



Dairy market outlook

Focus on factors impacting supply and demand

Outline

SUPPLY FACTORS:

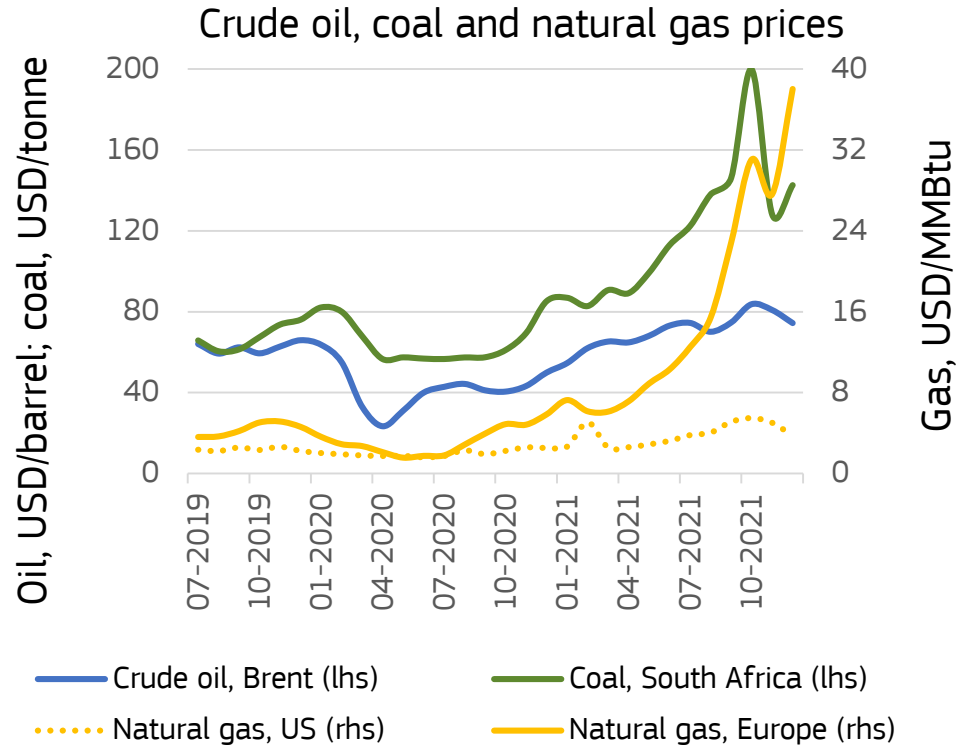
- Input costs (energy, fertilisers, freight)
- Crops outlook
- Global milk supply outlook
- EU milk supply outlook

DEMAND FACTORS:

- EU food inflation – focus on dairy products
- Global dairy demand
- other potential factors

SUPPLY FACTORS – ENERGY

ENERGY



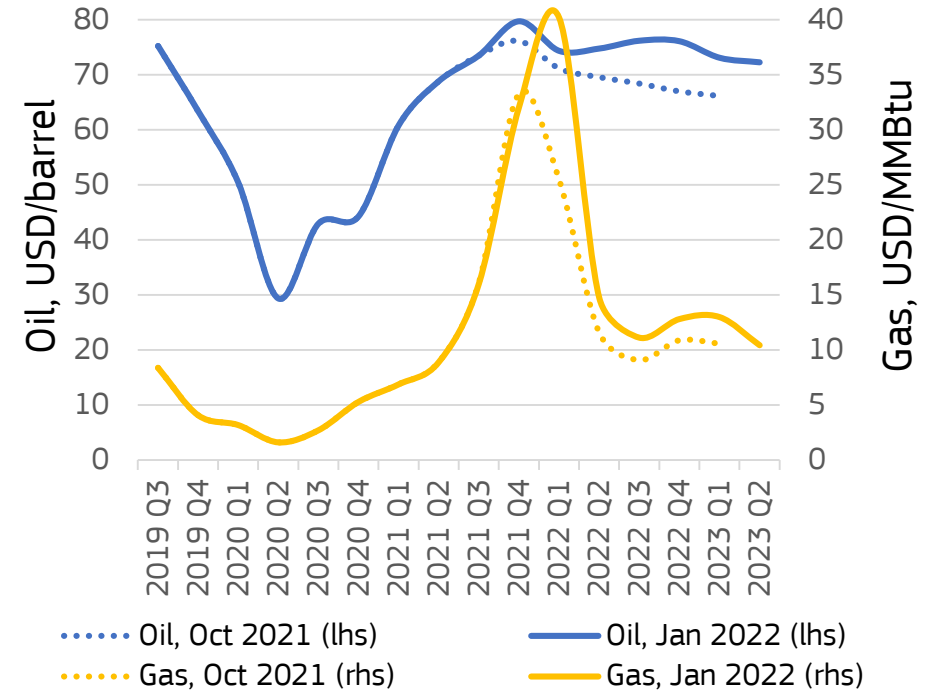
Note: rhs=right-hand side axis, lhs=left-hand side axis

