

INTERNATIONAL DAIRY MARKET NEWS - EUROPE

Information gathered March 16 - 27, 2020

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WESTERN OVERVIEW

Milk production in Germany, the leading Western European milk producer, has been ahead of last year according to early reporting in recent weeks. Retail demand for more fluid milk, arising from consumer stocking prompted by COVID-19, has also yielded more cream. The same pattern is reported in France and some other Western European countries.

Higher production is coming up against more challenging movement of Western European dairy products. An unusual change in Western Europe is recent reversal of the decades long European Union effort to create and maintain open internal borders. COVID-19 has motivated individual sovereign member states to impose varied new restrictions on people and goods moving across borders. This has impacted the flow of dairy products and weakened some dairy prices.

As many European Union member states began to impose COVID-19 motivated border crossing controls last week, sources say there were huge backups of goods and human crossings at some borders. This is said to have resulted from document checks and physical checks of goods. A result was the lower pricing of some dairy powders as well as butter.

This led to efforts this week to suggest ways to make the crossing control process more efficient. An European Commission (EC) proposal suggests maintaining "green lanes" to expedite crossings of essential goods such as dairy products. Even though the EC suggested this as a common protocol, it is up to each member state as to how borders are controlled. A goal of the EC has been open borders. That has been the norm. The new reality of varied border controls imposed individually by member states is new to the EC. It is too soon to assess whether this will help speed movements of goods and people.

There is very persistent demand for cheese within Western Europe. Retailers are actively seeking cheese to keep coolers stocked. The magnitude of current demand is said to be a challenge for the entire logistics chain. Cheese exports from the EU during January 2020, 80,766 MT, increased 19 percent from January 2019, according to Eurostat. Cheese exports to the United States, 14,322 MT, were +46 percent. Cheese exports to Japan, 8,546 MT, were -5 percent. Cheese exports to South Korea, 5,841 MT, were +57 percent.

EASTERN OVERVIEW

COVID-19 motivated imposition of new border controls in Eastern Europe has seemed more restrictive than in Western Europe. European dairy officials cite Hungary and Poland, in particular, as having problematic delays and restrictions at borders which have caused some concern. Poland, a leading European dairy producer, produces more milk than is consumed in Poland. It will be important to the dairy industry to work toward a way to keep the milk moving outside the borders.

Elsewhere, movements of workers are a concern of the dairy industry, as well as movements of goods. Historic open border policies over the years have resulted in a number of dairy workers regularly crossing borders between home and work. Some dairy managers say that the Czech Republic has now effectively banned cross-border commuting of some Czech workers. New rules mandate that Czech citizens working in Germany or Austria may only cross the border

every 21 days, then have to face a 14-day quarantine upon returning to the Czech Republic. This will effectively reduce workers available in dairy plants and on farms in Germany and Austria.

BUTTER/BUTTEROIL

Butter prices in Western Europe are lower. Germany has the highest prices, which is typical. Netherlands, France, and Belgium follow. There is unusually limited information available as to butter pricing in Italy. The extreme impact of covid-19 in Italy is believed to have disrupted normal market functioning there in recent weeks. Butteroil prices are lower.

With current milk production believed to be ahead of last year at this time, cream seems readily available for churning. This is further enhanced by the COVID-19 consumer impact of more milk production going to meet increased fluid milk demand, which results in more cream. Finally, manufacturers have reduced production of bulk butter due to weaker demand for it. Western European dairy officials say these factors explain the lower butter prices - even with more demand for packaged butter.

Another factor weakening butter prices is said to be recent efforts by some EU member states to partially back off traditionally open EU member state borders. This has resulted in delays in moving butter across some internal EU borders. The back-up contributes to weaker pricing. The weaker pricing has caused some alarm. A leading European dairy association has now asked the European Commission to open PSA (Private Storage Aid) for butter. PSA is assistance to help cover the cost of storing butter. The reason cited is COVID-19 weakening demand and prices.

