



# PERSPECTIVE

March 2021

## The latest insights into global dairy markets

Your regular global overview of the dairy industry along with trends in milk production, commodity prices and dairy trade.

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Dairy for life



# Welcome back to Perspective!

March 2021

Brexit – It was arguably one of the biggest global news stories prior to COVID-19. An ever-evolving political saga that has been ongoing since June of 2016. But for people in the UK and Europe a deal was finally struck on the 24th of December 2020. Over 1,500 days after the majority of British voters opted to leave the European Union in the referendum.

However, with so much going on in the world today, and with it being such a long journey to get here, you would be forgiven for potentially missing the details of this long-awaited result. You may recall in [August of 2019](#) we invited Andrew Kuyk to share his expert opinion on the future of Brexit negotiations. In particular, how certain scenarios could impact the EU/UK dairy industries. So now that we have a confirmed agreement, we can start to unpack what this really means going forward.

We've invited our own Mark Casey, Fonterra's General Manager for Trade Strategy (Europe, Middle East and Africa), to share his overview of what this Brexit agreement means, and what the ripple effects for dairy trade could be going forward.

#### Four key movements for the month:



**Production** – New Zealand production in line with last 12 months and annual production up in other regions.



**Exports** – New Zealand and US monthly exports down. Australia and EU exports increase.



**Imports** – China monthly imports steadily increase. LATAM monthly imports up and Middle East and Africa and Asia imports down.



**Prices** – **GDT Event 279** resulted in the GDT price index increasing +15.0% to USD \$4,231/MT. The largest movements came from Whole Milk Powder, Butter and Anhydrous Milk Fat which moved +21.0%, +13.7% and +7.4% respectively.

If you have suggestions for topics you would like to read about in Perspective, or any other general feedback, we would love to hear from you. You can contact us at [nzmpbrand@fonterra.com](mailto:nzmpbrand@fonterra.com) or through your account manager.

Kind Regards,

**Gillian Munnik**

**Director of Sales and Marketing Services**



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# The "Level Playing Field": An Overview Of The Brexit Agreement



## Mark Casey

General Manager  
Trade Strategy (EMEA), Fonterra



Mark Casey is Fonterra's General Manager for Trade Strategy & Stakeholder Affairs in Europe, Russia, Middle East and Africa. In this role, Mark leads Fonterra's engagement and advocacy on trade matters in this varied range of markets.

Mark has recently moved into this role having previously been a senior lawyer in Fonterra's legal team, which he joined at the end of 2017 having lived in the Middle East working for a U.S. law firm for several years. In 2020, Mark was asked to co-lead Fonterra's response team for the COVID-19 crisis. He now lives with his family in Amsterdam where Fonterra's European business is based.

Mark has a Bachelor of Laws from the University of Auckland.

It must have come as a huge relief to many on both sides of the English Channel, when on Christmas Eve 2020 the UK and EU reached a post-Brexit trade agreement, merely days from the deadline of the UK exiting the EU single customs market.

But what exactly does this Brexit agreement mean? And what could be the ripple effects for dairy trade?

As of 1 January 2021, the UK has left the EU once and for all and is now able to set its own rules and regulations independently of the EU.

**The UK now has a border, which means that trade instantly becomes more complex and potentially more expensive than the previously enjoyed open market.**

Upon leaving, however, the UK and EU have signed<sup>1</sup> the Trade and Co-operation Agreement, which sets out how they will continue to trade and generally do business with each other in a post-Brexit world, both being significant trade partners.

To put this significance in context: the EU is the UK's largest trading partner, with imports from the EU accounting for almost half of the UK's trade (€320 billion in EU imports in 2019). The UK is the 3rd largest trading partner for the EU (after the U.S. and China), with EU imports from the UK amounting to €195 billion in 2019.

**Perhaps the most important part of Agreement is that UK and EU businesses can continue to trade without quotas or tariffs (duties) on products traded between them and have agreed on a number of key measures to facilitate this trade.**



Had no agreement been reached, the WTO's 'Most Favoured Nation' (MFN) tariffs would have applied to products traded between the two partners, a situation predicted by most to have had a huge impact on the economies of both the EU and UK.

In the case of many dairy products, the MFN tariffs are extremely high, and most likely would have created major disruption to dairy trade – not only between the UK and EU, but in other export markets where EU or UK product may have instead been diverted to.

However, the enjoyment of tariff-free trade does not mean trade remains frictionless.

Regardless of the tariff-free agreement being reached, there were always going to be changes to import and export procedures for goods crossing the newly established border. These changes create additional complexity for goods – especially food and animal products – with the introduction of regulatory requirements and checks, documentation requirements at the border, and rules of origin.

**A new border creates new procedures. Some businesses and industries may well be facing increases in costs and delays due to this new logistical complexity.**

There are also provisions in the Agreement requiring a 'level playing field'. This means that although the UK has avoided having to keep identical regulatory rules to those of the EU (harmonisation), in certain areas (such as the environment, labour, and subsidies), if there is deemed to be a 'material impact' on trade or investment as a result of any "unfair" divergent approaches to regulation, the EU can introduce measures to counter the harm (e.g. increased retaliatory tariffs) and vice versa.

We are already seeing the UK's seafood industry struggling to move its fresh product across to its EU buyers given the delays occurring on border controls and documentation errors.



**Another example of this complexity is the production of dairy products in the Republic of Ireland (part of the EU) using milk supplied in part by Northern Ireland farms (part of the UK);**

the origin of these products will in some cases fail to achieve "EU Origin" for the purposes of preferential treatment under EU trade agreements with key third-country export markets.

Fonterra has been contingency planning and preparing for the outcome of Brexit negotiations since the UK announced it was leaving the EU, with a focus on minimising any impact on our customers and commercial partners. This has included forward deployment of some key products and remaining tightly aligned to the regulatory and customs authorities and their requirements arising out of the new trading arrangement.



We have a team of experts here in Europe, and in the UK, who are proactively monitoring the situation, working with our customers and logistics supply chain partners to ensure the impact of these complexities is managed as best as possible.

As part of Brexit, the UK has also successfully managed to 'roll over' trade agreements with almost all trading partners with whom it enjoyed preferential trade previously as an EU member. The UK is also actively negotiating trade agreements with certain other countries, including the US, Australia and New Zealand. It has also signalled strong interest in joining the CPTPP (Comprehensive and Progressive Trans Pacific Partnership) Agreement.