Source: World Bank

- **Natural gas** prices possibly to be reduced with a reduced seasonal demand in Q2 and Q3
- There is also an expected increase of supply as a reaction to current prices

OIL

Brent crude oil and UK natural gas price forecasts



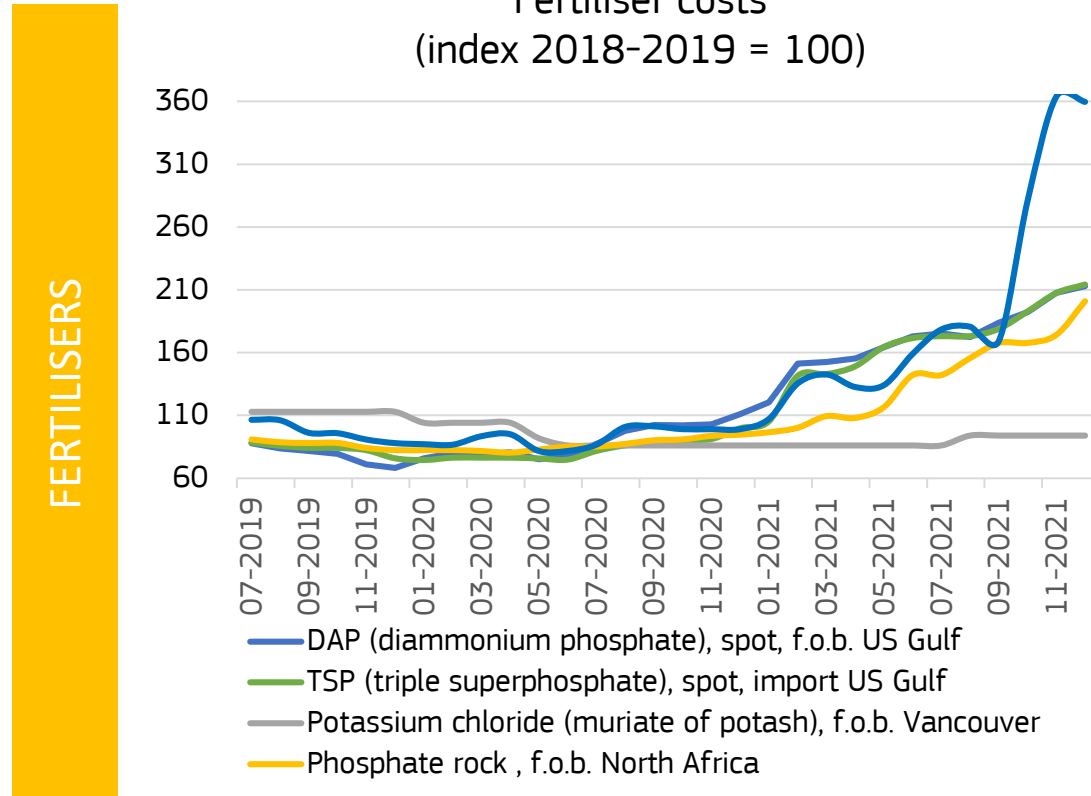
Source: IHS Markit

- **Oil market** – an impact of potentially reduced mobility due to Omicron to be watched