Consumer demand for packaged butter in Western Europe is strong. Some observers describe the demand as very extensive. Orders are called exceptionally high. Recent closures of schools, shops and universities has shifted consumption into homes. In some areas demand for packaged butter is reported to exceed supply. The market for block butter is described as calm. Churning has shifted toward generating packaged butter. Little new bulk butter contracting is underway. In part, this is because sellers and buyers have different price expectations and most buyers are covered for short term needs.

Western Europe, 82% Butterfat, Free on Board - Port Butter
Price Range - \$/MT: 3,050 - 3,900

Western Europe, 99% Butterfat, Free on Board - Port Butteroil
Price Range - \$/MT: 3,750 - 4,150

Secondary Sourced Information:

Butter exports from the EU during January 2020, 17,739 MT, increased 66 percent from January 2019, according to Eurostat. Butter exports to the United States, 2,876 MT, were +8 percent. Butter exports to Saudi Arabia, 1,893 MT, increased over four times. Butter exports to Morocco, 1,226 MT, increased over three times.

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SKIM MILK POWDER

Skim milk powder prices in Western Europe are lower. The highest prices are reached in Germany, followed by France, Netherlands, and Belgium. Prices also vary within countries. Weaker extra EU export demand and logistical bottlenecks in moving SMP are believed to have resulted in the price weakness.

Some dairy experts in Western Europe describe recent efforts by some EU member states to partially back off traditionally open EU member state borders. This is said to have resulted in delays in moving SMP across some internal EU borders. The back-up contributes to weaker pricing. The weaker pricing has caused some alarm. A leading European dairy association has now asked the European Commission to open PSA (Private Storage Aid) for SMP. PSA is assistance to help cover the cost of storing SMP. The reason cited is COVID-19 weakening demand and prices.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder

Price Range - 1.25% Butterfat; \$/MT: 2,025 - 2,525

Secondary Sourced Information:

SMP exports from the EU during January 2020, 61,434 MT, decreased 29 percent from January 2019, according to Eurostat. SMP exports to China, 7,755 MT, were -26 percent. SMP exports to Egypt, 6,591 MT, were +9 percent. SMP exports to Nigeria, 4,991 MT, were +25 percent.

DRY WHEY

Western European dry whey prices are lower, but not too much lower. Demand has slowed. There is also a decent supply of whey concentrate available. With a slowing interest in SMP, some dairy manufacturers have recently been able to increase drying whey. This also adds to stocks currently available. For the most part, expectations are for prices not to move very much in coming weeks.

Prices for: Western Europe, All First Sales, Free on Board - Port, Conventional, and Edible Dry Whey

Price Range - Non-Hygroscopic; \$/MT: 775 - 975

WHOLE MILK POWDER

Prices for whole milk powder in Western Europe are lower. German prices lead prices in Netherlands. Market conditions have slowed activity. This is said to be related to new COVID-19 border crossing restrictions within the EU. The majority of Western European WMP is sold within the EU. Some initial glitches have slowed commodity crossings. These matters are expected to be worked out as the system to monitor movements is adjusted based on experience. Export options out of EU member states are currently very limited.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder

Price Range - 26% Butterfat; \$/MT: 2,625 - 3,150

Secondary Sourced Information:

WMP exports from the EU during January 2020, 28,848 MT, increased 5 percent from January 2019, according to Eurostat. WMP exports to Oman, 5,612 MT, were -1 percent. WMP exports to Nigeria, 1,933 MT, were +43 percent. WMP exports to Kuwait, 1,525 MT, were -9 percent.

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OCEANIA DAIRY MARKET OVERVIEW

AUSTRALIA: Some agricultural bankers in Australia project that Australian milk production this season will be as much as 4.9 per cent lower than last season. Very good demand is expected to help seasonal milk prices for producers.

Australian dairy producers have experienced a clear increase in demand from Australian consumers. Cheese, butter, and fresh milk experienced increased demand in supermarkets. Demand is called unprecedented by some observers. Some dairy bottlers report record volumes of fluid milk going out the door. Increased UHT milk demand is also noted.

A contributing factor is that to address impacts of COVID-19, the Australian Prime Minister has activated a plan to close or curtail service in many businesses. Consumers are increasing food supplies at home in response. In the end, this is likely buying ahead, but is certainly spiking current dairy manufacturing and sales.