**In conclusion, while the Agreement is a far better result than what might have eventuated had the EU and UK negotiating teams failed to reach a consensus, it feels like there is a "TBC" hanging above this one.**

The ongoing magnitude and effects of product flow 'frustrations' will be followed closely by industries both sides of the Channel, with the UK government coining these as "teething issues". It is unclear how easily and quickly these issues might be addressed by the EU and UK. Similarly, with some dynamic internal policy decisions on the horizon (such as environmental ambitions and state aid reform), mixed with new relationships between other trading partners (like the U.S.), there is speculation from many commentators about future divergence in some standards between the EU and UK, possibly exposing 'level playing field' disputes under the Agreement.

And the Agreement has a review clause, so it may all be back on the table again anyway in 4-5 years' time...



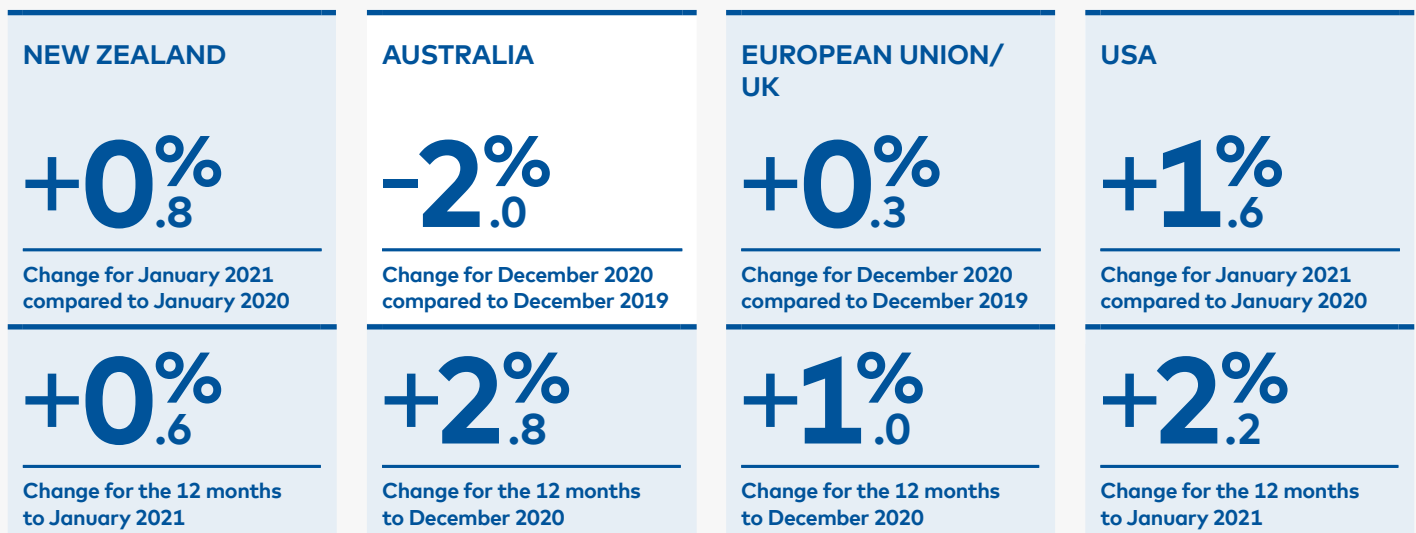
**Read more from our experts at  
[nzmp.com/newsfeed](https://nzmp.com/newsfeed)**

<sup>1</sup> The TCA applied provisionally from 1 January 2021 pending ratification of EU Member States.

**Disclaimer** The views expressed above are general opinions only, and Fonterra is not responsible for any decisions taken in reliance on the same.



# Production in New Zealand in line with last 12 months and annual production up in other regions.



New Zealand milk production for the 12 months to January was 0.6% higher than last year.

New Zealand milk production<sup>1</sup> increased 0.8% on a litres basis in January compared to January last year.

Mild conditions across the country with varied rainfall resulted in lower than average soil moisture levels for most of the North Island.

Australia milk production for the 12 months to December was 2.8% higher than last year.

Australia milk production was down 2% in December compared to December last year.

Smaller milk pools resulting from reduced herd sizes and a drop-in farm numbers continue to constrain milk production growth.

Dairy Australia expects milk production to track towards the lower end of the current 1% to 3% growth range for 2020/21.

EU milk production for the 12 months to December was up by 1.0% compared to the same period last year.

EU (including UK) milk production increased by 0.3% in December compared to the same period last year.

Increases were observed in Italy (+5.3%), Ireland (+4.6%), Poland (+1.2%) and UK (+1.0%) and offset by continuing declines in France and Germany.

Milk production for the 12 months to January was 2.2% higher compared to the same period last year.

US milk production increased by 1.6% in January, compared to the same period last year.

US production continues to increase driven by higher milk per cow yields and herd size. This follows months of sustained growth albeit at a slower pace to prior months.

<sup>1</sup> New Zealand production is measured in litres.

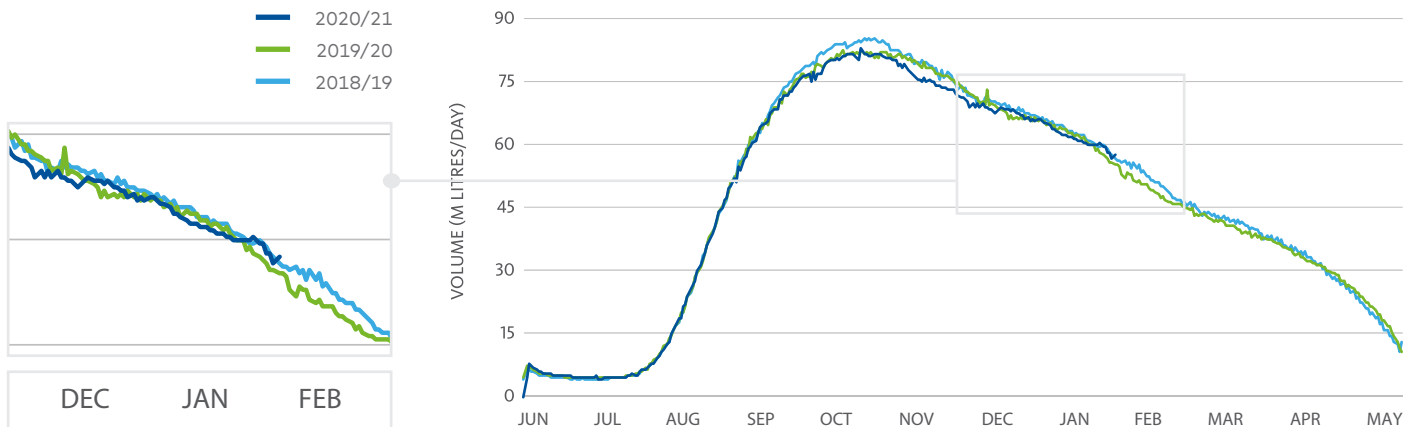
**Note:** 2020 production numbers include one extra day of production in February as 2020 is a leap year.

