Dairy market trends

May 2023

Compiled by Bertus van Heerden. Chief economist of the MPO.

Dairy Market Trends May 2023:

Critical developments in the World economy, the South African economy, the International dairy industry and the South African dairy industry.

Executive summary

World Economic Outlook (WEO): The April 2023 WEO of the International Monetary Fund (IMF) for the next 5 years indicated the lowest economic growth compared to two previous decades, with downside risk in play. The current outlook for growth in 2023 is 2.8% (down from 3.3%) and then 3% thereafter for four years. Advanced economies growing at 1.3% in 2023 (down from 2.5%). With the downside risk going as low as 2.5% for global economic growth in 2023 and below 1% for advanced economies. The IMF is concerned with the level of inflation, uncertainties in the energy and financial markets (a bank bailed out in March 2023 in the USA -Silicon Valley Bank and Credit Suisse in Europe being bought by UBS bank as an emergency rescue deal to stem financial market panic also in March 2023) and increasing geopolitical tension exhibiting elements of imperialism.

The level of lower economic activity in advanced economies could reduce demand for certain products in these countries which could increase export availability from these countries, especially where these countries are major exporters.

The Trading Economics publication reported food inflation in the EU peaked in March 2023 at 19.2% and dropped to 16.4% in April, in the UK the April 2023 food inflation registered 19%, in the USA food inflation peaked at 11.4% in August 2022 and registered 7.7% in April 2023, in China food inflation peaked on 8.8% in September 2022 and registered 0.4% in April 2023 and in South Africa, food inflation was 14.3% in April 2023 (source Stats SA). It seems that in some regions of the world supply chains are still struggling to meet demand, inherent input costs are still keeping food prices relatively high and logistical challenges persist although at a lesser level.

The South African economy: the IMF forecast for economic growth in South Africa is 0.1% in 2023 and 1.8% in 2024. The 2024 forecast is heavily based on a substantial improvement in the availability of electricity. The leading indicator of the SA Reserve Bank (SARB), measuring future economic activity has been trending down for the past 10 months. This bodes nothing good for the South African economy. The Prime lending rate in South Africa increased from January 2022 to May 2023 with 450 basis points. The repayment on a home loan of one million Rand over 20 years increased with nearly R3000 per month. In January 2022 food inflation was 6.2% and at the end of 2022 food inflation registered at 12.7% (more than double). Over the past 16 months, food inflation registered a record level of 14.3% in April 2023. The macroeconomic performance of the SA economy will negatively affect consumer spending and preferences.

International dairy product FOB-prices: In ZAR terms the price for butter, Cheddar, SMP and FMP decreased substantially from the peak prices of 2022 but the April 2023 levels are still some 14%, 21%, 32% and 29% respectively above the prices before the Covid-19 pandemic and Russian attack on Ukraine. The role of the ZAR is clearly visible in the FOB price levels of April 2023 and the May slap that the ZAR got could further suppress imports.

Unprocessed milk production in major exporting countries: Milk production for the first three months in the USA, EU27 and Nieu Zeeland turned from negative growth in 2022 to positive growth in 2023. Argentina went from positive growth to negative growth while

Australia, Uruguay and South Africa remained in negative territory. Growth in unprocessed milk production in the major exporting countries is a mixed bag of growth and contraction

Import parity and SA producer prices: The downward trend in international dairy product prices in USD terms started to occur in April 2022 and continued into 2023 while local producer prices started to increase in November 2022. This increasing trend continued into April 2023. The effect of the decrease in international dairy products prices coupled with increased local producer prices, decreased the import parity gap to the lowest level since March 2018.

Total unprocessed milk supply: On a mass basis, imports decreased in 2022 by 22% compared to 2021. On a milk equivalent basis, imports declined in 2022 by 23% compared to 2021. Excluding the years 2013 and 2014, the year 2022 represents the lowest level of imports for the past 11 years. There are some similarities between 2013 through 2014 with 2022. The prices of imported dairy products increased aggressively, the same as what was experienced in 2022. The total cumulative supply of milk (milk equivalents) for the three months of 2023 is 2.2% less than in the same period in 2022 and if compared to the same period in 2021 it is 3.1% less. The total cumulative milk supply for 2022 was 4% less than in 2021.

Producer price and the retail price spread (2-litre plastic container): In November 2022 farmer prices started to increase, but the extent to which the increase in retail prices outpaced the increase in the producer price resulted in November 2022 reaching an all-time high in the farm to retail price spread. Since then, the spread reduced due to increased producer prices, but the spread remains at higher levels compared to any period prior to November 2022.

The unprocessed milk price to concentrated feed prices ratio: The concentrated feed prices reduced from November 2022 to April 2023 from R6 700/ton to R5 048/ton. At the same time, the unprocessed milk price increased from R6.52 to R7.57. The effect of these changes resulted in unprocessed milk price to concentrated feed price ratio improvement from 0.97:1 to 1.50:1. This is the highest ratio since Augustus 2018. It is important to note that the concentrate prices are derived from SAFEX prices and don't necessarily reflect prices from feed manufacturers that farmers have to pay currently. The risk of uncoordinated growth in unprocessed milk production increased since the beginning of 2023 due to the magnitude of the improved ratio.

Possible risks and outcomes:

1. Uncertainty regarding future developments in the world is at the highest level since the early 1940s. These circumstances beg for cautious planning and a conservative approach to the future.

2. The slower growth of the global economy resulting in reduced demand and changed consumer preferences are real and the same will apply to South Africa. Primary industries need to ensure that supply is reflecting demand from downstream value chain role players. Chasing volumes will create an imbalance, leading to lower primary industry prices.

3. Reduced international dairy product prices (F.O.B) and the reduced import parity gap could have created a window where imports were at competitive prices for a short time. However, the depreciation of the R to the USD with 11% from January 2023 to May 2023 will introduce a different set of comparisons. The risk of high volumes of dairy imports reduced during May 2023.

