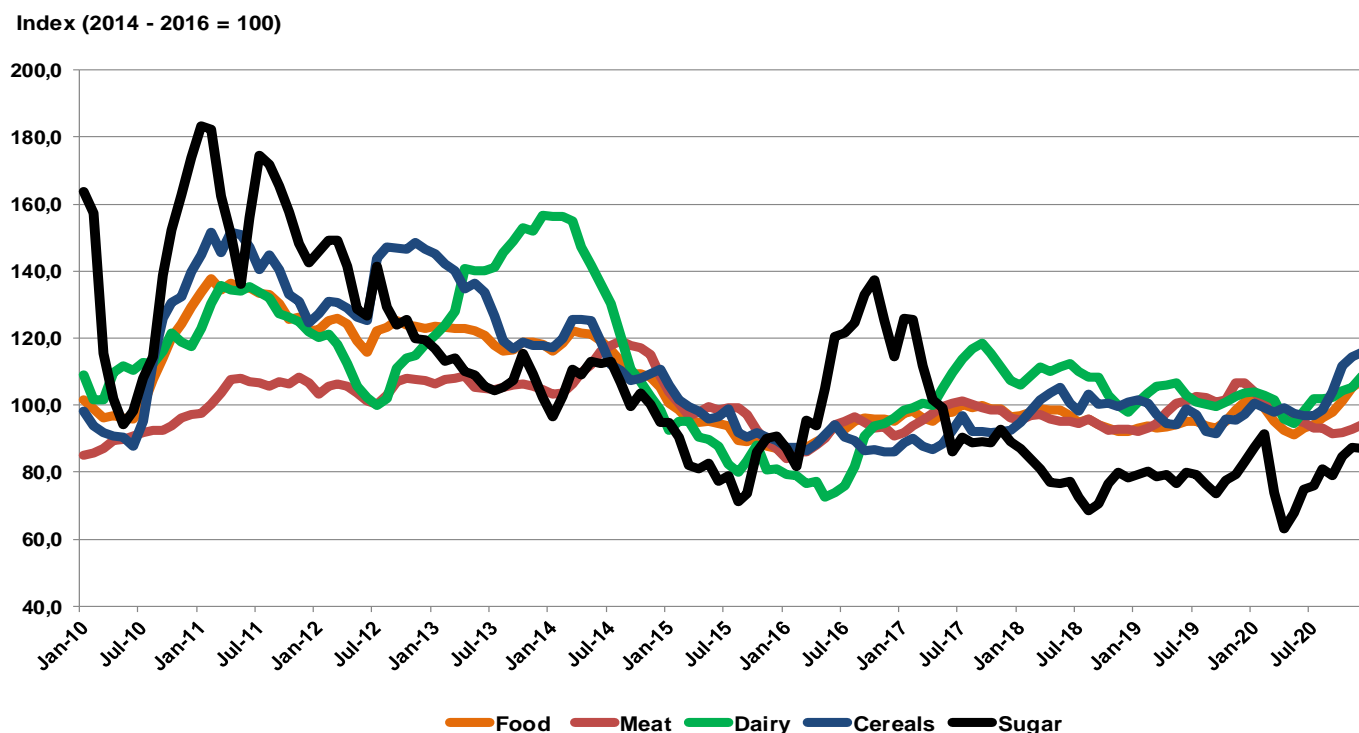
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Fourth Quarter 2020

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1. INTERNATIONAL MARKET

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

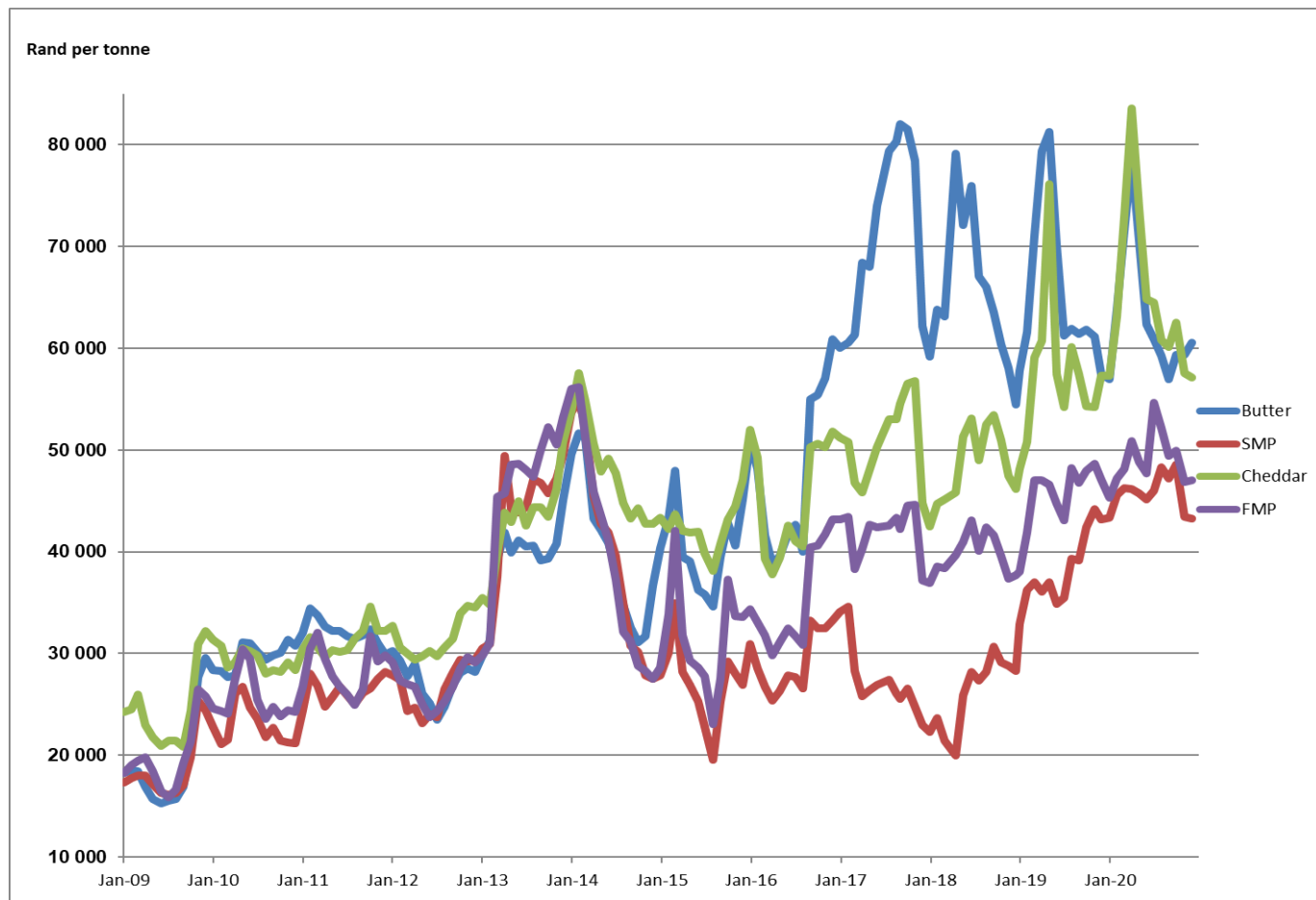


Source: FAO Food price index, Jan. 2021

The FAO Food Price Index (FFPI) averaged 107.5 points in December 2020, up 2.3 points (2.2 percent) from November, marking the seventh month of consecutive increase. Except for sugar, all sub-indices of the FFPI registered modest gains in December, with the sub-index of dairy rising the most, followed by that of meat and cereals. For 2020 as a whole, the FFPI averaged a three-year high of 97.9 points, 2.9 points (3.1 percent) higher than in 2019, but still well below its peak of 131.9 points registered in 2011.

The FAO Dairy Price Index averaged 108.8 points in December, up 3.4 points (3.2 percent) from November and representing the seventh continuous monthly rise. International prices of all milk products that constitute the index increased in December, underpinned by strong global import demand, mostly induced by concerns over the adverse impacts of drier and warmer weather conditions on Oceania's milk production. High internal demand and lagging production of some milk products in Western Europe also provided support. However, for 2020 as a whole, the FAO Dairy Price Index averaged 101.8 points, down 1.0 point (1.0 percent) from 2019.