**Source:** Data from Global Trade Information Services and from government and industry websites, including USDA, Eurostat, High Ground Dairy, Dairy Australia and Dairy Companies Association of New Zealand





## FONTERRA MILK COLLECTION 2020/21 SEASON



## NEW ZEALAND COLLECTION

-0%.<sub>9</sub>Change for January 2021  
compared to January 2020-0%.<sub>8</sub>Season to date  
1 June to 31 January

Fonterra's New Zealand collection for January was 168.2 million kgMS, 0.9% lower than the same month last season.

Season to date collection was 1,071.1 million kgMS, 0.8% behind last season.

After an unsettled start to January in some regions, warm and dry weather set in across much of the country mid-month. Record high temperatures were observed in eastern areas, particularly in the South Island which constrained milk collections.

## AUSTRALIAN COLLECTION

+4%.<sub>5</sub>Change for January 2021  
compared to January 2020-1%.<sub>3</sub>Season to date  
1 June to 31 January

Fonterra's Australia collection in January was 9.7 million kgMS, a 4.5% increase on January last season driven by Victoria and Tasmania.

Despite favourable seasonal conditions post peak in Victoria and Tasmania, reduced herd numbers combined with increased consumption of lower quality home-grown fodder instead of supplementary feed are constraining milk production growth across Australia.

Season to date collections are down 1.3% on last year.







# New Zealand and US monthly exports down. Australia and EU exports increase.

## NEW ZEALAND

**-7%<sub>.9</sub>**

Change for December 2020  
compared to December 2019

**-2%<sub>.8</sub>**

Change for the 12 months  
to December 2020

Exports for the 12 months to December were down by 2.8%, or 100,293 MT, on the previous comparable period. This was primarily driven by butter, SMP, infant formula and fluid milk products.

Total New Zealand dairy exports decreased by 7.9% or 33,119 MT, in December compared to the same period last year.

The decrease in exports was driven mainly by lower volumes of WMP and SMP down a combined 30,810 MT. The decrease was the result of the production and shipment profile of WMP which had peak shipments in November. This was partially offset by an increase in cheese, up 4,377 MT.

## AUSTRALIA

**+25%<sub>.4</sub>**

Change for December 2020  
compared to December 2019

**+0%<sub>.8</sub>**

Change for the 12 months  
to December 2020

Exports for the 12 months to December were up 0.8%, or 5,666 MT, on the previous comparable period.

This was led by increases in fluid milk products, lactose and whey but partially offset by declines in infant formula and cheese.

Australia dairy exports increased by 25.4%, or 15,983 MT, in December compared to the same period last year which was lower than usual. The increase was also driven by higher demand from China in fluid milk products and SMP up a combined 13,877 MT.

## EUROPEAN UNION/ UK

**+5%<sub>.6</sub>**

Change for November 2020  
compared to November 2019

**+3%<sub>.3</sub>**

Change for the 12 months  
to November 2020

Exports for the 12 months to November were up 3.3%, or 188,115 MT, on the previous comparable period. Fluid milk products, cheese, whey, butter and WMP were the main drivers of this growth, up a combined 326,298 MT. It was partially offset by a large decline in SMP down 156,160 MT.

EU (including UK) dairy exports increased by 5.6%, or 25,054 MT, in November compared to the same period last year.

November saw increased shipment of fluid milk product to China and cheese to the United States and Japan.

## USA

**-1%<sub>.0</sub>**

Change for December 2020  
compared to December 2019

**+10%<sub>.2</sub>**

Change for the 12 months  
to December 2020

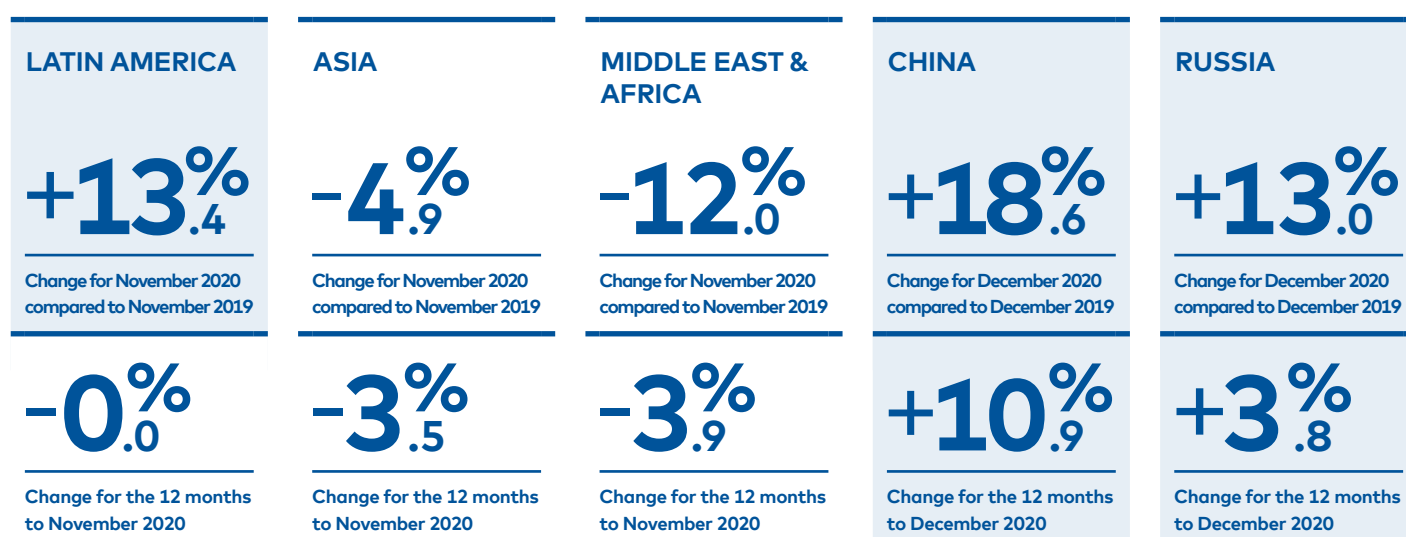
Exports for the 12 months to December 2020 were up 10.2%, or 232,571 MT on the previous comparable period, driven by SMP, whey and WPC combined 223,492 MT.