4. Total cumulative unprocessed milk supply in 2022 was 4% lower than in 2021 and is 2.2% less for the first three months of 2023. There could have been an adverse effect during 2022 on stock levels downstream in the value chain.

5. The El Nino weather pattern predicted to develop in the coming months could trigger widespread extreme weather events. Weather analysts predict that 2024 will be the warmest year globally on record. The El Nino event typically creates extreme weather from severe drought to severe flooding in South Africa. The risk of inadequate pastures, fodder banks and smaller grain harvests in the new season has increased since last year.

6. The high level of the price spread between retail prices and producer prices leaves room for increased producer prices.

7. The importance of regular communication between the dairy value chain role players has increased due to increased uncertainties and the magnitude of these uncertainties.

A market economy is dependent on available information evenly distributed between role players that enable the "invisible hand" to optimally distribute production factors. The better the information the more optimally the invisible hand van function. The objective of the Economic Desk of the MPO is to provide market signals and market trends to the dairy industry, organised agriculture and policymakers, to enhance the functioning of the value chain.

The Economic Desk of the MPO produces several reports focussing on supply and demand variables and dynamics, both within an international and domestic ambit. These reports embody the Industry Information Project of the MPO. The Desk follows an approach where the market analysis is objective with a strong scientific foundation.

The outputs and deliberations of the Desk should assist role players in the value chain to better prepare for market developments and empower role players to engage at a higher level. While the Milk Producers' Organisation cannot and will not try to predict the future in any detail, the possible general impact of specific changes will be discussed in this document.

This information should not be regarded as financial advice.

While this report is compiled from sources that are deemed to be reliable, the MPO cannot take responsibility for any decisions based on the information in this report.

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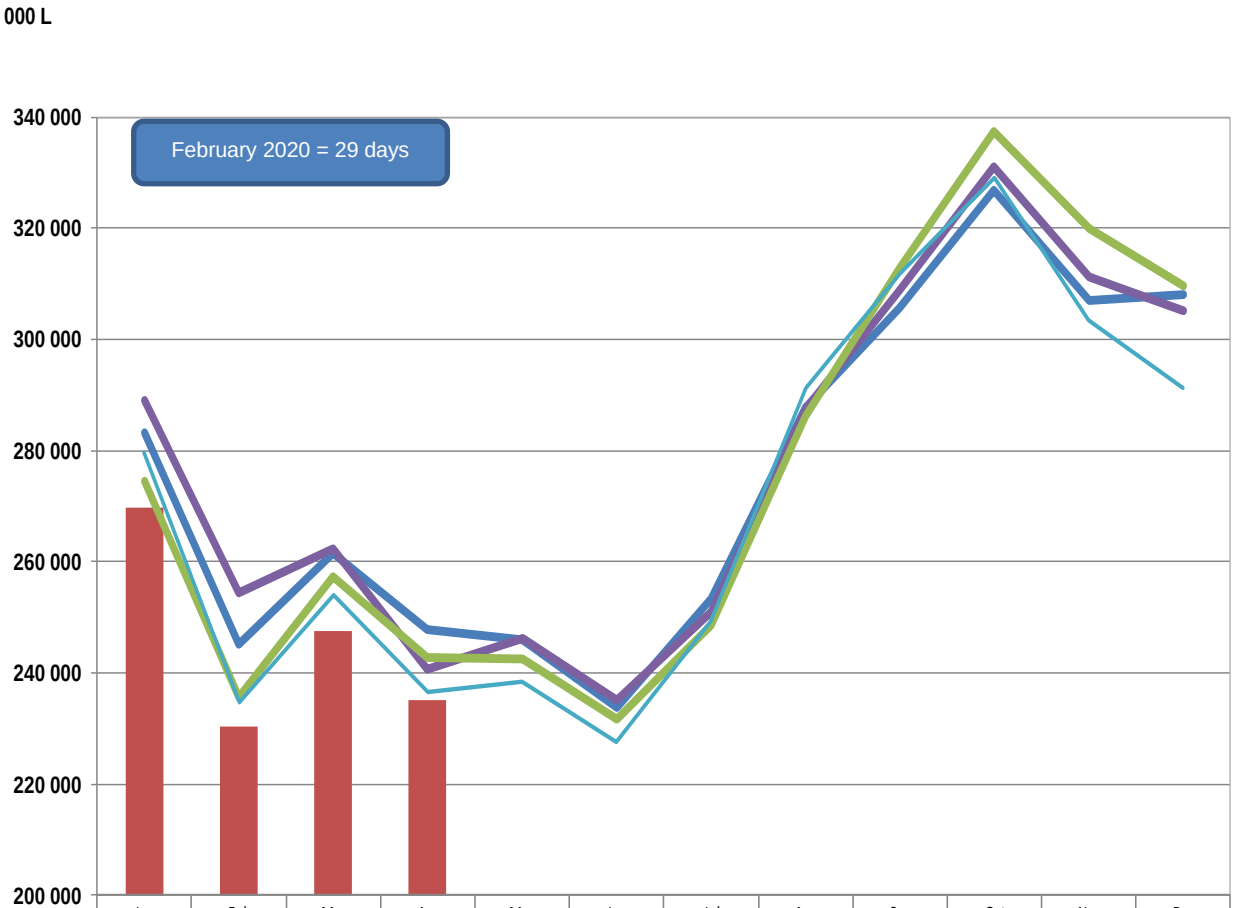
1. Milk supply, demand, and prices

1.1 Milk production

Unprocessed milk production for April 2023 is estimated at 235 million litres, 0.60% less than in April 2022. Cumulative unprocessed milk production for 2023 (inclusive of April 2023) was 983 million litres, indicating a decline of 2.21% in comparison to the same period in 2022 and 2.73% less when compared to 2021.

Monthly unprocessed milk production is reflected in Figure 1 below.