NEW ZEALAND: Reports from New Zealand are that milk production is looking fairly poor. A large-scale drought was declared a few weeks ago across the entire North Island and part of the South Island. Some areas have started to have a little bit of rain over the past week or so but it's too late for many. Some Waikato farmers are starting to dry off their herds already (about 2 months earlier than usual).

A large New Zealand dairy cooperative reported interim results last week. Observers in New Zealand note that it is back to making a profit. The cooperative has also held the milk price forecast at NZ\$7 - \$7.60, and the milk production forecast at -0.5%. Some other dairy observers in New Zealand forecast this season's milk at \$7 and for next season, \$6.23.

There is increasing belief that processors are managing okay in getting dairy product shipped, and China is buying again. Whether that will last is the question. Most of this season's dairy output has been sold, estimated to be in the range of 80 percent sold.

COVID-19 analysis concerning New Zealand has tended to focus on dairy export matters, generally involving China. Now the focus has become events within New Zealand resulting in some uncertainty as to impacts on the New Zealand dairy industry. The Prime Minister raised the coronavirus alert level to 3 early this week. Beginning at 11:59 pm Wednesday New Zealand time, the level increased to 4, mandating closure of many businesses, for four weeks.

Sources in New Zealand's dairy industry comment that essential services are allowed to operate, which includes dairy producers and dairy processors. However, they will be minimizing on site staff and anyone who is not critical will be working from home. That means that dairy product will still be able to be exported, but there may be some internal slowdown. Most processors seem to be working out a plan of how they will operate in the current environment.

In New Zealand retail stores, there are very empty supermarket dairy coolers and shelves. Contacts say it is a demand issue because staff simply can't get product on the shelf fast enough, even though product is believed to be available in distribution centers. A future dairy export question becomes how the new countrywide conditions may affect moving dairy products from producer to processor, then into export channels, in terms of transportation and infrastructure.

BUTTER/BUTTEROIL

Oceania butter prices are higher. Buyers now looking for butter for near term delivery are said to be finding that this late in the milk season, many manufacturers are heavily committed for current and planned butter production.

While there is a global market in butter, there are buyers who have a strong preference for New Zealand or Australian butter. These buyers prefer not to look to Europe or the United States, so they pay to get sourcing they want – within reasonable limits. Pricing expectations are for lower prices moving toward summer.

Oceania, 82% Butterfat, Free on Board - Port Butter

Price Range - \$/MT: 4,100 - 4,550

Secondary Sourced Information:

At GDT event 256 on March 17, the butter all contracts price, \$4,144, increased 0.3 percent. The April contract, \$4,540, increased 4.4 percent. Buyers are still actively seeking commitments for April delivery. That has lifted April pricing over subsequent months.

SKIM MILK POWDER

In Oceania skim milk powder prices are mixed. Lower range pricing is weaker. Upper range pricing firmed. The seemingly anomalous outcome is said to result from increased buying interest for near term delivery from countries in Southeast Asia and within Oceania. Weaker interest for months ahead helped reduce lower range prices. Many buyers expect upper range pricing to trend lower in coming months once the current uptick is met.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder

Price Range - 1.25% Butterfat; \$/MT: 2,500 - 2,975

Secondary Sourced Information:

At GDT event 256 on March 17, the SMP all contracts price, \$2,527, decreased 8.1 percent. The April contract, \$2,961, increased 7.5 percent.

CHEESE

Oceania cheddar prices are higher. While current buyer needs seem to be mostly met, there are still buyers who need sales commitments for coming months. The challenge they face is that it is late in the milk production season. Less cheddar is now being made. There is not a great deal of seasonal cheese planned to be made, that is not already committed. Buyers are paying more to lock in cheese they want.

Prices for: Oceania Cheese, Cheddar, 39% Maximum Moisture, Free on Board - Port,

Price Range - \$/MT: 4,375 - 4,500

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Secondary Sourced Information:

At GDT event 25 on March 17, the cheddar all contracts price, \$4,398, increased 2.6 percent. The April contract did not trade. The May contract, \$4,500, increased 5.0 percent.