US dairy exports decreased 1.0%, or 2,020 MT, in December compared to the same period last year.

The decrease was led by lower shipments of SMP as a result of disruptive shipping and logistical issues. Demand for whey to China partially offset the decrease, with continued high demand attributable to recovering hog herds.



# China monthly imports steadily increase. LATAM monthly imports up and Middle East and Africa and Asia imports down.



Imports for the 12 months to November were flat compared to the same period the previous year.

Latin America dairy import volumes<sup>1</sup> increased 13.4%, or 18,706 MT, in November compared to the same period the previous year.

This was driven by higher volumes of SMP to Mexico and higher shipments of WMP to Brazil and Cuba.

Decreases were recorded across WMP, SMP, fluid products and whey down a combined 224,800 MT and offset partially by increased volumes in lactose, up 47,068 MT.

Asia (excluding China) dairy import volumes<sup>1</sup> decreased 4.9% or 20,187 MT, in November compared to the same period the previous year.

Decreases were recorded in SMP to South East Asia and Japan, WMP to Hong Kong and whey to Pakistan.

Imports for the 12 months to November were down 3.5%, or 172,820 MT, compared to the same period the previous year.

Imports for the 12 months to November were down 3.9%, or 154,992 MT, compared to November the previous year, driven by decreases in fluid milk products, infant formula, butter and cheese and partially offset by increases in SMP and WMP.

Middle East and Africa dairy import volumes<sup>1</sup> decreased 12.0% or 36,597 MT in November 2020 compared to the same period the previous year.

Decreases were driven principally by lower volumes of fluid milk products to Kenya, SMP to Egypt and infant formula to Nigeria.

Imports for the 12 months to December were up 10.9% or 343,567 MT, driven by whey, fluid milk products, butter and lactose.

China dairy import volumes increased by 18.6% or 51,204 MT, in December compared to the same period the previous year.

Volumes of fluid milk products from Germany, New Zealand and Poland increased 42,031 MT as strong consumption persisted. Whey imports were also up 14,726 MT, primarily from the US as China is rebuilding its hog herd and using whey as feed.

WMP imports from New Zealand, Ukraine and Spain declined year on year.

Imports for the 12 months to December 2020 have increased +3.8% or +41,081 MT compared to the same period the previous year. This was mainly driven by AMF, Cultured Products, Butter, Caseinate, Cheese, Dairy Spreads, Fresh, Ice cream, and MPC being up a combined +107,172 MT. Offset by Infant Formula, SMP, WMP, Whey, Lactose, Casein and WPC being down a combined -66,091 MT.

Russia import volumes were up +13% or +9,940 MT for December 2020 compared to the same month the previous year.

<sup>1</sup> Estimates are included for those countries that have not reported data.

Sources: Data from Global Trade Information Services; EU Milk Market Observatory; FAO; Highground Trading Group





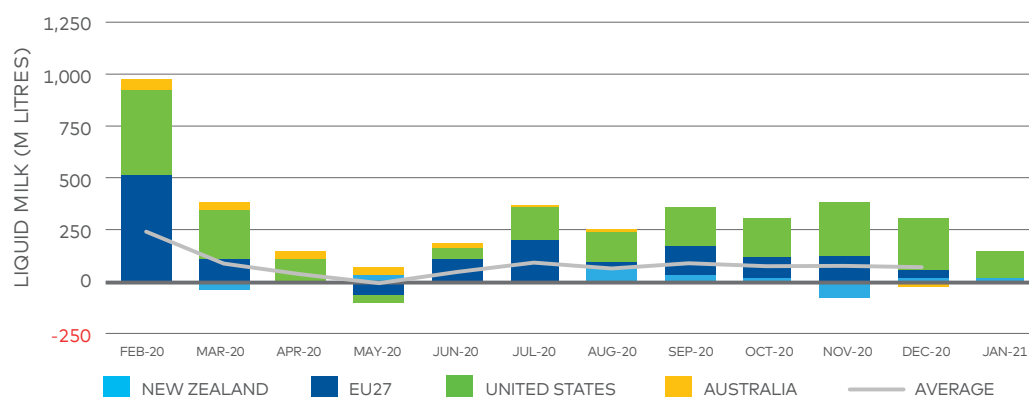
## Global Dairy Market

The charts on the right illustrate the year-on-year changes in imports, exports and production for a range of countries that are important players in global dairy trade.

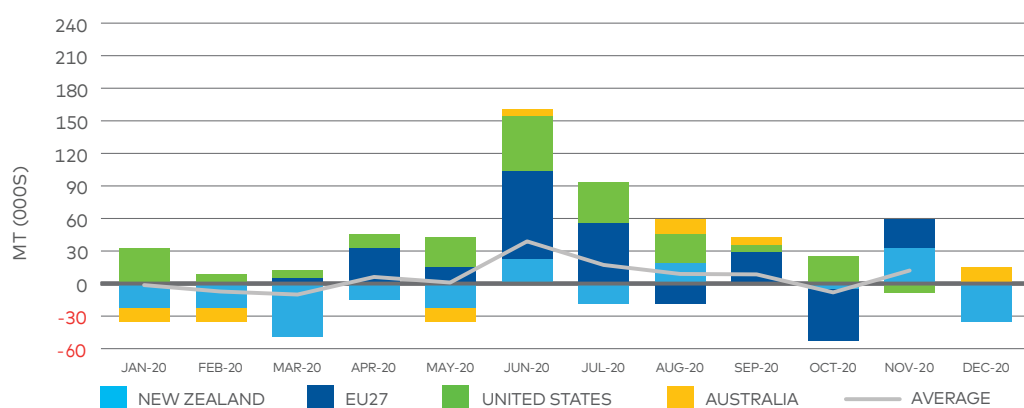
The absolute size of the bars represent the change in imports, exports or production, relative to the same period the previous year.