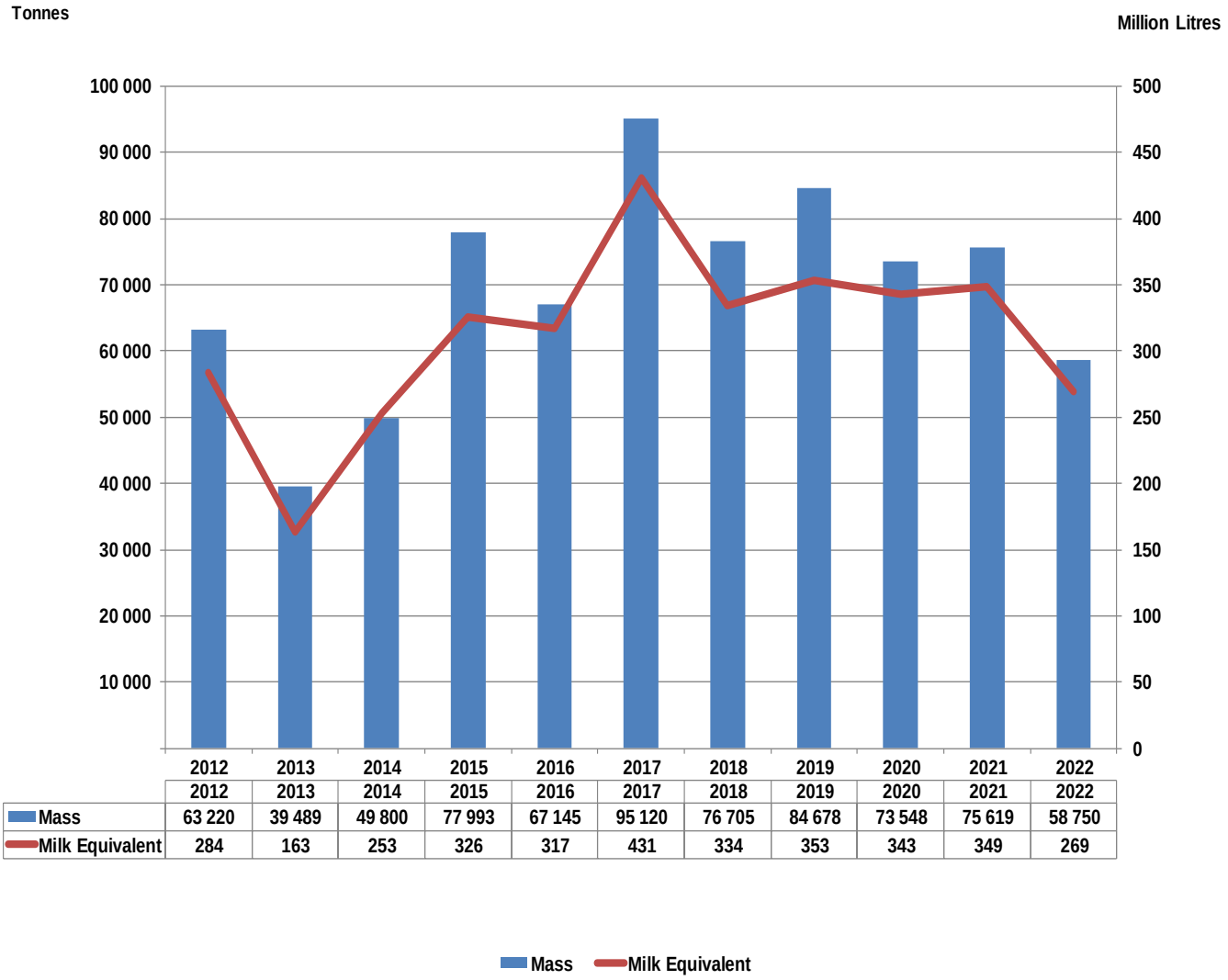


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	269 664	230 320	247 601	235 085								
2018	283 221	245 228	261 423	247 708	245 962	233 780	253 262	287 816	305 684	326 816	307 035	308 130
2020	289 149	254 354	262 266	240 636	246 165	235 011	250 987	287 352	308 965	330 979	311 240	305 244
2021	274 583	235 582	257 267	242 798	242 496	231 661	248 480	286 091	312 939	337 370	319 995	309 595
2022	279 598	234 700	254 039	236 502	238 518	227 533	249 356	291 320	311 930	328 985	303 539	291 229

Figure 1 Monthly milk production ('000 L.).