FIGURE 1b: International Dairy Product Prices: Jan 2009 – December 2020



Source: USDA

For the 12 months period from January 2020 to December 2020 international product prices in United States Dollar (USD) terms, are a mixed bag. Both butter and whole milk powder increased respectively with 3.16% and 0.78%. However, skimmed milk powder decreased with 3.32% and cheddar with 3.31%. Over the same period the South African Rand (ZAR) depreciated with 3.12% against the USD. For the 12 months period from January 2020 to December 2020 international product prices in ZAR terms, are also a mixed bag. Both butter and whole milk powder prices increased respectively with 6.38% and 3.92%, while skimmed milk powder and cheddar prices registered soft decreased, both decreasing with 0.3%.

In taking a longer view of 24 months for the period from January 2019 to December 2020, three of the monitored international product prices in USD terms registered strong increases, skimmed milk powder 22.68%, cheddar 10.81% and whole milk powder 15.5%. Butter prices decreased with a soft 2.26%. Over the same period the ZAR depreciated with 7.13% against the USD. In ZAR terms international product prices in December 2020 compared to January 2019 was significantly higher. Skimmed milk powder prices increase with 31.42%, cheddar prices with 18.71%, whole milk powder prices with 23.74% and butter prices with a moderate 4.7%.

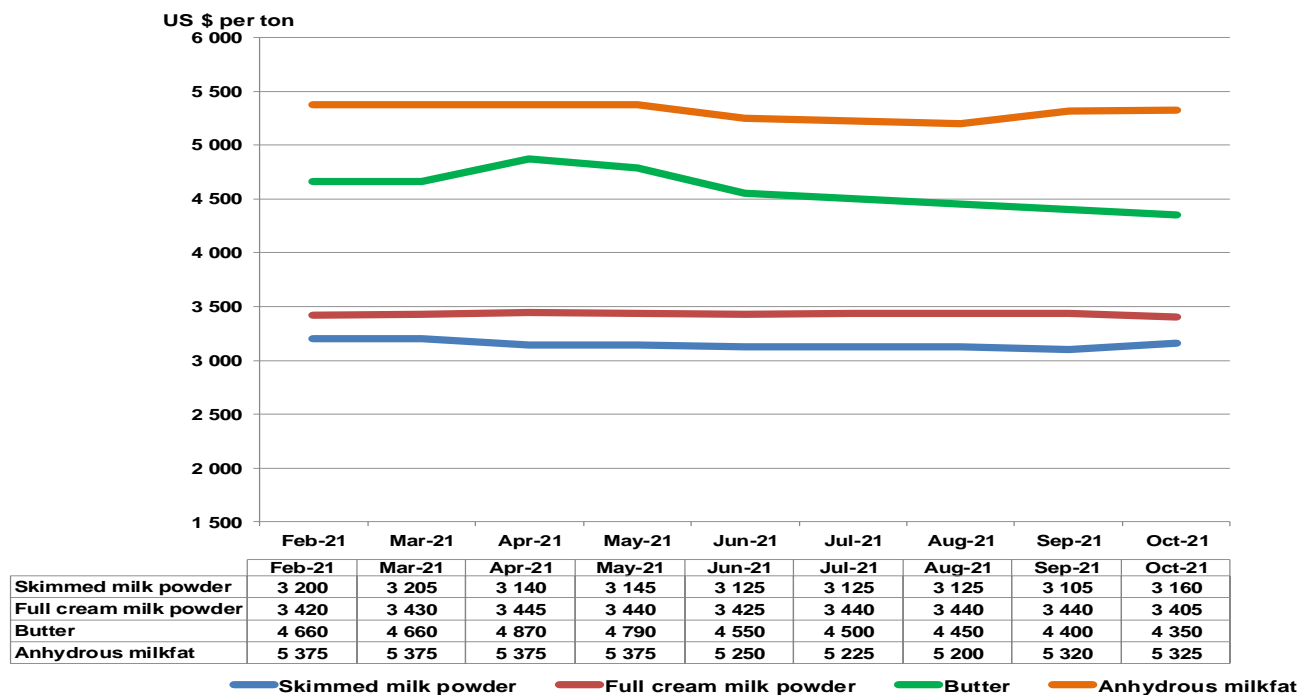
FIGURE 2a: Global dairy trade-weighted price index. Jan 2009 – December 2020



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 December 2020. According to this index international prices (USD) are continuing to Zig-Zag with the index showing indication of a change in the wavelength and frequency regarding price movement, starting early in 2020. This usually indicates nervousness in the market when unknown variables are introduced which could relate to the influence of the worldwide pandemic.

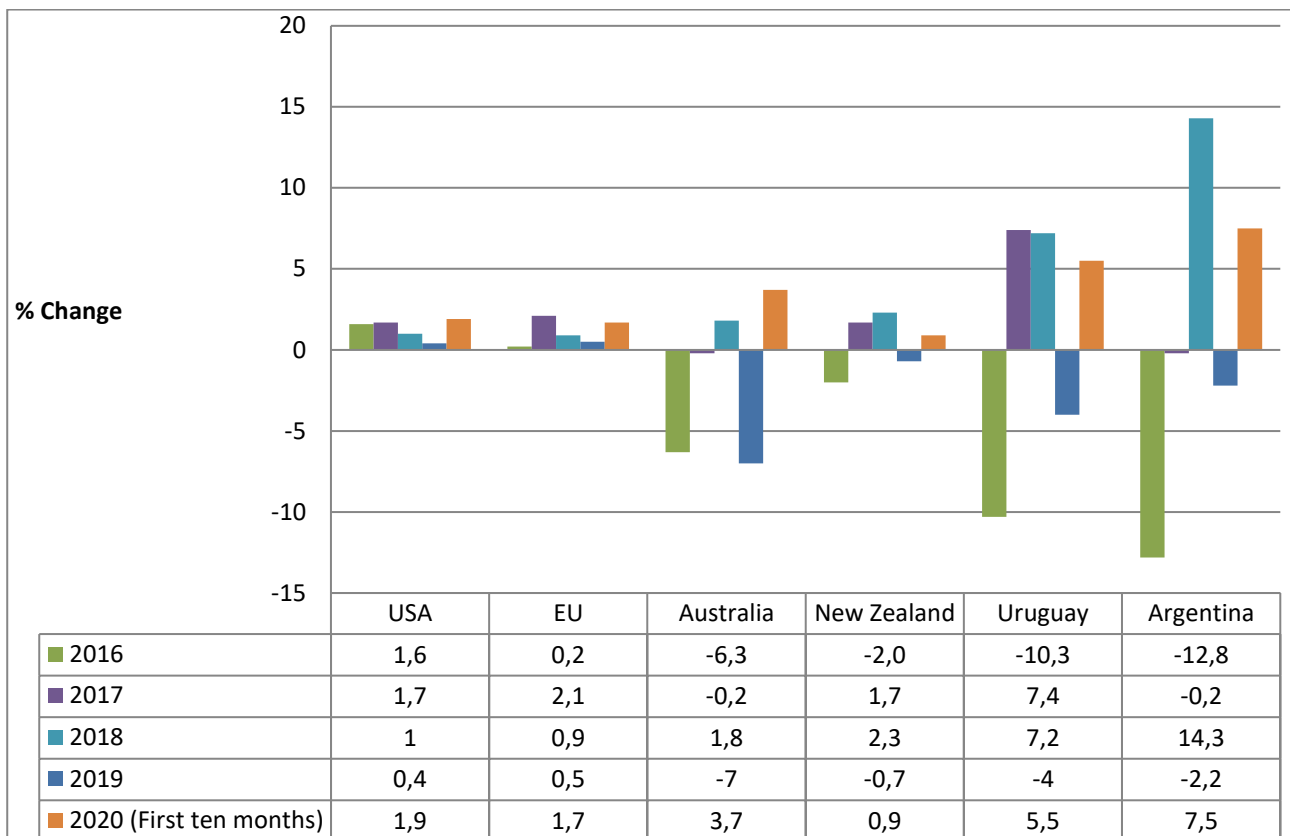
FIGURE 2b: FUTURE PRICES FOR DAIRY PRODUCTS ACHIEVED ON THE NEW ZEALAND FUTURES EXCHANGE (NDX): Feb 2021 – Oct 2021



Source: NZX Futures, Jan 2021

The New Zealand Future Exchange reflects a sideways movement for full cream milk powder prices, while butter prices are mainly turning south during the above period. Anhydrous fat moves sideways until May 2021, taking a dip in the middle of the year to recover partly in September 2021. Skimmed milk powder prices indicate a slight downward trend during the above period with some recovery since September 2021.