Averages are shown where data is complete for the regions presented.

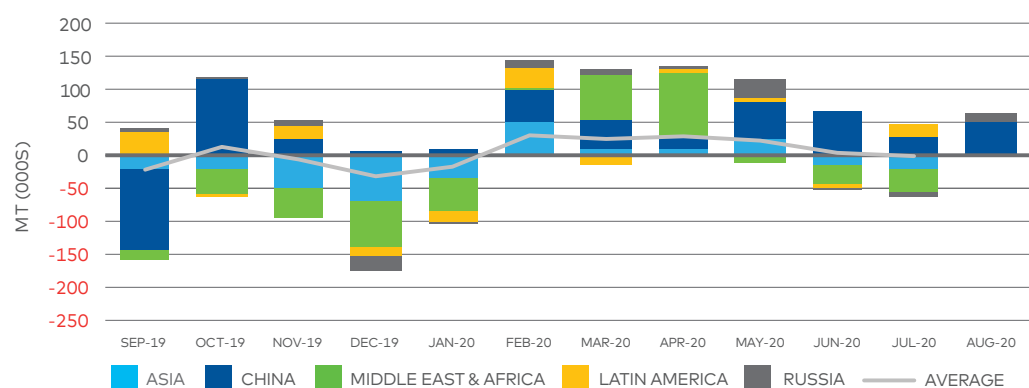
### PRODUCTION



### EXPORTS



### IMPORTS





## Food Price

The February 2021 FAO Food Price Index (FFPI) averaged 113.3 points in January 2021, up 4.7 points (4.3 percent) on December 2020, marking the eighth month of consecutive rise and its highest monthly average since July 2014. The latest increase reflected strong gains in the sugar, cereals and vegetable oils sub-indices, while meat and dairy values were also up, but to a lesser extent.

The Dairy Price Index averaged 111.0 points in January, up 1.7 points (1.6 percent) from December 2020, rising for the eighth consecutive month and 7.1 points (6.9 percent) above its January 2020 value. In January, butter and whole milk powder (WMP) price quotations increased, underpinned by China's high purchases in the wake of the country's upcoming New Year festivities amid seasonally lower exportable supplies in New Zealand. Price quotations for skim milk powder (SMP) also rose, pressured by high import demand for spot supplies and lagging production activities in Western Europe. Cheese prices fell slightly from the highs registered in December 2020 due to limited internal sales in Europe, coupled with stock build-up in the United States of America.

Source: FAO

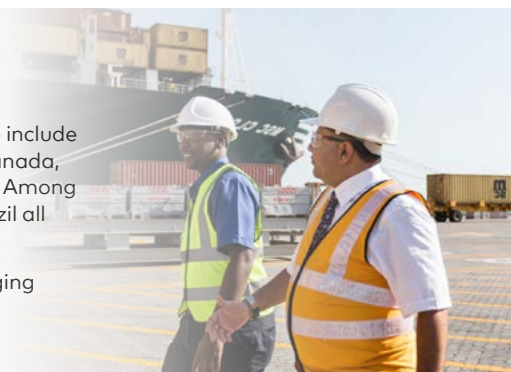


## Economic

Composite leading indicators (CLIs) point to stable growth in most large OECD economies. These include the United States, Japan and the Euro area as a whole, including Germany, France and Italy. In Canada, the CLI also points to stabilising growth. The CLI for the United Kingdom still signals a slowdown. Among major emerging economies, the CLIs for the manufacturing sector of China and for India and Brazil all point to a steady increase in growth. In Russia, the CLI continues to signal the same steady build.

The CLIs should continue to be interpreted with care, as fluctuations are likely influenced by changing measures to contain COVID-19 and the progress of vaccination campaigns.

Source: OECD



## Consumer

The global rollout of coronavirus (COVID-19) vaccines has become the most important variable in making economic—and to some extent political—forecasts. The Economist Intelligence Unit currently expects most developed countries to have immunised 60-70% of their population by mid-2022. While the first economic effects should be felt sooner, it anticipates global economic recovery to pick up pace from mid-2021.

There has been swift progress in the U.S since Biden's inauguration, with more than 45m doses administered so far. The rollout has been slow in the EU amid high incidence rates and renewed lockdowns. Having enough people immunised by Autumn should help to boost economic recovery from the third quarter. Many developed Asian countries, including Singapore, Taiwan, Australia, New Zealand, Japan and South Korea, will have achieved immunisation by mid-2022, with forecasts for China and India stretching until end-2022. A slower rollout across Latin America pushes widespread vaccination coverage until at least mid-2022, in the largest economies. The Middle East and North Africa region boast three success stories in Israel, Bahrain and the UAE, with vaccination timelines for other countries in the region stretching until late 2022 or beyond. Many Sub-Saharan countries will probably never achieve full vaccination coverage.

Source: Economist Intelligence Unit



## Weather

Hotspot conditions remain widespread across New Zealand's North Island, with the New Zealand Drought Index (NZDI) map showing meteorological drought in place in a portion of East Cape, with widespread dry-to-extremely dry soils across most of the rest of the North Island. In the South Island, moderate to meagre rainfall has resulted in small-to-moderate soil moisture decreases for most locations, with dry to very dry soils widespread in the north-eastern part of the island.

In Australia's east, recent sunny and somewhat cooler-than-normal weather promoted growth of immature cotton and sorghum and aided maturation of earlier sown varieties.

Europe experienced sunny, mild conditions over western and central parts, which were favourable for winter grains and oilseeds after recent wet weather. Despite drier overall patterns, rain and snow lingered in northern and western-most growing areas.