Source: Milk SA, March and April 2023 are preliminary

1.2 Dairy imports



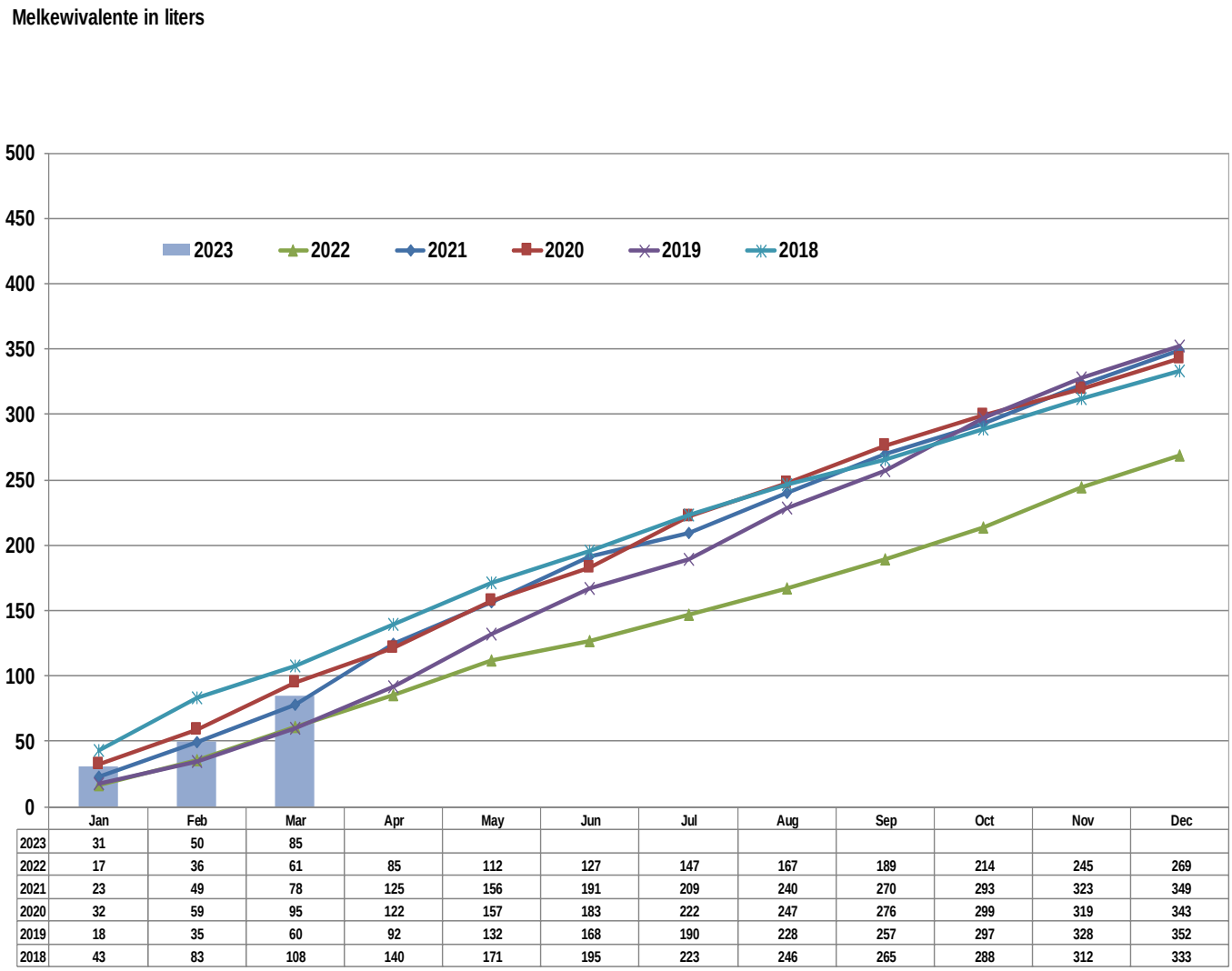
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Mass	63 220	39 489	49 800	77 993	67 145	95 120	76 705	84 678	73 548	75 619	58 750
Milk Equivalent	284	163	253	326	317	431	334	353	343	349	269

Figure 2 Annual imports, mass and milk equivalent basis, 2012-2022

Source: SARS as supplied by Agri Inspec

Figure 2 illustrates the fluctuation in annual dairy imports on a mass and milk equivalent basis. On a mass basis, imports decreased in 2022 by 22% compared to 2021. On a milk equivalent basis, imports declined in 2022 by 23% compared to 2021. Excluding the years 2013 and 2014, the year 2022 represents the lowest level of imports for the past 11 years. There are some similarities during 2013 through 2014 with 2022. The prices of imported dairy products increased aggressively, same as what was experienced in 2022.

Figure 3 illustrates monthly cumulative dairy imports on a milk equivalent basis. Cumulative dairy imports during 2022, is clearly well below the level of previous years while the imports in 2023 is in line with previous years (excluding 2022).



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	31	50	85									
2022	17	36	61	85	112	127	147	167	189	214	245	269
2021	23	49	78	125	156	191	209	240	270	293	323	349
2020	32	59	95	122	157	183	222	247	276	299	319	343
2019	18	35	60	92	132	168	190	228	257	297	328	352
2018	43	83	108	140	171	195	223	246	265	288	312	333