FIGURE 3: YEAR ON YEAR CHANGE IN UNPROCESSED MILK PRODUCTION IN MAJOR DAIRY EXPORTING COUNTRIES, 2016 – 2020 (first ten months)

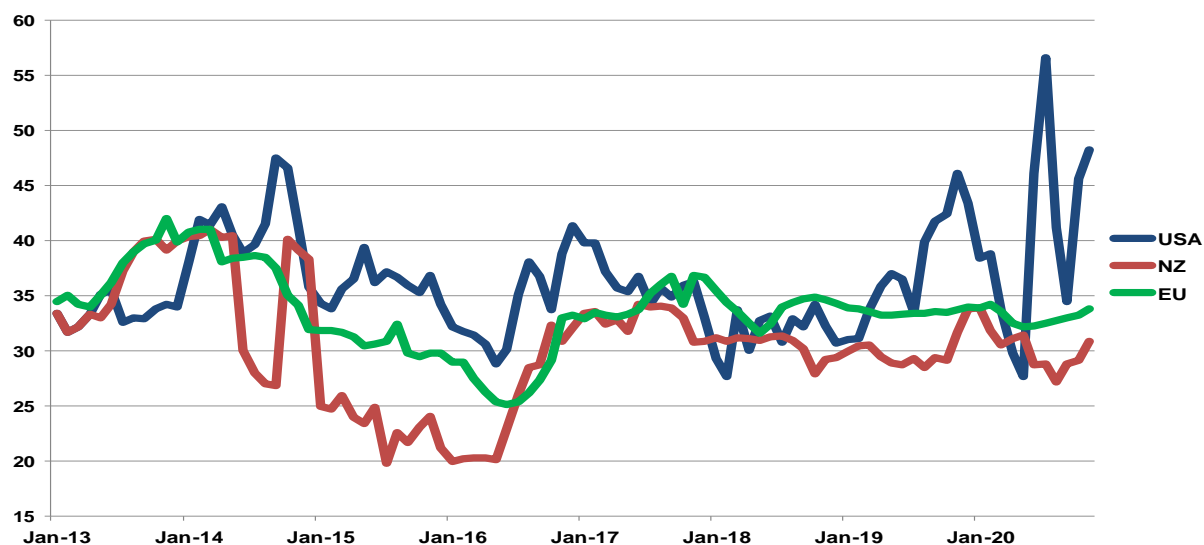


Source: CLAL, October 2020

Unprocessed milk production during 2020 is a much better picture if compared to 2019. All the major exporting countries/region show positive growth, with significant improvement in Argentina, Uruguay and Australia. Unprocessed milk prices started to improve in the third and fourth quarter of 2019 and the result can be seen in the higher production levels.

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

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



Source: LTO Nederland, November 2020

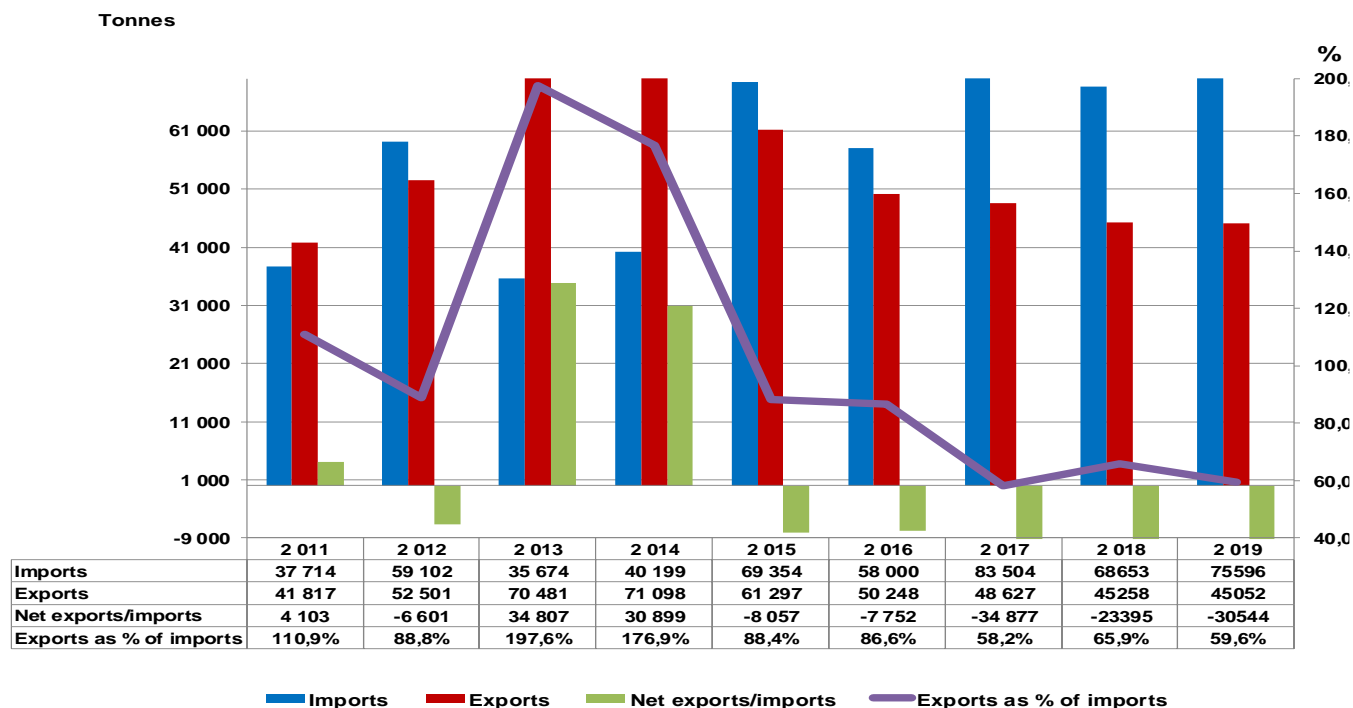
The price for unprocessed milk in the USA is showing wide fluctuations as a result of the fluctuations of cheese milk prices in the USA and the way the unprocessed milk price is calculated.

Both the average EU and the New Zealand unprocessed milk price are virtually at the same level in November 2020 as in January 2020 namely 3.38 Euro/kg for the EU and 3.09Euro/kg for New Zealand.