Sources: World Agricultural Weather Highlights USDA oCOE, Fonterra Ingredients Australia







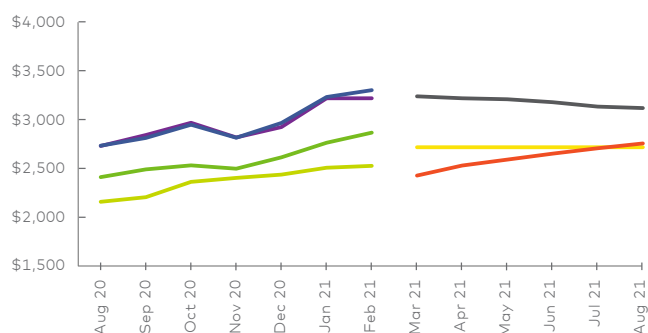
## WMP



February WMP prices are still sloping upwards and growing closer together across the indexes. Dutch Dairy Board increased +3.1% to USD \$3,520/MT. USDA Oceania & GDT both increased to USD \$3,494/MT and USD \$3,569/MT respectively.

Futures and forecasts for the next six-months have reflected positive growth. Rabobank Oceania has remained flat on previous reports. NZX Futures has revised up +8.7% average of USD \$3,676/MT.

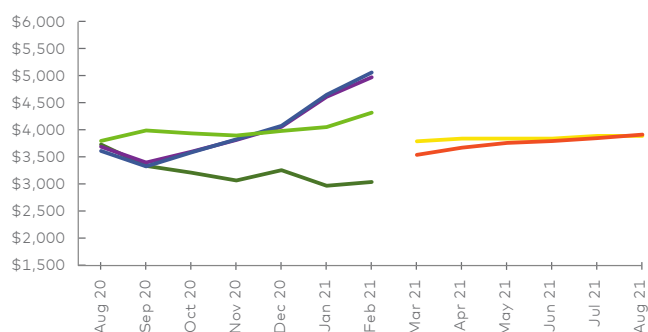
## SMP



SMP prices have had mixed results across February, with USDA NASS and USDA Oceania staying flat from last month. Dutch Dairy Board increased a further +3.8% to USD \$2,849/MT. GDT increased +2.2% to USD \$3,283/MT.

The Forecast and futures have also reflected this trend. CME Futures and Rabobank Oceania has remained flat on previous projections. NZX Futures has averaged at USD \$3,164 /MT.

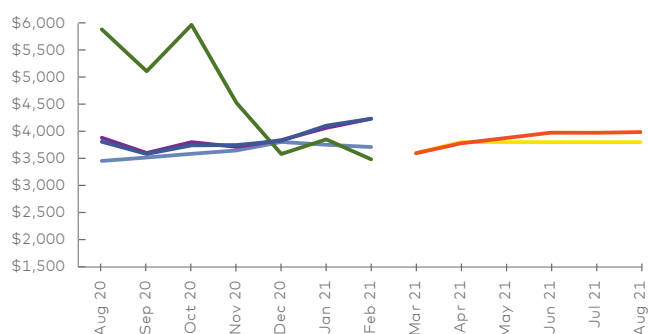
## BUTTER



Butter prices are increasing across the board in February. USDA Oceania showed a further +7.8% increase to USD \$4,998/MT and GDT also increased another +8.9% to USD \$5,077/MT. CME Spot increased +2.4% to USD \$3,045/MT. Dutch Dairy Board had an uplift of +6.6% to USD \$4,331/MT

As a result, we see CME Futures increase its average over the next 6 months +9.2% to USD \$3,765/MT and Rabobank Oceania average prices stay consistent on last reports.

## CHEESE



There are mixed movements for cheese over February. CME Spot decreased -9.5% to USD \$3,045/MT. GDT increased a further +3.1% to USD \$4,231/MT and USDA Oceania increased +4.1% to USD \$4,231/MT. EU commission had a slight drop of -1.1% to USD \$3,710/MT

CME Futures 6-month average has been revised up +3.6% to USD \$3,863/MT and Rabobank Oceania's stays flat.

## Actuals

■ GDT Fonterra ■ Dutch Dairy Board ■ USDA Oceania  
■ USDA NASS ■ CME Spot ■ EU Commission

## Forecasts

■ NZX Futures ■ CME Futures  
■ Rabobank Oceania



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# GDT Results

## TRADING EVENT 279

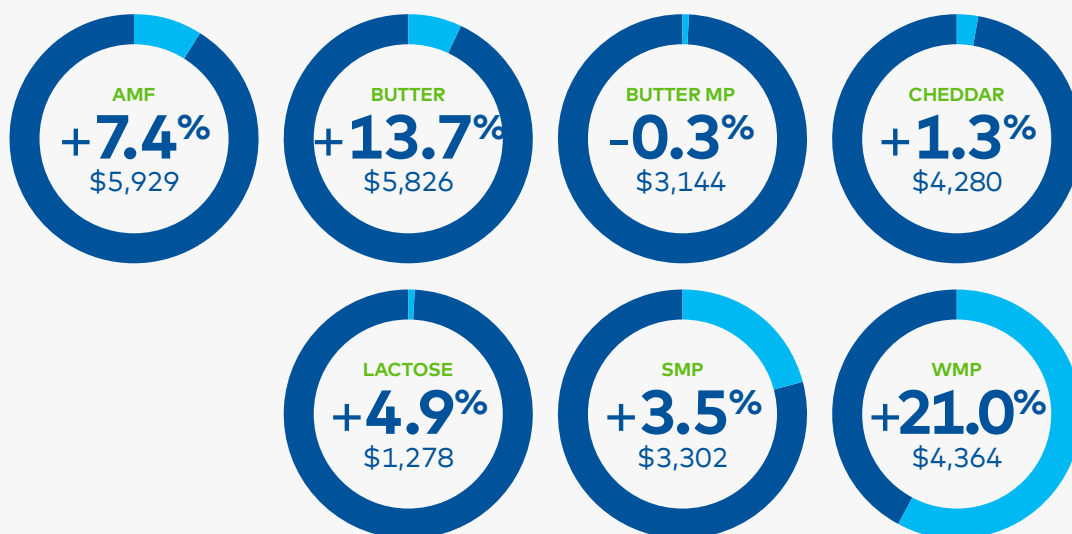
# +15.0%

Change in GDT Price Index from previous event

# USD 4,231

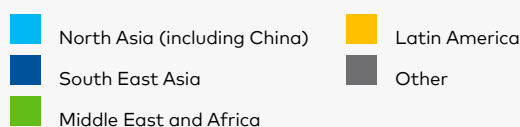
Average price (USD/MT, FAS)

The shaded dials indicate the proportion of each product group sold versus total quantity sold during the previous 12 months, with a 3 month lag. Figures within the dials represent the percentage change in GDT Price Index and the weighted average price. All information published on this page may be reproduced provided the user acknowledges Global Dairy Trade as the source.