Figure 3 Monthly cumulative imports, (Mil. L.) milk equivalent basis

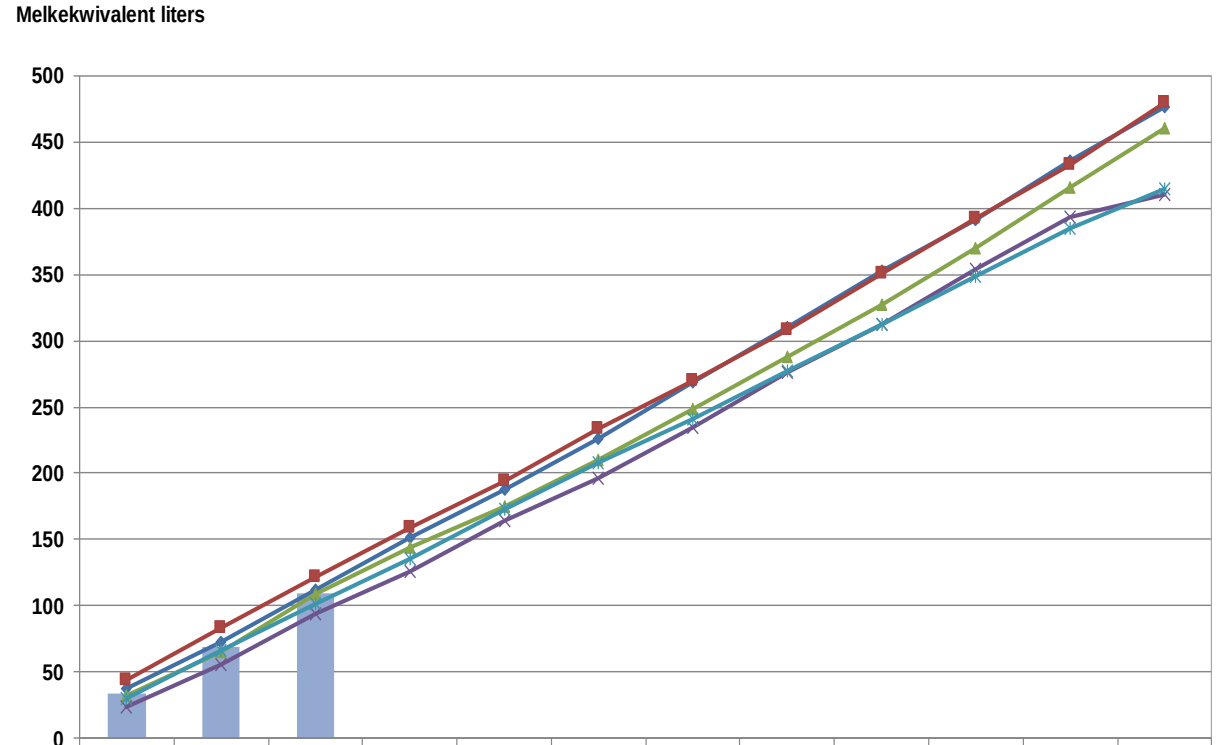
Source: SARS as supplied by Agri Inspec

1.3 Dairy exports (inclusive of sales to the BLNE countries)

Monthly cumulative exports on a milk equivalent basis are reflected in Figure 4 below. Exports in 2021 recorded an all-time high record, where SA exported 480 million litres of milk, on a milk equivalent basis. This is a feather in the cap of the dairy value chain and affected government departments – the route to market was maintained despite the “lockdown”-restrictions in South Africa and by our trading partners. Furthermore, it is an indication that export markets are well

looked after by the SA exporters, that the markets are satisfied with the product range and quality indicating the possibility of untapped potential that could exist in the export market.

For the first three months of 2023, cumulative export quantities (milk equivalent basis) are marginally lower than in 2022.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	34	69	110									
2022	38	73	112	151	188	227	268	311	353	391	436	476
2021	44	84	122	159	194	233	270	308	350	392	433	480
2020	33	65	109	144	175	211	249	288	328	370	416	460
2019	24	56	94	126	165	196	235	276	312	354	393	410
2018	30	66	102	136	173	208	241	277	312	348	385	415

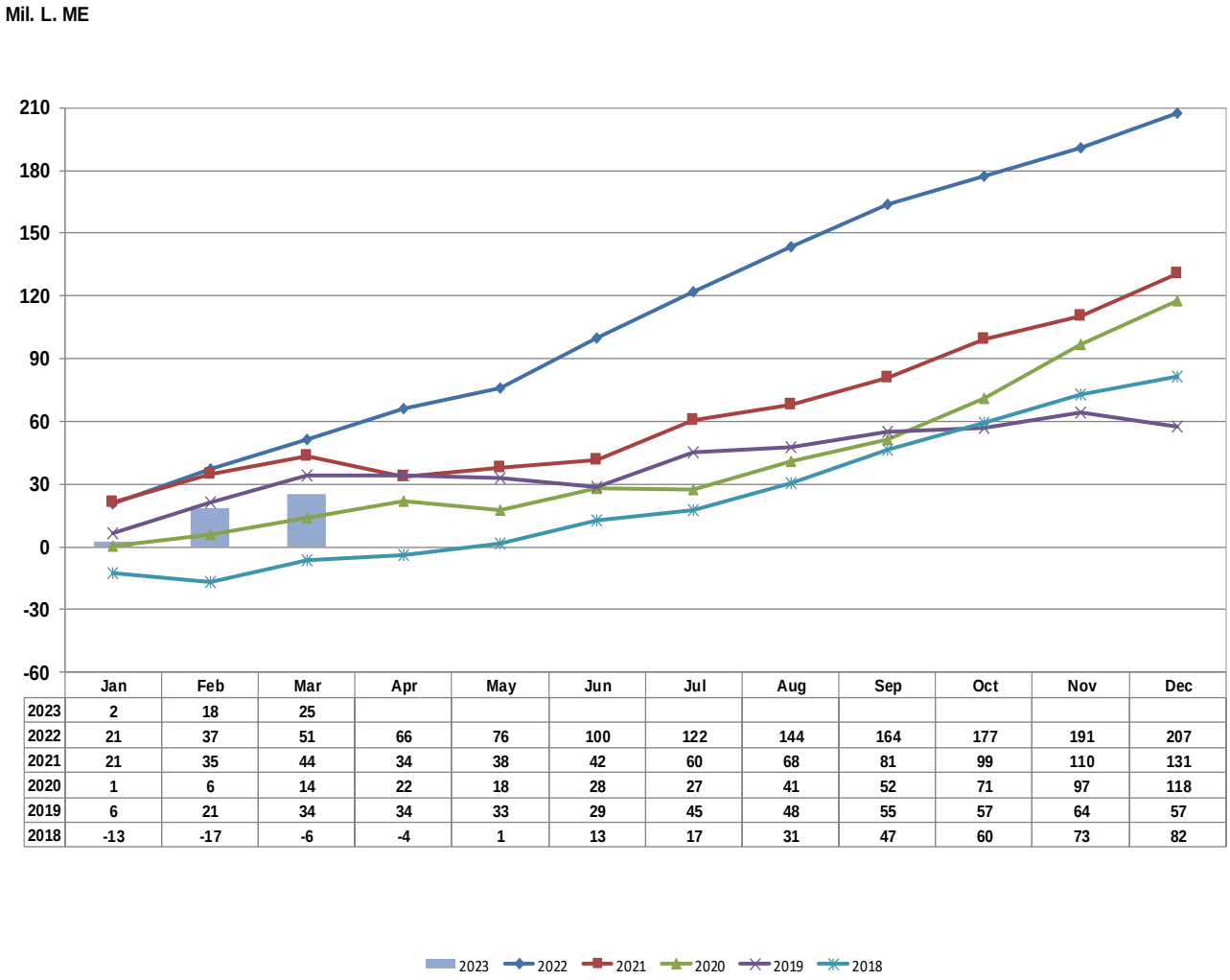
Figure 4 **Monthly cumulative dairy exports (Mil. L.), milk equivalent basis**

Source: SARS as supplied by Agri Inspec

1.4 Net exports (Inclusive of sales to BLNE countries)

The SA dairy industry regained its status as a net exporter of dairy products in 2018 and maintained that status since, and for the first three months of 2023. Net exports in 2022

achieved record level if compared to the previous five years over the same period. The driver of this result was the reduced imports in 2022. Cumulative net exports (total exports plus sales to BLNE countries less total imports) on a milk equivalent basis are shown in Figure 5 below.