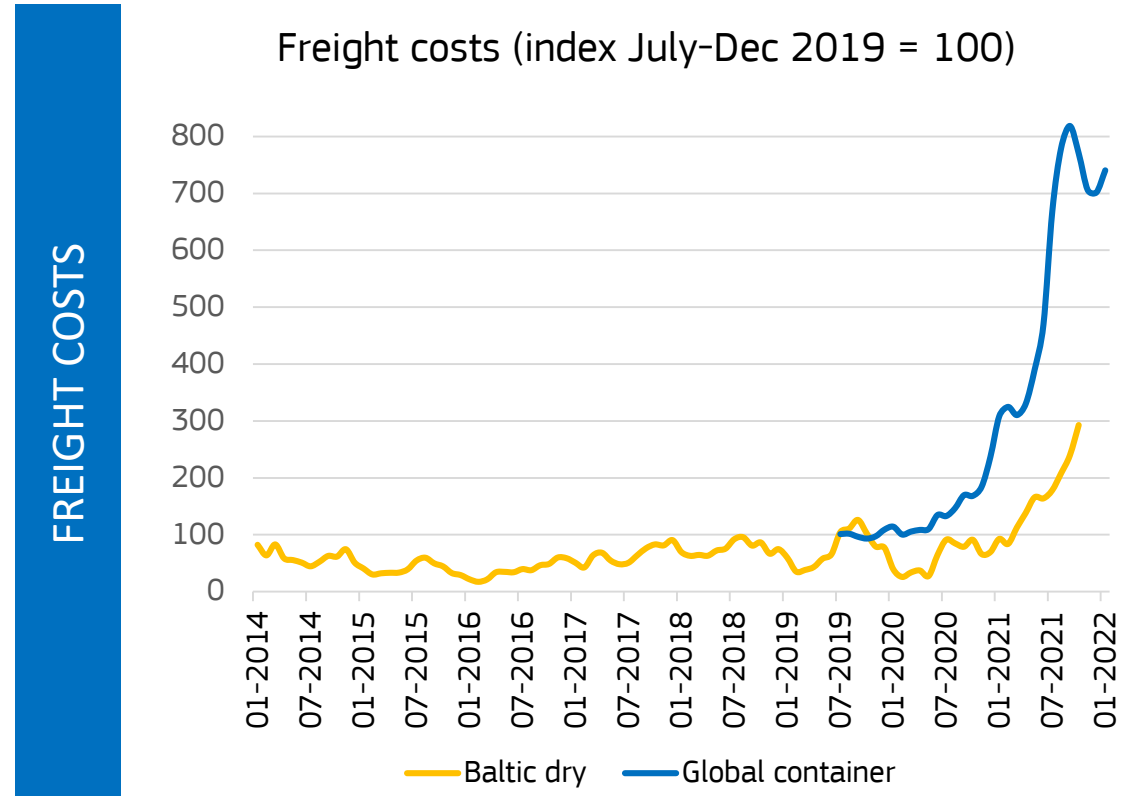
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SUPPLY FACTORS – FERTILISERS AND FREIGHT



Source: World Bank

- Pressure on farm incomes remains
- **Re-allocation of land** to less fertilizer-incentive crops and lower use of fertilizers to materialize in 2022



Sources: World Bank, Baltic Exchange, Freightos

- **Supply chain disruptions** likely to continue in 2022
- 10-15% of capacity removed due to congestion
- New possible disruptions due to COVID manufacturing and port closures in China ahead of the Chinese New Year and winter Olympics

SUPPLY FACTORS – FEED SUPPLY PROSPECTS

CROPS OUTLOOK

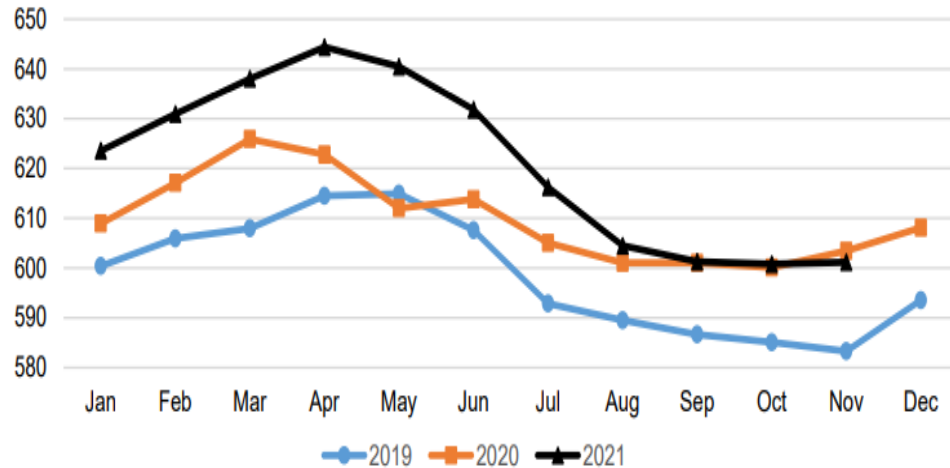
- **WHEAT** – good ARG and AUS crop, dryness observed in the US, tight global stocks, RUS export restrictions
 - Area could further grow but fertilisers' use remains a challenge
 - Current price movements also impacted by geopolitical tensions in Black Sea region
- **CORN** – La Nina worsens yields in South America, but global supply could grow while demand remains strong
- **SOYA BEANS** – La Nina worsens yields, low stocks in the US, strong demand from China
- **EU** – so far good weather prospects; prices encourage planting but fertilisers use could be a challenge