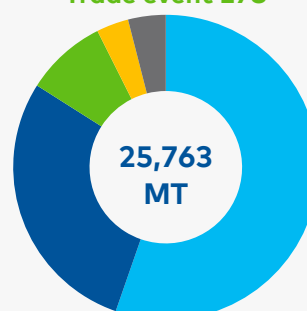


## GDT SALES BY DESTINATION

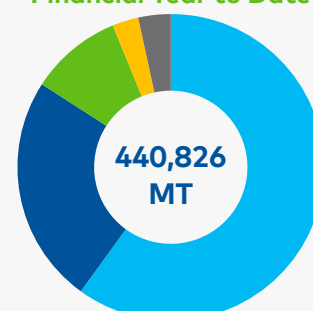
### TRADING EVENT 278



### Trade event 278



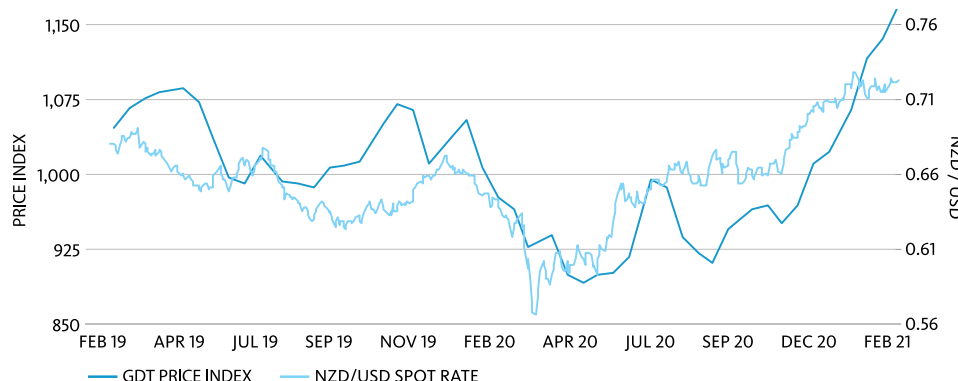
### Financial Year to Date



The next trading event will be held on 2 March 2021. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

## Dairy commodity prices and New Zealand dollar trend

The NZD remained supported during the first two months of 2021 trading in a narrow range between 71 and 73 US cents; underpinned by robust commodity prices, improving domestic economic data, and a lift in longer term interest rates.







# USDA, Dairy Outlook

Published February 16, 2021



## Recent Developments

Directions of wholesale price changes for dairy products, as reported in the USDA National Dairy Product Sales Report (NDPSR) from the week ending January 9 to the week ending February 6, were mixed. The price of Cheddar cheese 40-pound blocks increased by 8.4 cents to \$1.7514 per pound, but 500-pound barrels decreased 4.9 cents to \$1.4774 per pound. NDM and dry whey prices rose to \$1.1497 (+2.6 cents) and \$0.4953 (+5.5 cents) per pound, respectively. The butter price fell by 14.2 cents to \$1.3464 per pound.

For the trading week ending February 5, the Chicago Mercantile Exchange (CME) spot prices for most dairy products were lower than the most recent NDPSR prices. CME prices for Cheddar cheese blocks and barrels averaged \$1.5810 and \$1.4275 per pound, respectively. Prices for butter and NDM were \$1.2680 and \$1.1220, respectively. Dry whey was the exception, averaging \$0.5350 per pound.

U.S. milk production during December was up 3.1 percent on December 2019, totalling 18.941 billion pounds. The milk herd numbered 9.443 million head, 100,000 head more than December 2019 and 12,000 head more than November 2020. Milk per cow averaged 2,006 pounds in December, 40 pounds above December the previous year. Milk cows numbered 9.440 million head on January 1, 2021, about 3,000 fewer than the previously reported December average. Milk replacement heifers totalled 4.605 million head on January 1, about 48.8 percent of the size of the milking herd. This is the lowest percentage since January 1, 2009.

Dairy exports on a milk-fat basis totalled 763 million pounds in December, 120 million higher than November and 70 million higher than December 2019. On a skim-solids basis, December exports totalled 3.612 billion pounds, 58 million lower than November and 103 million lower than December 2019. Exports of butter were 6.4 million pounds in December, 3.5 million higher than the previous month. Whey product exports (dry whey, whey protein concentrate, modified whey, and milk albumin) totalled 113.3 million pounds in December, 6.3 million higher than November.

Dairy imports on a milk-fat basis were 576 million pounds in December, 104 million higher than November and 61 million pounds higher than the previous December. On a skim-solids basis, dairy imports totalled 503 million pounds in December, 72 million higher than November but 15 million lower than December 2019.







## Dairy forecasts for 2021

The milk production forecast for 2021 has been raised to 227.4 billion pounds, 0.7 billion higher than last month's forecast. Milk cows are projected to average 9,435 million head, 5,000 higher than last month's forecast. Milk cow numbers are expected to decline from the first quarter to the third quarter due to relatively low milk prices, relatively high feed prices, and a relatively low number of replacement heifers. Milk per cow is projected to average 24,100 per head in 2021, 5 pounds more than the previous forecast.

The forecast for 2021 dairy exports on a milk-fat basis has been raised to 10.1 billion pounds, up 0.4 billion on last month, due to higher expected butter exports. On a skim-solids basis, the 2021 dairy export forecast has been raised to 48.9 billion pounds, 0.2 billion higher than last month, due to higher expected exports of whey products.

The 2021 dairy import forecast on a milk-fat basis has been raised to 6.7 billion pounds, 0.1 billion pounds higher than last month's forecast, due to higher expected imports of cheese and butterfat products. On a skim-solids basis, the dairy import forecast is unchanged from last month at 5.5 billion pounds.