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

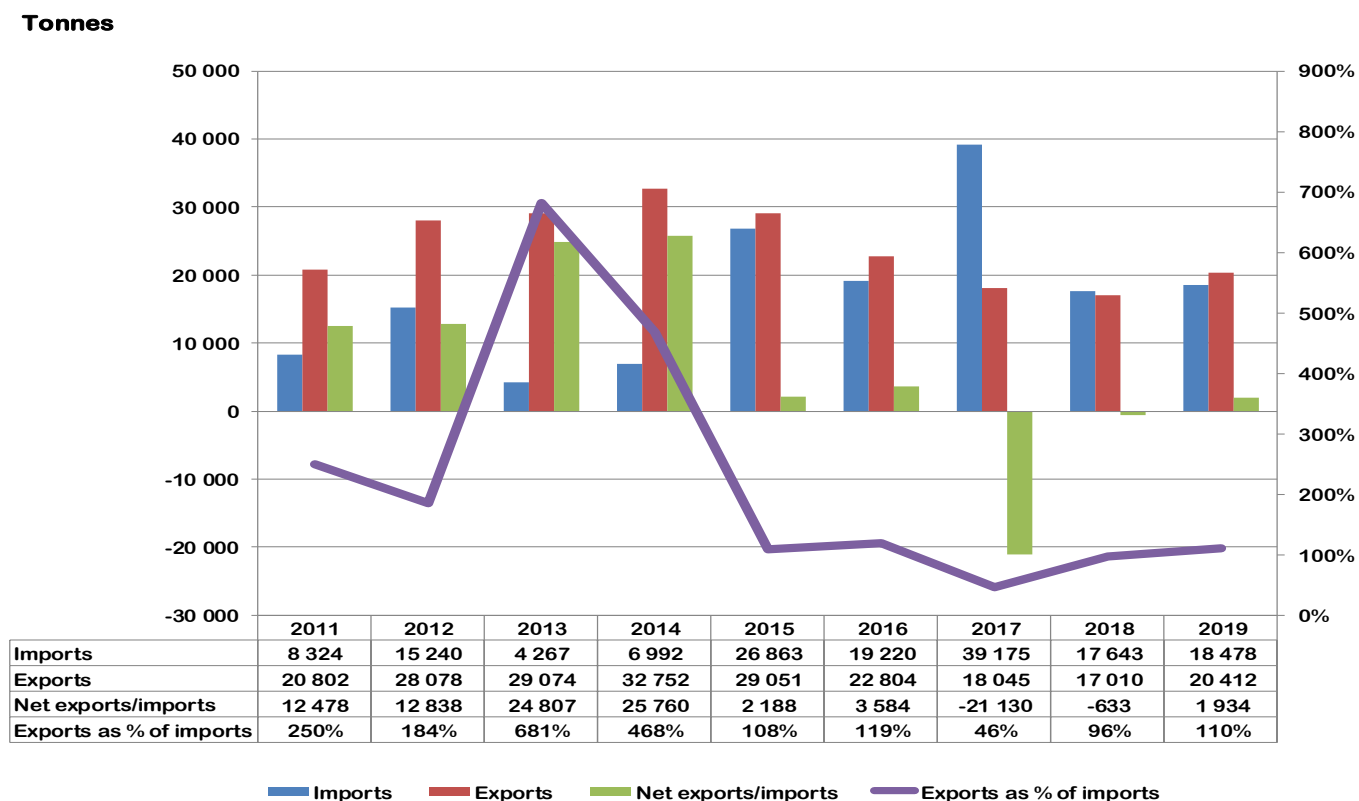


FIGURE 7: S.A. IMPORTS AND EXPORTS OF CONCENTRATED MILK, (04.02) 2011 – 2019

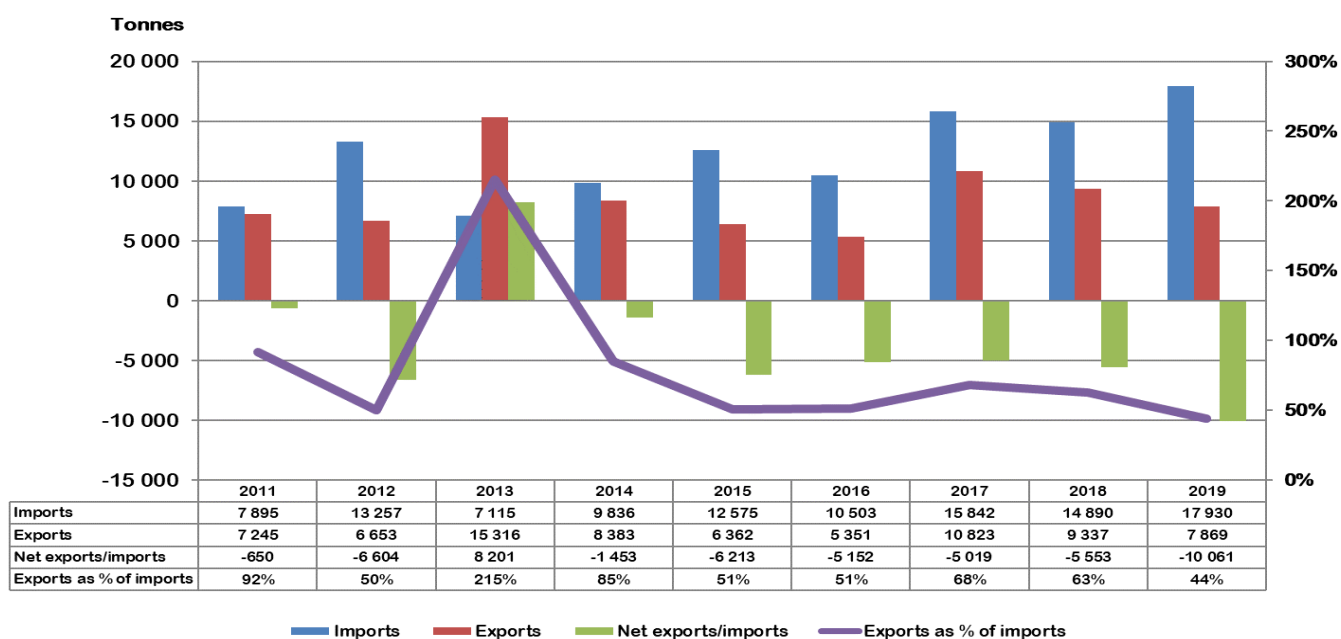


FIGURE 8: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTERMILK AND YOGHURT, (04.03) 2011 – 2019