GLOBAL MILK SUPPLY

US

US milk production (million pounds per day)

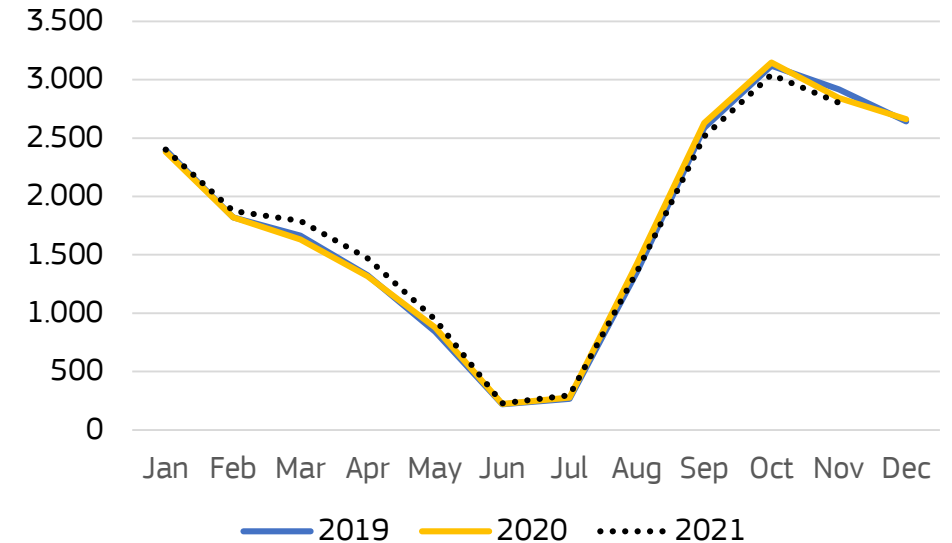


Source: USDA, National Agricultural Statistics Service.

- In November – first y-o-y decline from May 2020
- **+1.5% milk production in 2022** while cows herd is likely to decline further in H1, but increase in H2 2022
- Higher prices might reduce price-competitive advantage but stimulate imports

New Zealand

New Zealand monthly milk production (million litres)