The forecast for 2021 domestic use on a milk-fat basis is 222.6 billion pounds, unchanged from last month's forecast. On a skim-solids basis, the forecast for domestic use is 183.2 billion pounds, 0.8 billion higher than last month's forecast. Ending stock forecasts for 2021 have been raised to 16.0 billion pounds on a milk-fat basis (+0.8 billion) and 10.6 billion pounds on a skim-solids basis (+0.3 billion).

Based on recent price changes, relatively high beginning stock levels, and higher expected milk production, 2021 price forecasts for Cheddar cheese and butter have been lowered to \$1.695 per pound (-4.5 cents) and \$1.455 per pound (-15.0 cents), respectively. The price forecast for NDM has also been raised by 2.5 cents to \$1.125 per pound. With higher expected exports of whey products and recent price increases, the dry whey price forecast has been raised by 3.0 cents to \$0.480 per pound. Since prices for NDM and dry whey are heavily dependent upon exports, price increases may be limited by high shipping costs and delays related to container shortages. With the lower expected cheese price more than offsetting the higher expected dry whey price, the Class III price forecast for 2020 has been lowered by \$0.30 to \$16.60 per cwt. With the lower expected butter price more than offsetting the higher expected NDM price, the Class IV price has been lowered by \$0.40 to \$13.70 per cwt. The all-milk price forecast for 2021 has been lowered to \$17.15 per cwt, \$0.50 lower than last month's forecast.



# Blimling, Forecast Update

Published December 31, 2020

U.S cheese supplies are rising, exerting downward pressure on prices. Ample milk availability seems likely to keep cheese production and inventories expanding for at least the next 60-90 days. However, Blimling cautions that near-term demand recovery remains iffy, with COVID-19 related restrictions weighing on commercial sales.

Plentiful butter and cream stocks will keep supply expanding at a steady pace over the inventory build season. Blimling picks possible price rises into early March, due to the CME's old crop/new crop transition. However, sustained heavy supply may impact continued upward movement.

The key factor of the current NDP/SMP market is plenty of milk and plenty of powder. Balancing plants are working hard to keep up with expanding national milk supplies, leading to increased stock building. Competitive U.S prices will help drive additional export demand, particularly into Asia. Blimling expects heavy supply will place modest pressure on near-term prices.

Dry whey markets continue to strengthen as China builds back its pig herd. This means U.S supply will remain limited over coming months. Strong high-protein and permeate markets have reduced incentive to reallocate solids back into sweet whey, thus limiting near-term supply gains.



Fonterra draws the information in this update from a variety of principally external sources listed below. Also included are defined acronyms for better understanding.

**AMF** Anhydrous Milk Fat

**BMP** Butter Milk Powder

**CME** Chicago Mercantile Exchange

**DDB** Dutch Dairy Board

**EIU** Economist Intelligence Unit

**FAO** United Nations Food and Agriculture Organisation

**Farmgate Milk Price** The price for milk supplied in New Zealand to Fonterra by farmer shareholders

**Fluid and Fresh Dairy** The Fonterra grouping of fluid milk products (skim milk, whole milk and cream pasteurised or UHT processed), concentrated milk products (evaporated milk and sweetened condensed milk) and yoghurt

**FTA** Free Trade Agreement

**GDI** Global Dairy Intelligence group, Fonterra Cooperative Group Limited. GDI provides insights to Fonterra management based on a model of the global dairy market developed by GDI and populated with publicly available data. The model outputs referenced in this report do not reflect Fonterra's non-public production or sales data

**GDP** Gross Domestic Product

**GDT** Global Dairy Trade auction platform

**GDT Price Index** is an index that provides a measure of the weighted average percentage change in the movement in price of all products sold on GDT. This provides a simple measure of changes in dairy price between trading events

**IMF** International Monetary Fund

**Informa** Informa Economics Inc., Dairy Group, Global Dairy Market Report

**LME** Liquid Milk Equivalent

**MAT** Moving Annual Total (this is data averaged across the 12 month period)

**MEA** Middle East and Africa

**NDM** Non-fat Dry Milk

**NZX** NZ Stock Exchange

**OECD** Organisation for Economic Co-operation and Development

**Q[1]** [First] Quarter

**Reference Products** The dairy products used in the calculation of the Farmgate Milk Price, which are currently WMP, SMP, BMP, butter and AMF

**SEA** South East Asia

**Season** New Zealand: A period of 12 months to 31 May in each year. Australia: A period of 12 months to 30 June in each year

**SMP** Skim Milk Powder

**TE** GDT Trading Event

**USDA NASS** US Department of Agriculture National Agricultural Statistics Service

**USDA Oceania** US Department of Agriculture Agricultural marketing service price series for specific products in the Oceania region

**WMP** Whole Milk Powder

**YOY** Year-on-year

**YTD** Year to date



## Tracking the global dairy market Production, Export and Import charts

The production, export and import charts illustrate year-on-year changes in production, exports and imports for a range of countries that are important players in global dairy trade.

The absolute size of the bars represents the change in production, exports or imports compared to the same month the previous year. The portion of the bar below zero represents a year-on-year decrease and the portion above the line shows the year increase for that country. Where countries are not shown this is likely due to the data not yet being available.

## Weather Source (Page reference – 13)

Comments on weather are obtained from various government weather sites as well as independent reports including Martell Crop Projections. Global milk production data is sourced from government and industry websites including US Department of Agriculture (USDA), EuroStat, Dairy Australia, Dairy Companies Association of New Zealand (DCANZ) and others.





Important note: The information and commentary contained in this 'Perspective from NZMP' is based on publicly available official government statistics; industry association reports; other published industry reports together with data and insights developed by Fonterra's Global Dairy Intelligence group ('GDI'). These sources are identified as appropriate in this 'Perspective from NZMP'. GDI insights and data are derived from a global dairy market model populated by publicly available data. The model inputs and outputs do not reflect Fonterra's non-public production, pricing or sales data. Fonterra Co-operative Group Limited and its group members involved in the manufacture or sale of NZMP branded products ('Fonterra') has provided this 'Perspective from NZMP' for informational purposes only. It does not constitute recommendations or advice for the purposes of making financial decisions regarding trading in dairy products or commodities, or dealing in financial instruments relating to dairy commodities. Although every effort is made to ensure the accuracy of reproducing and interpreting such information, no warranty or representation of such is made and Fonterra shall have no liability in respect of any reliance placed on such information in the formulation of any business decision.