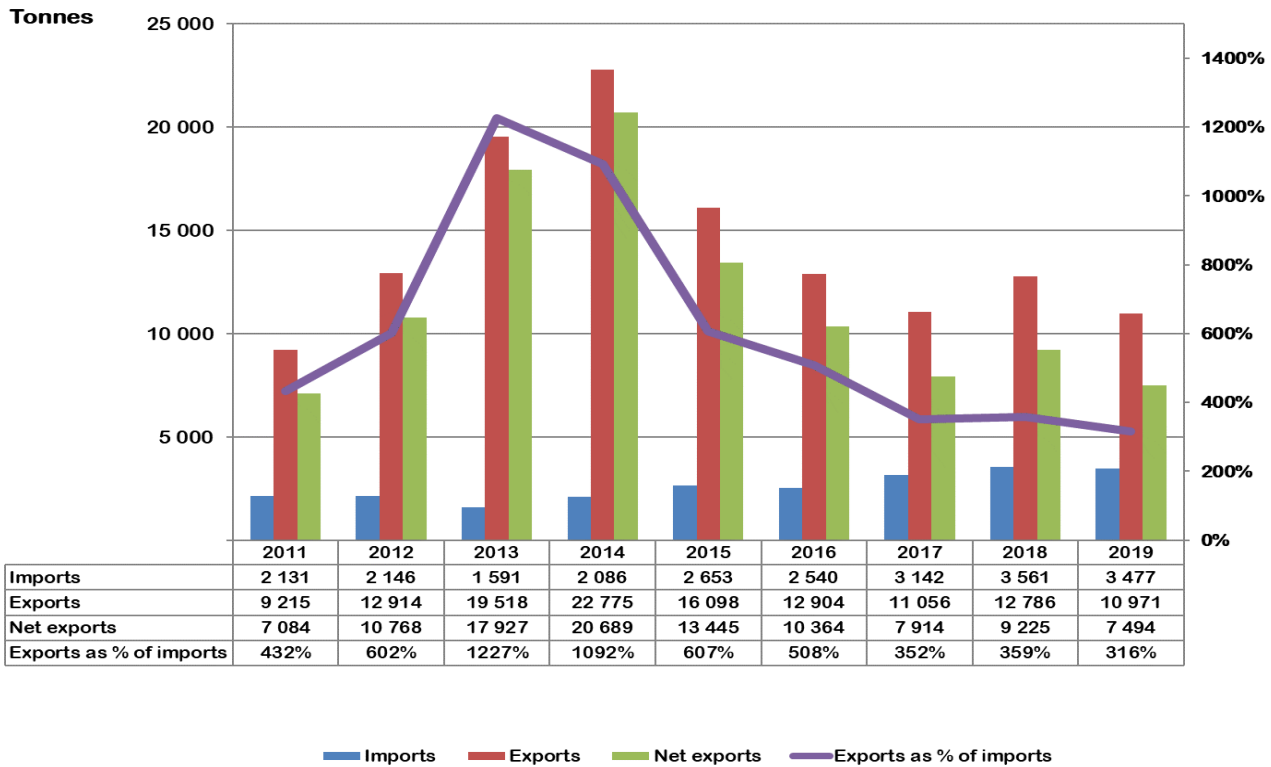


FIGURE 9: SOUTH AFRICAN IMPORTS AND EXPORTS OF WHEY AND WHEY POWDER, (04.04) 2011 – 2019

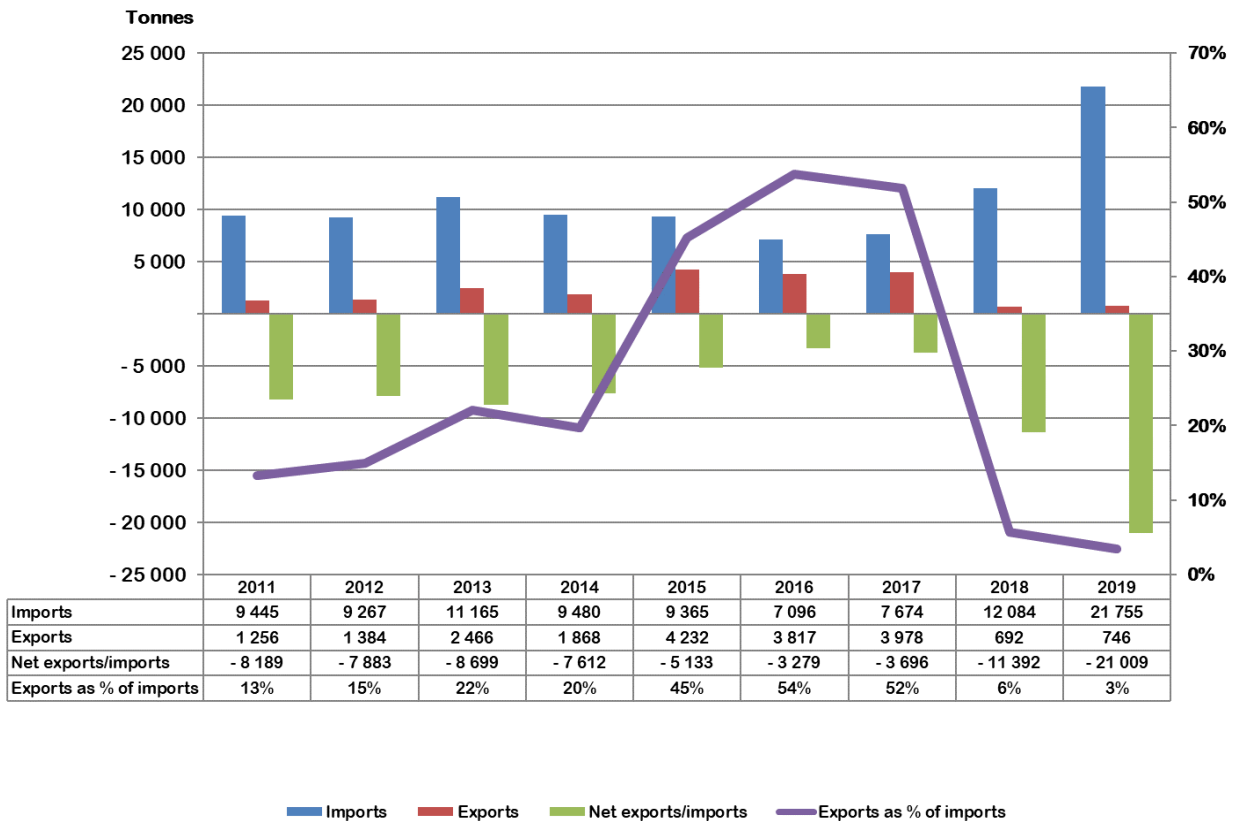


FIGURE 10: SOUTH AFRICAN IMPORTS AND EXPORTS OF BUTTER AND MILKFATS, (04.05) 2011 – 2019

Tonnes

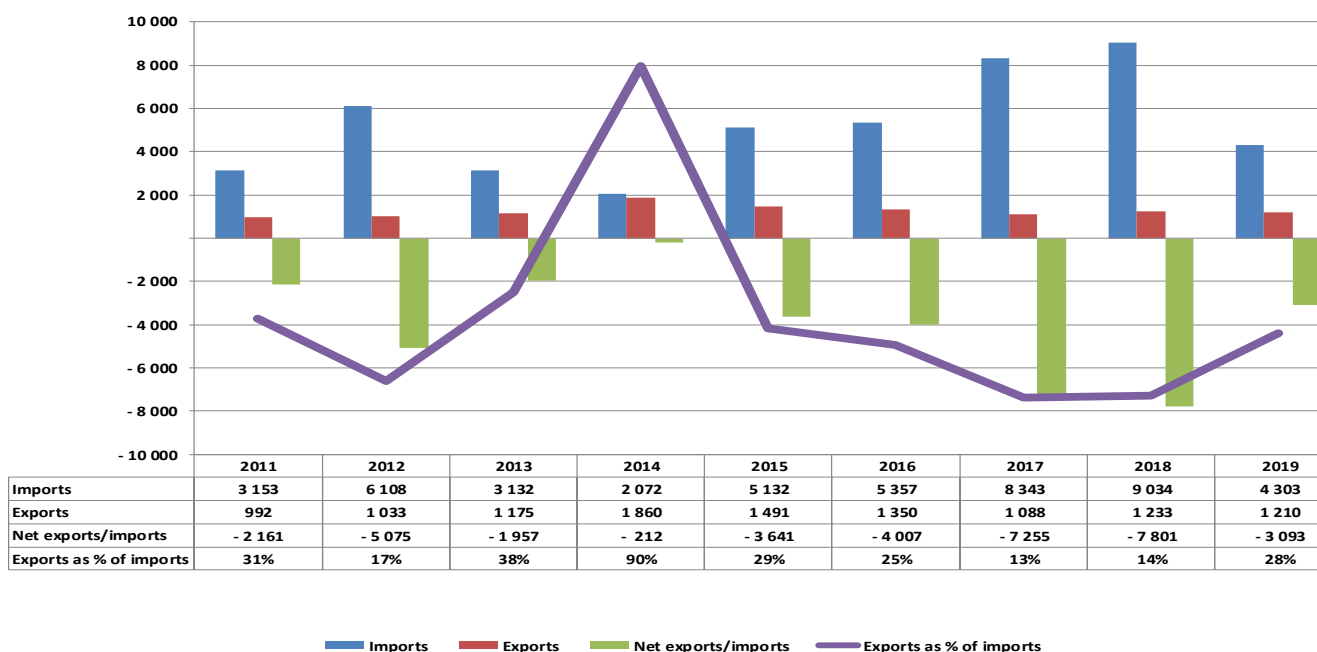


FIGURE 11: SOUTH AFRICAN IMPORTS AND EXPORTS OF CHEESE AND CURD, (04.06) 2011 – 2019

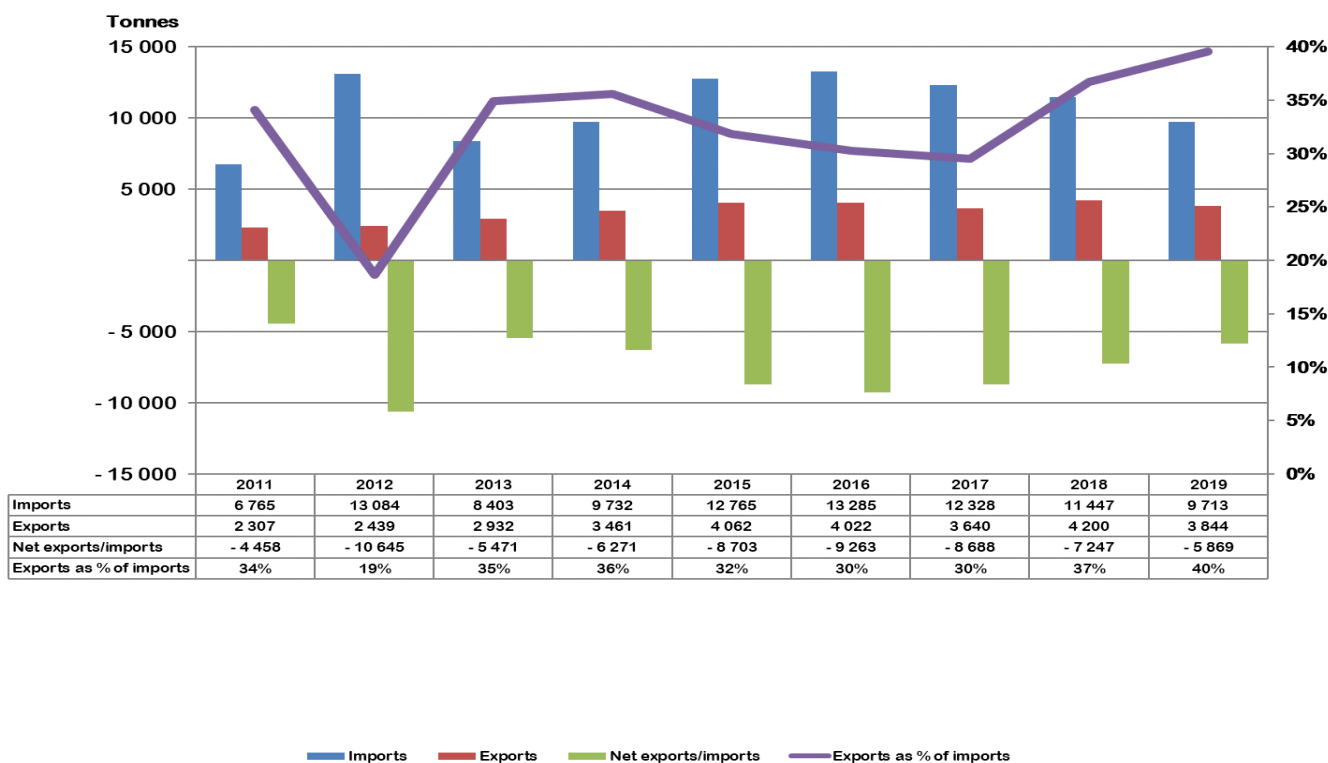


TABLE 1: AVERAGE SOUTH AFRICAN IMPORT AND EXPORT FOB-PRICES FOR DAIRY PRODUCTS, 2015– 2019

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 OCTOBER 2018 TO SEPTEMBER 2019 COMPARED TO THE 12 MONTH PERIOD FROM OCTOBER 2019 TO SEPTEMBER 2020 AND THE CHANGE IN RETAIL PRICES FROM SEPTEMBER 2019 TO SEPTEMBER 2020

Product	Change in quantity sold %	Change in retail prices %
Fresh milk	-6.2	2.4
Long-life milk (UHT)	5.5	2.9
Flavoured milk	-10.6	0.5
Yoghurt	10.1	3.2
Maas	9.6	0.8
Pre-packaged cheese	14.0	2.4
Cream cheese	3.6	6.4
Butter	7.8	7.9
Cream	6.4	2.4

Source: Nielsen figures supplied by SAMPRO

The average retail prices of all 9 products were higher in September 2020, than in September 2019. In the year which ended in September 2020, the retail sales prices of six of the nine dairy products that increased, were lower than the inflation rate of 3.0 percent, and the retail sales quantities of 7 of the 9 dairy products were from 3.6 to 14.0 percent higher than in the previous year, but the sales quantities of 2 of the 9 dairy products were lower than in the previous year.