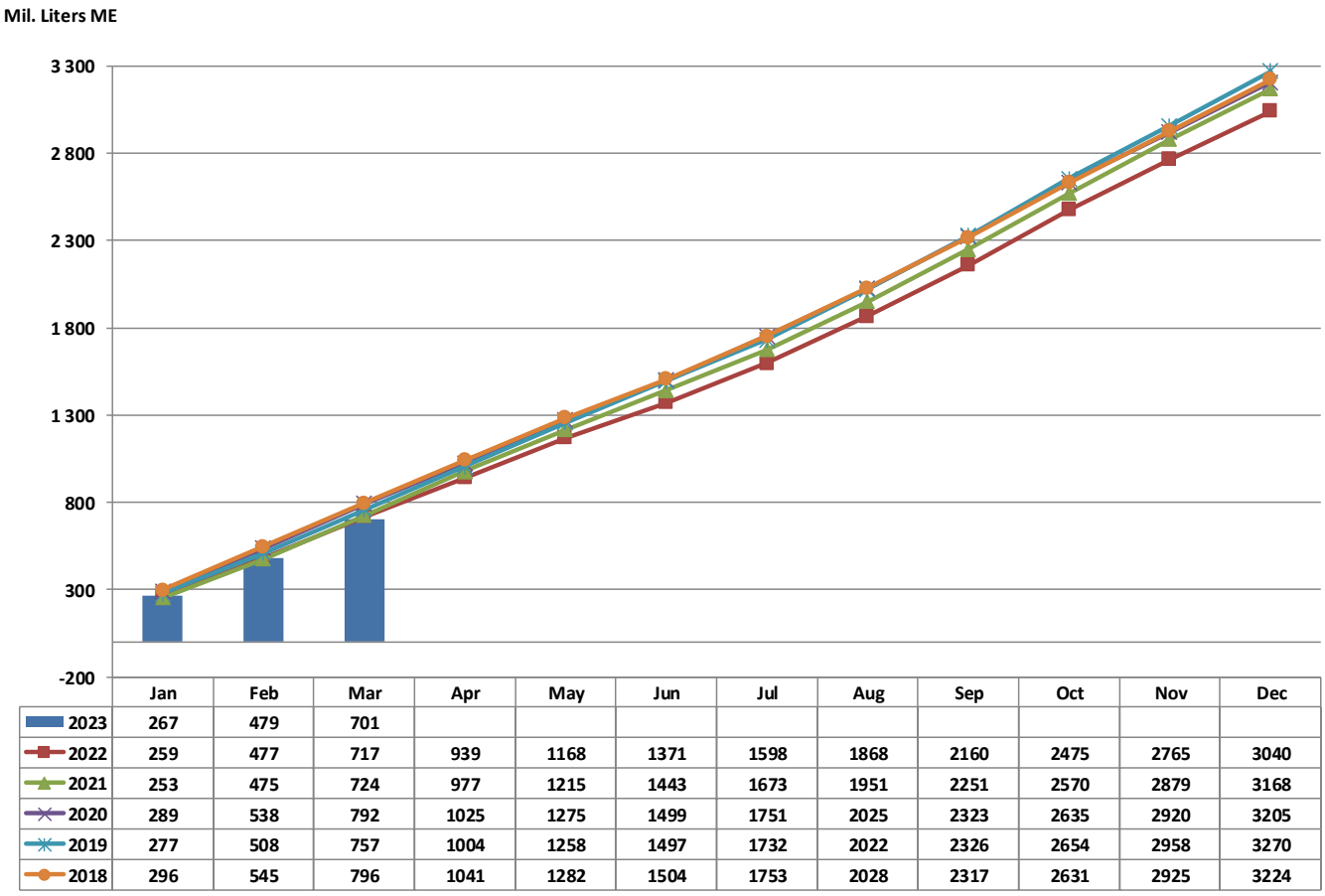
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	2	18	25									
2022	21	37	51	66	76	100	122	144	164	177	191	207
2021	21	35	44	34	38	42	60	68	81	99	110	131
2020	1	6	14	22	18	28	27	41	52	71	97	118
2019	6	21	34	34	33	29	45	48	55	57	64	57
2018	-13	-17	-6	-4	1	13	17	31	47	60	73	82

Figure 5 Cumulative net exports, milk equivalent basis (Mil. L.)

Source: SARS as supplied and calculated by Agri Inspec

1.5 Total milk supply

The total cumulative monthly supply of milk, consisting of locally produced milk less net exports (total exports inclusive of sales to BLNE countries less total imports) is reflected in Figure 6. The total cumulative supply of milk (milk equivalents) for the three months of 2023 is 2.2% less than in the same period in 2022 and if compared to the same period as in 2021 it is 3.1% less. Total cumulative milk supply for 2022 was 4% less than in 2021.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	267	479	701									
2022	259	477	717	939	1168	1371	1598	1868	2160	2475	2765	3040
2021	253	475	724	977	1215	1443	1673	1951	2251	2570	2879	3168
2020	289	538	792	1025	1275	1499	1751	2025	2323	2635	2920	3205
2019	277	508	757	1004	1258	1497	1732	2022	2326	2654	2958	3270
2018	296	545	796	1041	1282	1504	1753	2028	2317	2631	2925	3224

Figure 6 Total Cumulative monthly milk supply

Source: MPO calculation

1.6 Milk demand

Table 1 contains information regarding the change in retail sales quantities for specific dairy products. Changes in the retail price of dairy products impact sales quantities.

Focussing on the 12-month column, where sales quantities of January 2022 to December 2022 are compared to January 2021 to December 2021, a concerning set of percentages are visible. The table reflects that six of the nine products being monitored experienced reduced sales. Of the three that experienced increased sales, two reflect only marginal increases. Demand for dairy products and consequently unprocessed milk, reflect serious negative growth, in the current marketing mix.