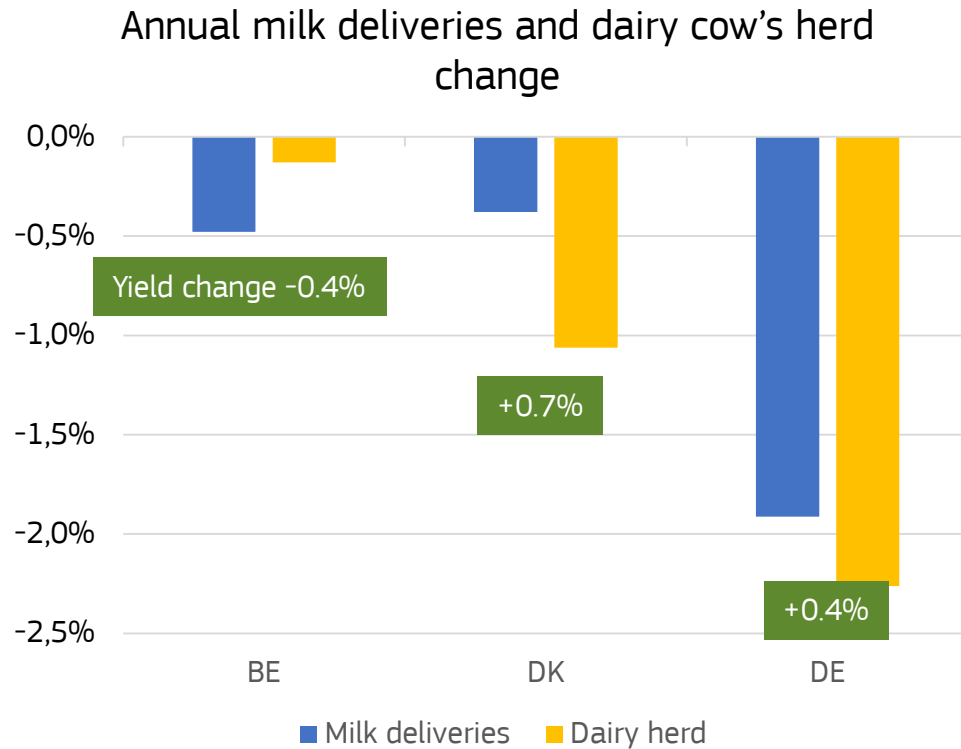


Source: AHDB

- Milk production restricted in the peak as the key North Island regions remained dry
- Gaining further in fat and protein content
- Some production gains possible in H2 2022 (compared to wet, cold and windy 2021)
- Heavily weighted to Chinese demand

EU MILK SUPPLY

Dairy herd and deliveries



*Note: Yield calculation is based on milk deliveries and dairy cows' numbers.
Source: Eurostat and MS notifications*

- **MARKETS:** Higher input costs -> declining dairy cows' herds and lower replacement rate -> any production growth to be yield-driven, constrained by feed prices, its quality and availability, weather
- **POLICY:** Environmental and animal welfare focus to become even more prominent
- **OUTLOOK:** global milk production growth could help prices to start easing up -> an important factor to stimulate further the demand

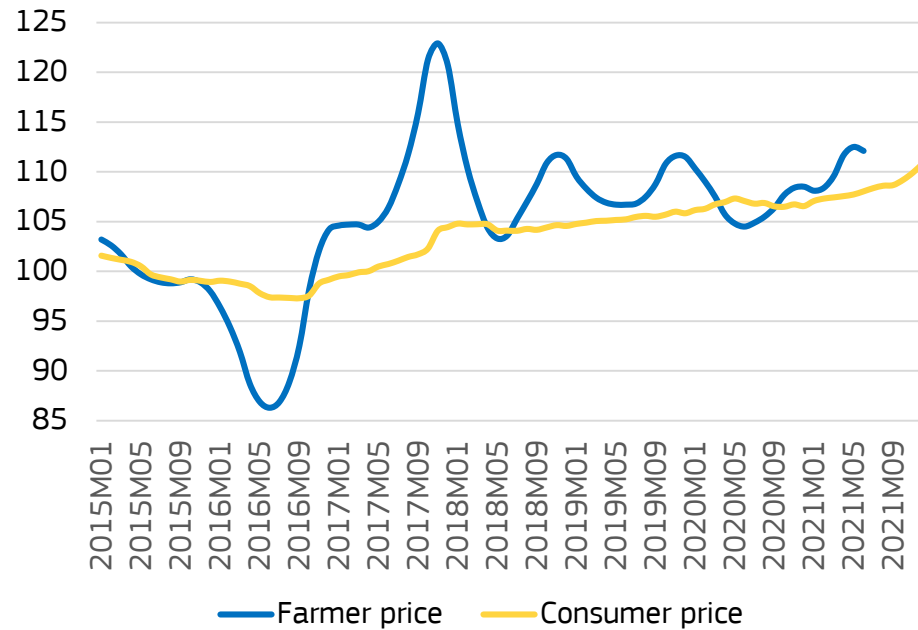


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DEMAND FACTORS – EU CONSUMER PRICES