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 September 2020 versus the sales in the month of September 2019	Sales in the 3 months from July 2020 to September 2020 versus the sales in the 3 months from July 2019 to September 2019	Sales in the 6 months from April 2020 - September 2020 versus the sales in the 6 months from April 2019 to September 2019	Sales in the 9 months from January 2020 to September 2020 versus the sales in the 9 months from January 2019 to September 2019	Sales in the 12 months from October 2019 to September 2020 versus the sales in the 12 months from October 2018 to September 2019
	percent		percent		percent
Fresh Milk	-10.5	-8.5	-8.9	-7.8	-6.2
UHT milk	9.5	12.3	12.4	9.6	5.5
Flavoured milk	-13.3	-17.8	-14.8	-12.7	-10.6
Yoghurt	5.1	9.5	13.7	10.9	10.1
Maas	3.6	5.4	8.3	9.1	9.6
Pre-packaged cheese	16.2	16.4	19.4	16.8	14.0
Cream cheese	3.8	7.7	10.1	5.9	3.6
Butter	13.0	16.6	16.0	10.9	7.8
Cream	14.8	15.3	19.1	11.0	6.4

Source: Nielsen as supplied by SAMPRO

In all the above periods which ended in September 2020, the retail sales quantities of fresh milk and flavoured milk were lower than in the corresponding periods of previous years. The driver of the negative trend in fresh milk is the changing profile of the traditional consumer and the profile of new consumers. All the other products indicate solid growth, especially noteworthy under the current economic circumstances.