The magnitude of reduced sales will have to be taken into consideration by milk farmers and milk processors in an effort to balance supply and demand. Farmers should heed the feedback from processors and make sure they produce in line with supplier contracts.

TABLE 1: PERCENTAGE CHANGE IN RETAIL SALES QUANTITIES FOR SPECIFIC DAIRY PRODUCTS

PRODUCT	Sales in the month of December 2022 versus the sales in the month of December 2021	Sales in the 3 months from October to December 2022 versus the sales in the 3 months from October to December 2021	Sales in the 6 months from July to December 2022 versus the sales in the 6 months from July to December 2021	Sales in the 9 months from April to December 2022 versus the sales in the 9 months from April to December 2021	Sales in the 12 months from January to December 2022 versus the sales in the 12 months from January to December 2021
	percent	percent	percent	percent	percent
Fresh Milk	-6.4	-5.6	-5.6	-6.9	-7.7
UHT milk	-1.1	1.5	-1.9	-0.2	0.05
Flavoured milk	-3.8	-6.1	-3.4	-3.8	-4.3
Yoghurt	-5.5	-4.8	-4.2	-3.5	-3.5
Maas	-4.8	-2.4	0.7	0.2	0.5
Pre-packaged cheese	0.7	1.0	1.3	0.8	1.2
Cream cheese	0.7	-2.0	-3.7	-2.7	-2.8
Butter	8.6	1.4	-4.5	-2.6	-2.1
Cream	-3.5	-5.2	-6.0	-5.8	-6.5

Source: Nielsen supplied by Sampro

Table 2 contains information regarding the changes in the average retail prices of specific dairy products.

The average retail prices of all nine products were higher in December 2022 than in December 2021 (12 months). The retail prices of eight of the nine dairy products being monitored by Nielsen increased by more than the annual consumer inflation rate of 7,2 per cent.

TABLE 2: CHANGES IN THE AVERAGE RETAIL PRICES OF SPECIFIC DAIRY PRODUCTS

PRODUCT	December 2022 versus November 2022 (1 month ago)	December 2022 versus September 2022 (3 months ago)	December 2022 versus June 2022 (6 months ago)	December 2022 versus March 2022 (9 months ago)	December 2022 versus December 2021 (12 months ago)	December 2022 versus June 2021 (18 months ago)	December 2022 versus December 2020 (24 months ago)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
FRESH MILK	0.9	1.9	4.6	7.1	8.6	8.4	14.3
UHT MILK	4.0	-2.9	-0.2	8.1	6.7	6.3	10.3
FLAVOURED MILK	4.9	-0.6	3.5	9.8	12.0	9.1	16.9
YOGHURT	1.4	0.7	9.1	8.3	10.4	10.5	18.0
MAAS	4.3	4.3	11.1	13.3	13.2	13.4	19.1
PRE-PACKAGED CHEESE	5.5	4.1	6.6	11.9	8.4	11.1	13.3
CREAM CHEESE	3.8	2.3	5.0	9.2	8.3	10.4	16.6
BUTTER	-1.1	1.6	5.8	8.8	8.3	7.1	5.5
CREAM	1.8	3.0	6.8	9.7	9.0	12.9	14.0

Source: Nielsen figures supplied by SAMPRO

1.7 Producer prices

Producer prices are indicated in Figure 7. The graph is calculated by the MPO based on information supplied by members and other role players **and is a national average.** The producer price of unprocessed milk is 15% higher in April 2023 compared to April 2022. The April 2023 producer price is preliminary.