WHOLE MILK POWDER

In Oceania whole milk powder prices are lower. While the weaker prices are disappointing to manufacturers and dairy producers, some industry officials noted that the weakness was less than recent futures markets suggested would occur. Pricing declining less than had been expected is attributed to an unexpected influx of increased buying interest for near term delivery from some countries in Southeast Asia this reporting period.

Manufacturers have noted buying interest and requests for delivery from China are returning toward normal. In some instances, expedited movements through ports in China are available for dairy imports. However, there is still a way to go to climb back to normal. That leaves a downward factor on pricing for now. Current WMP pricing can be accommodated but is disappointing, especially in New Zealand, which is the leading global exporter of WMP. Pricing near or above \$3,000 is typically considered a good profitability point. Oceania WMP prices have been trending lower since late 2019, according to CLAL data made available to USDA. Many would like to see a trend reversal.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder

Price Range - 26% Butterfat; \$/MT: 2,750 - 2,850

Secondary Sourced Information:

At GDT event 256 on March 17, the WMP all contracts price, \$2,797, decreased 4.2 percent. The April contract, \$2,830, decreased 3.1 percent.

INTERNATIONAL DAIRY MARKET NEWS - SOUTH AMERICA

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SOUTH AMERICA OVERVIEW

Farm milk production is seasonally ramping up in the principal dairy basins of South America. During the past two weeks, lower temperatures boosted dairy cows' yields, and scattered showers improved soil moisture in several corn/soybean farming areas. Compared to the rest of the world, South America has had more time to prepare for the impact of coronavirus. Preventing the spread of COVID-19 is the main issue addressed in most nations of the continent, including important dairy countries such as Brazil, Argentina, and Uruguay.

In Argentina, on March 19th, the government placed a national quarantine until March 31st. This mandatory isolation policy excludes farmers and staff working in activities related to the production, distribution, and marketing of processed food. Nevertheless, physical agricultural markets are suspended. Since the availability of food for families is essential during this juncture, most dairy farms and dairy processing plants are actively operating, but have taken various security measures, such as downsizing of administrative staff and social distancing.

At this time, there are no mandatory official policies related to the coronavirus prevention by the Brazilian national administration. However, at the state level, the state of Sao Paulo has initiated a quarantine that will last from March 24th to April 7th. Nationwide, farm milk production is seasonally higher. Fluid milk orders from the food service sector are slow due to the coronavirus crisis. Consequently, most shipments of bottled milk have been destined to the retail sector, triggered by strong atypical demand from households. Some milk shipments and deliveries have been delayed as fewer truckers are available on the roads. Several industry stakeholders say cheese production is less active as fewer manufacturing milk volumes are accessible as a result of the strong demand for bottled milk. Cheese sales are also down, while inventories build up. The UHT milk market is heating up as buyers continue buying and stocking to meet their immediate and short-term needs.

WHOLE MILK POWDER

As an effect of the high demand for bottled milk due to the coronavirus outbreak in the continent, lower manufacturing milk volumes are balancing into dryers. Thus, the production of whole milk powder (WMP) is mostly unsteady in the Southern Cone of South America. COVID-19 continues putting pressure on the market, pushing down f.o.b. export prices during the past two weeks. Limited export activity to Brazil is reflected on the top of the pricing range. Meanwhile, light trading activity outside the Mercosur bloc is mirrored on the bottom price of the range.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; \$/MT: 2,800 - 2,900

Secondary Sourced Information:

At the GDT Event 256 on March 17, whole milk powder (WMP) prices across all contract periods averaged \$2,797 per metric ton, down 4.2 percent from the last event.

SKIM MILK POWDER

In the Southern Cone of South America, skim milk powder (SMP) f.o.b. export prices adjusted lower, following recent SMP downward pricing movements in some offshore auctions. SMP production is sporadic, but inventories remain readily available to meet immediate needs. Due to COVID-19, the trading activity within and outside the continent is reported as weak.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; \$/MT: 2,550 - 2,750

Secondary Sourced Information:

At the GDT Event 256 on March 17, skim milk powder (SMP) prices across all contract periods averaged \$2,527 per metric ton, down 8.1 percent from the last event.