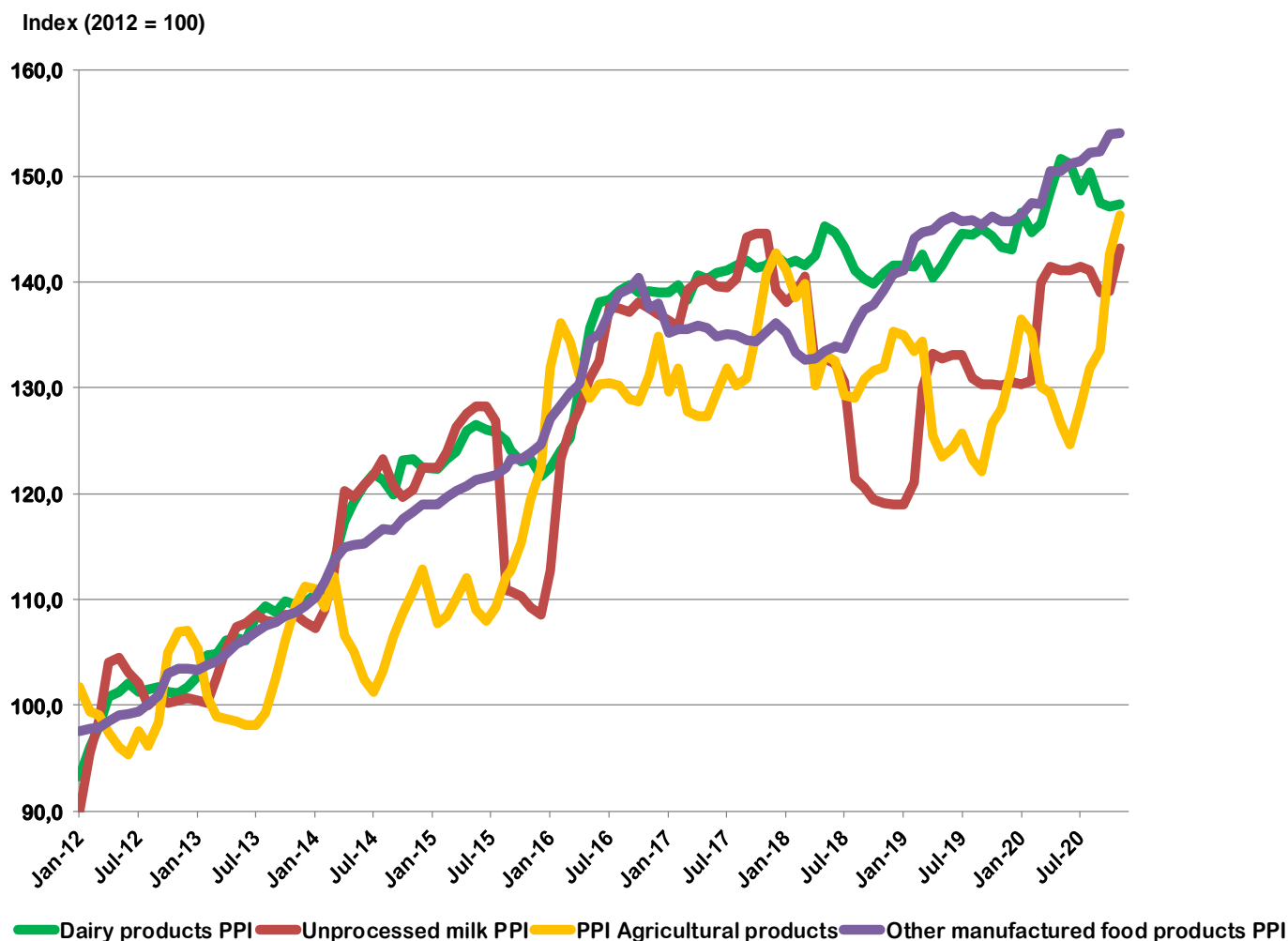
TABLE 4: CHANGES IN THE RETAIL PRICES OF CERTAIN DAIRY PRODUCTS

PRODUCT	September 2020 versus August 2020 (1 month ago)	September 2020 versus June 2020 (3 months ago)	September 2020 versus March 2020 (6 months ago)	September 2020 versus December 2019 (9 months ago)	September 2020 versus September 2019 (12 months ago)	September 2020 versus March 2019 (18 months ago)	September 2020 versus September 2018 (24 months ago)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
FRESH MILK	-0.3	-0.5	0.5	1.8	2.4	5.8	8.0
UHT MILK	-1.4	-1.1	5.5	7.6	2.9	12.6	17.2
FLAVOURED MILK	-1.4	-2.0	1.2	12.0	0.5	6.6	9.6
YOGHURT	-0.1	1.5	0.8	8.6	3.2	2.9	5.6
MAAS	-0.6	-1.6	-1.6	2.2	0.8	3.0	2.8
PRE-PACKAGED CHEESE	-1.8	-0.9	1.5	3.5	2.4	3.7	8.3
CREAM CHEESE	-1.1	-1.9	4.5	5.4	6.4	9.6	9.6
BUTTER	-1.7	2.2	-1.7	11.3	7.9	8.2	6.7
CREAM	0.2	-0.4	0.5	0.6	2.4	10.8	11.4

Source: Nielsen as supplied by SAMPRO

From August 2020 to September 2020 the price of all products decreased, with cream being the exception, with a marginal increase of 0.2%. From June 2020 to September 2020 the price of all products decreased, with yoghurt and butter being the exceptions, but only registering soft increases of respectively 1.5% and 2.2%. The data for the nearer months could be the result of the weakening of the economy.

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



Source: Stats SA

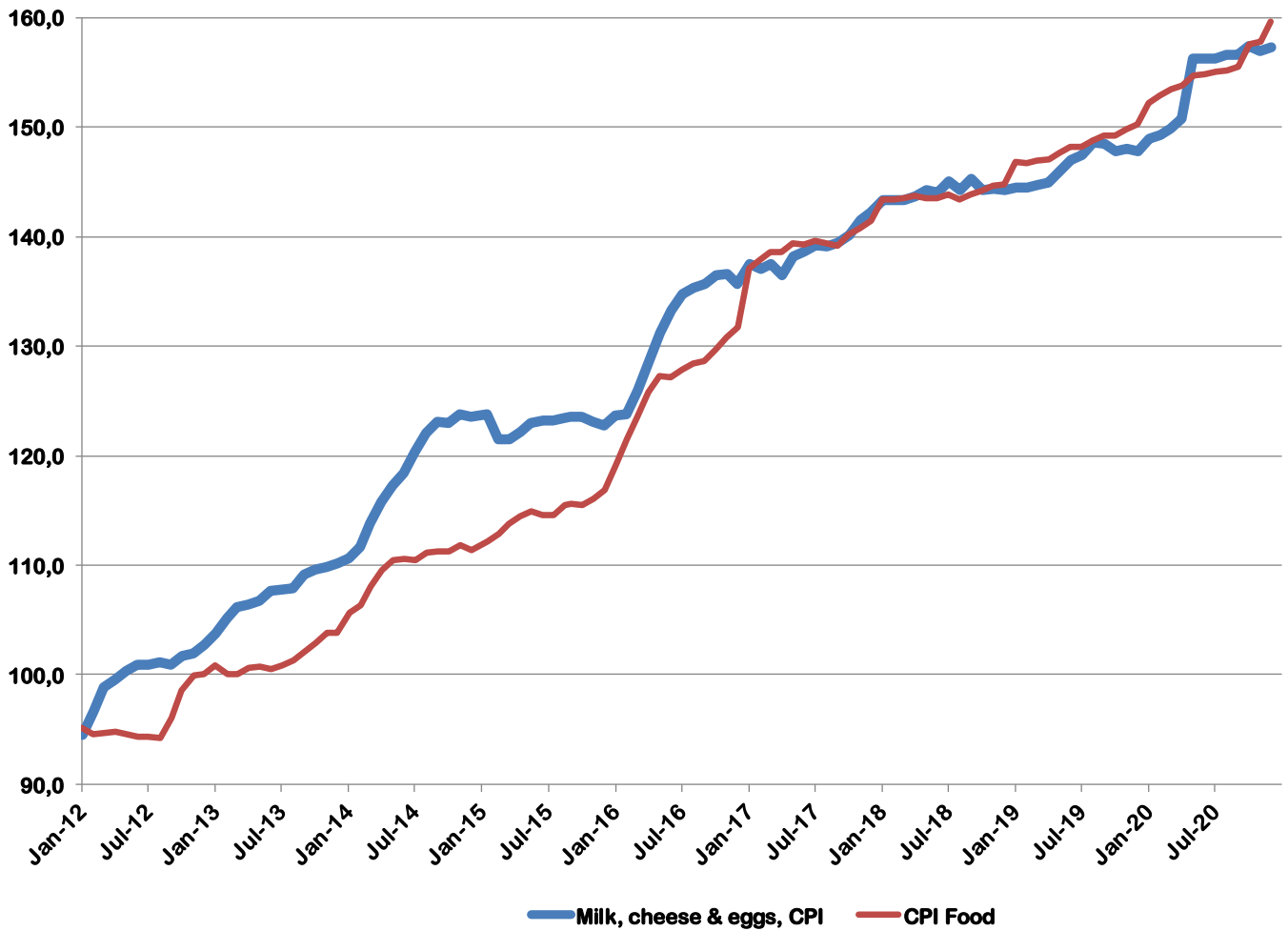
The PPI for Other manufactured food products exhibits an upward trend since March 2018. There was some sideways movement from April 2019 to Dec 2019 with the upward trend continuing in 2020. The index increased with 5.7% from December 2019 to November 2020.

The PPI for Agricultural products increased with 10.9% from December 2019 to November 2020.

The highest level of the PPI for Dairy products in 2019 was 145 index points (Sept), an increase of 2.5% but the index lost ground falling back with 1.4% in December 2019 to 143 index points. In 2020 (first 11 months) the highest level of the index was 151.6 in May 2020, an increase of 6% from the December 2019 index level. The index trend reversed in the second half of 2020 and decreased with 2.8% from May 2020 to November 2020 to 147.3 points. The index increased with 3.0% from December 2019 to November 2020 which is significantly less than the index for agricultural products.

The PPI for unprocessed milk started to increase from February 2020 from 130.3 index points to 143.2 points in November 2020, an increase of 9.9%. It should be noted that the index lagged the other indices for a prolonged period and that the intrinsic value of the percentage increase will differ between the different indices.