PRICE TRANSMISSION

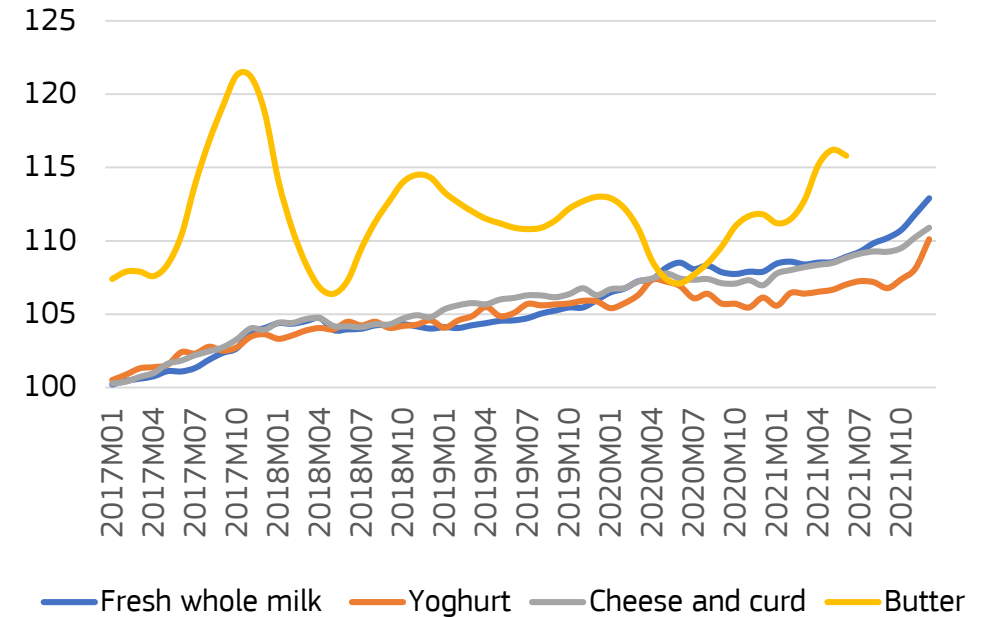
Development of EU price indices for milk, cheese and eggs (2015=100)



Source: Eurostat

CONSUMER PRICE INDEX - DAIRY

Development of EU consumer price index for selected dairy products (2015=100)



Source: Eurostat

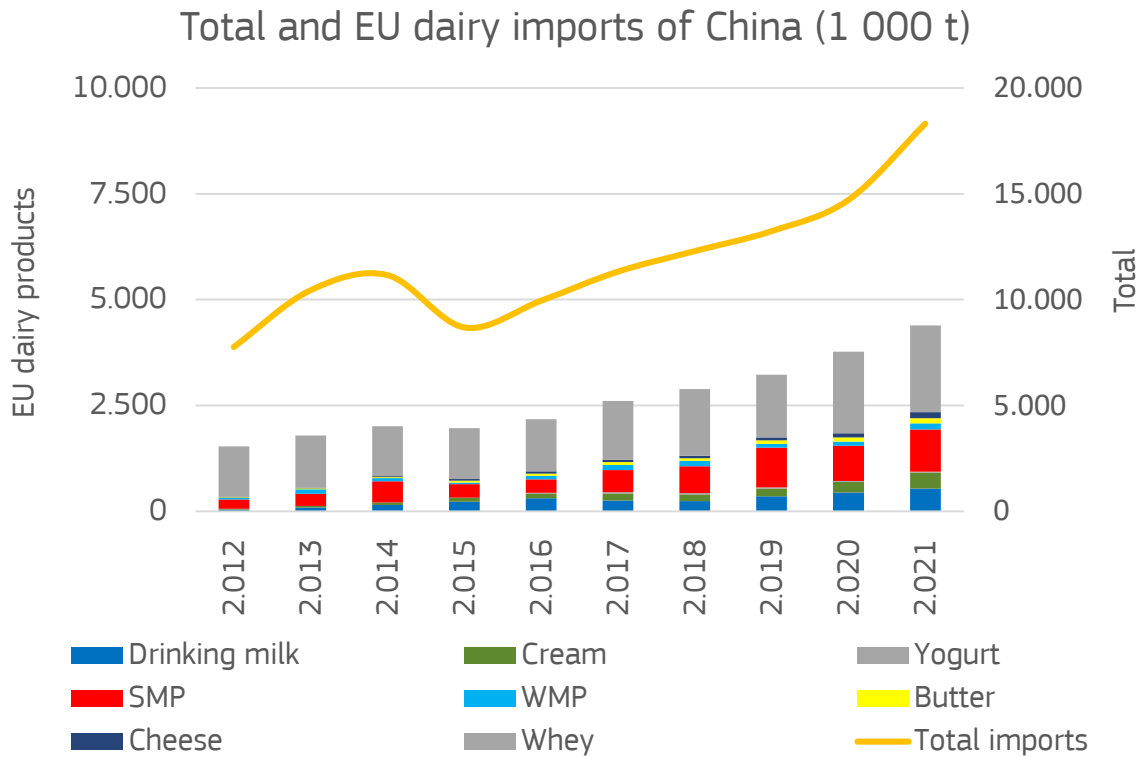
- December 2021 -EU-27 milk, cheese and eggs consumer price index +4%/December 2020
- Ranging from <1% (IE, FR, CY, LU, MT, AT, PT, FI) to >9% (BG, HR, LT, LV, HU, PL)



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DEMAND FACTORS – IMPORTS OF CHINA

CHINESE IMPORTS



Source: GTA and Eurostat

- Purchases driven by **pre-caution on future deliveries** -> stocks but demand increased as well
- Imports growing together with an increasing domestic production (+7.1%/2020)
- **Zero-Covid policy** in place helps the economic recovery but Omicron causes challenges to this

WHAT IF CHINA IMPORTS LESS?