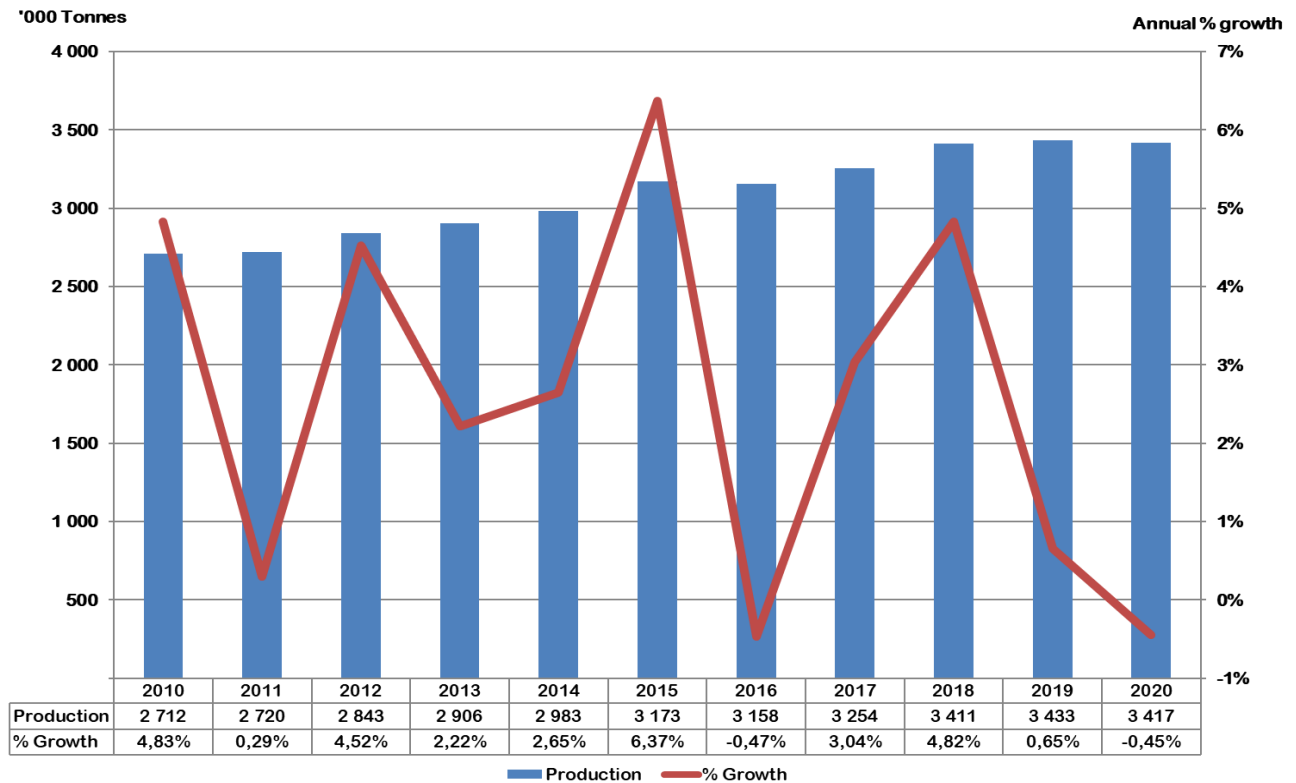
FIGURE 13: CONSUMER PRICE INDICES OF SOUTH AFRICAN FOOD AND DAIRY PRODUCTS, JANUARY 2012 – DECEMBER 2020



Source: Stats SA

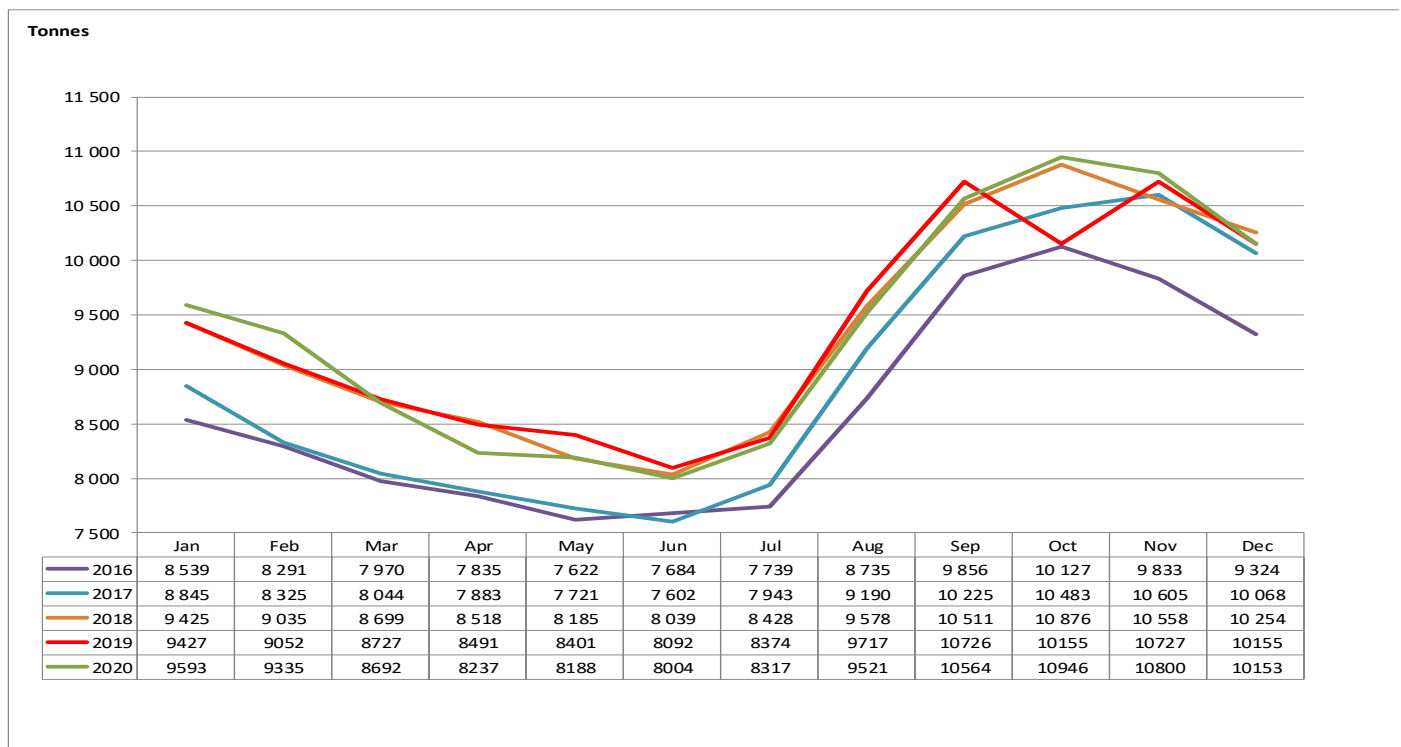
The CPI for food started to increase in February 2019, and continued on this trend through 2019 and for 2020. The index increased with 8.8% from 146.6 index points in February 2019 to 159.6 points in December 2020. The increase from December 2019 (150.3) to December 2020 (159.6) was 4.9%. The CPI for milk, cheese and eggs increased with 8.8% from February 2019 (144.5) to December 2020 (157.3), exactly the same percentage as the CPI for food. The increase from December 2019 (147.8) to December 2020 (157.3) was 6.4%. This percentage increase is moderately higher than the CPI for food.

FIGURE 14: ANNUAL SOUTH AFRICAN UNPROCESSED MILK PURCHASES, 2010 – 2020



Source: Milk SA; Nov and Dec 2020 = Milk SA estimates.

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



Source: Milk SA; Nov and Dec 2020 = Milk SA estimates.

TABLE 5: CUMULATIVE UNPROCESSED MILK PURCHASES (Tonnes), 2016 – 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	558 764
March	752 227	756 690	814 832	816 208	828 202
April	987 280	993 180	1 070 368	1 070 927	1 075 322
May	1 223 556	1 232 517	1 324 102	1 331 360	1 329 153
June	1 454 086	1 460 583	1 565 269	1 574 114	1 569 271
July	1 694 009	1 706 830	1 826 534	1 833 695	1 827 110
August	1 964 790	1 991 715	2 123 446	2 134 907	2 122 265
September	2 260 473	2 298 450	2 438 789	2 456 699	2 439 176
October	2 574 398	2 623 438	2 775 933	2 796 179	2 778 501
November	2 869 392	2 941 589	3 092 669	3 117 985	3 102 505
December	3 158 446	3 253 682	3 410 536	3 432 802	3 417 241

Source: Milk SA; Nov and Dec 2020 = Milk SA estimates.

During 2020 (preliminary), 3 417 241 tonnes of unprocessed milk were purchased, which is 0.45% less than in 2019.

Synopsis

International product prices both in USD and ZAR terms only changed moderately comparing December 2020 with January 2020. However, if December 2020 prices are compared with the January 2019 prices, product prices are significantly higher in terms of both currencies, with butter being the exception with a soft decrease in USD terms.

The behaviour of the Global Dairy Trade price index exhibits a change in the wavelength and frequency of price movements, starting early in 2020. This type of change is usually associated with increased nervousness/uncertainty in a market and could be attributed to the worldwide pandemic and the unknown territory that came into play in world markets.

Unprocessed milk production in 2020 for the major dairy exporting countries are exhibiting significantly better production growth factors, if compared to the 2019 scenario. In South Africa unprocessed milk production decreased with a soft 0.45% in 2020 if compared to 2019 while a soft increase of 0.2% was registered if compared to 2018.

Growth in the quantity of dairy sales for the products being monitored are solid, with the exception of fresh milk and flavoured milk registering negative growth for all the time periods being measured. Product price movements are mostly negative when comparing nearer months with each other, which could be the result of the weakening of the economy.

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