- + **Dairy consumption in China** is on rise (both covered from domestic production and imports)
- + **Domestic raw milk price** could remain above the price of imported products (esp. milk powders) due to higher feed costs
- Different **global supply dynamics** – e.g. EU milk quota abolishment led to a strong production growth
- + **Demand growing elsewhere**, especially in South East Asia and relaxation of prices could help



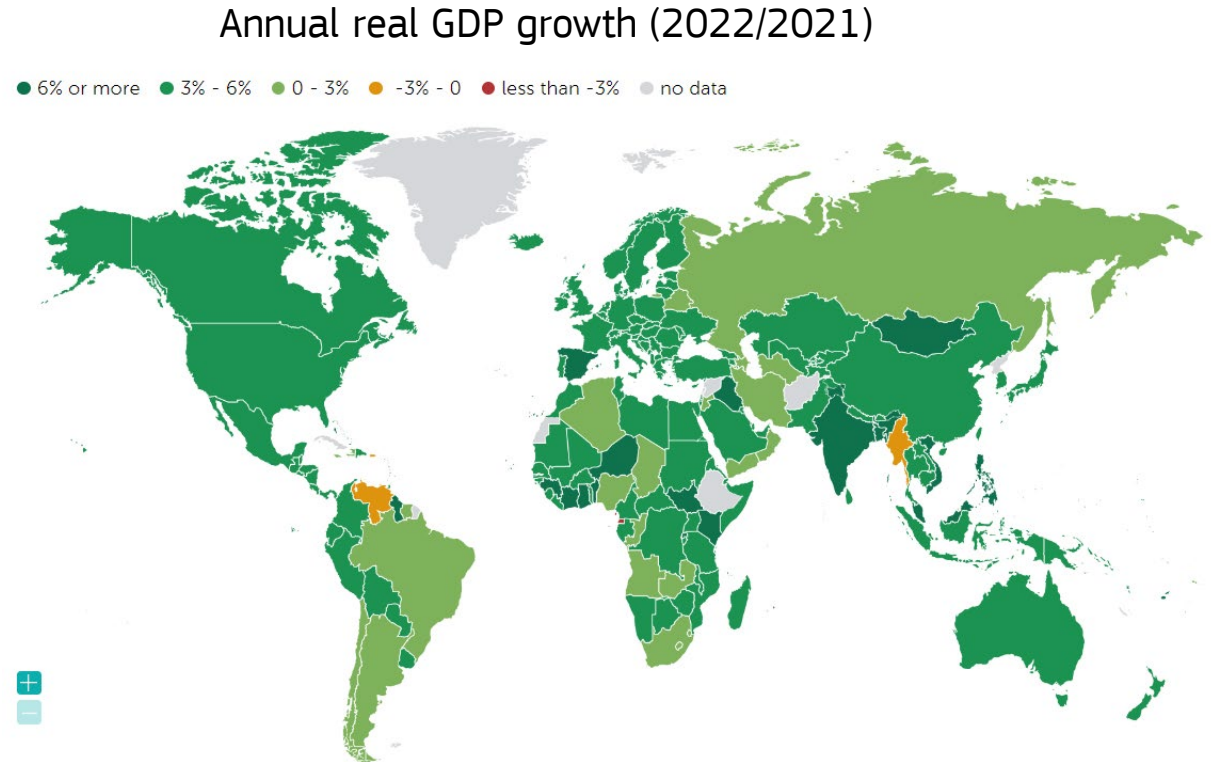
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OTHER DEMAND FACTORS

FACTORS TO WATCH

- **Purchasing power** in other destinations (linked also to global economic recovery)
- **Containment of Omicron** and the further recovery of leisure activities (e.g. eating out and travelling)
- **Geopolitical tensions**
- **Sustainable food consumption** on rise

GDP GROWTH



Source: IMF (January 2022)



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THANK YOU FOR YOUR ATTENTION