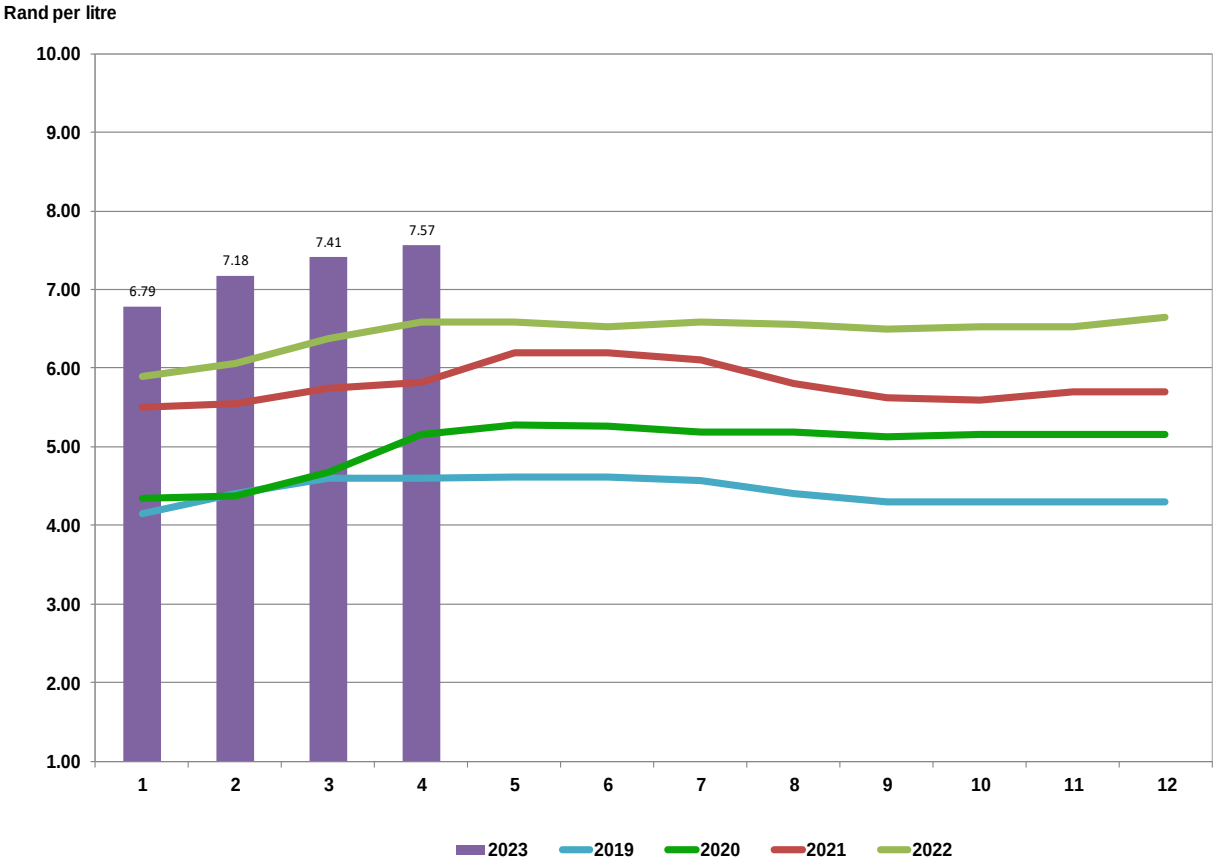


Figure 7 Monthly milk producer prices, 2019-2022

Source: MPO calculations.

1.8 Retail prices

Average retail prices of fresh milk in different packaging are supplied by the South African National Consumer Union (SANCU). The average retail prices of fresh milk per litre for milk packaged in 2-litre plastic containers are compared to producer prices in Figure 8. The farm-to-retail price spread has been reducing since the last quarter of 2021 due to the higher level of producer prices while the average price for milk in a 2-litre plastic container moved sideways during the same period. However, this trend reversed in May 2022, when farmer prices for unprocessed milk started to move sideways while the retail price started to jet, increasing by 11.1%, October year on year. In November 2022 farmer prices started to increase, but the extent to which the increase in retail prices outpaced the increase in the producer price resulted in November 2022 reaching an all-time high in the farm to retail price spread. Since then, the spread reduced but still remain at higher levels compared to the levels prior to November 2022.

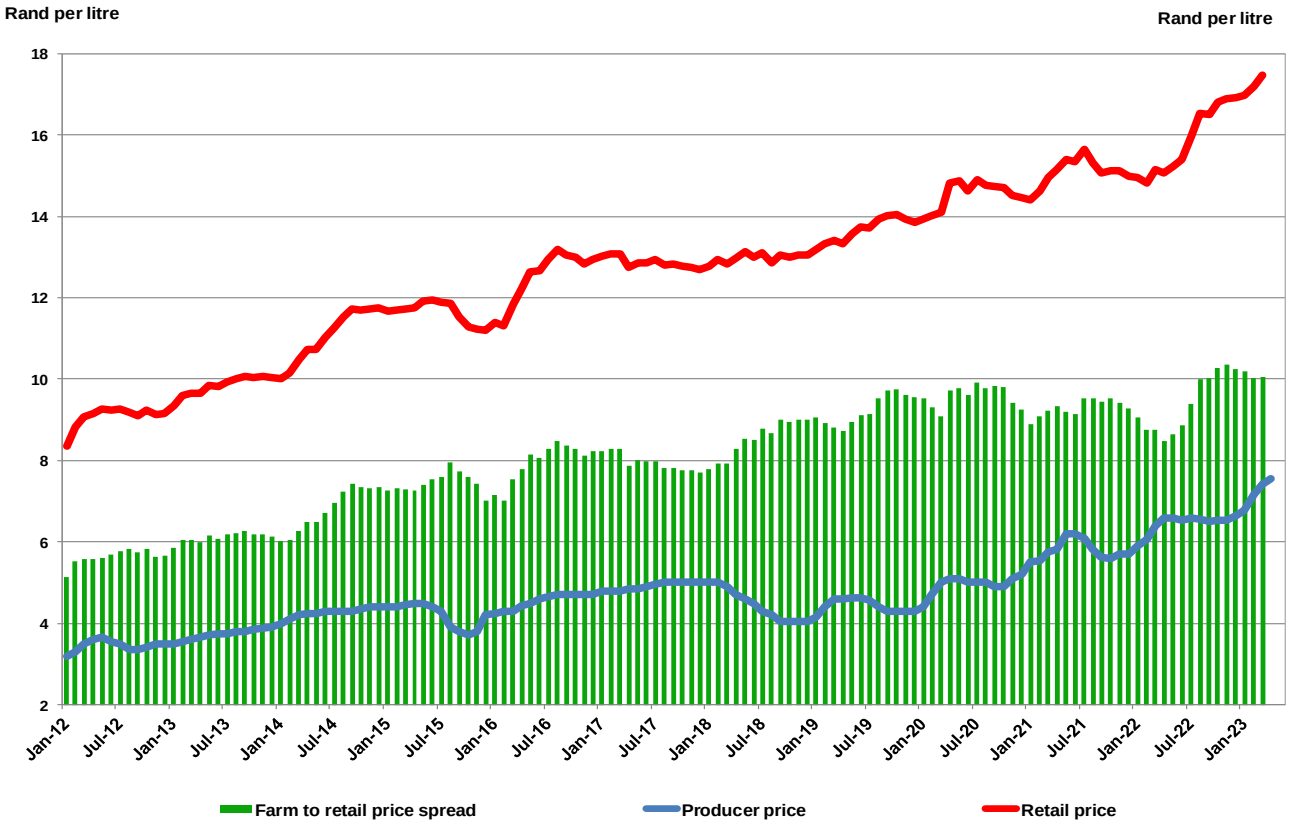


Figure 8 Monthly producer and retail prices, 2012 – March 2023

Source: MPO; SANCU

1.9 Concentrate feed price (Feed meal)

Feed cost is the most important cost item for milk producers. Internationally, the price of maize and soybeans is used as a proxy for feed prices. A derived feed price is, therefore, defined as the weighted price per kilogram of maize and soybeans (70% maize, 30% soybeans). Feed meal, based on Safex nearest month prices, are reflected in Figure 9. Farmers' production decisions are not based on absolute prices, but on relative prices. If the producer price of unprocessed milk decreases in relation to feed prices, farmers will tend to produce less, and if prices increase relative to feed prices, production will increase. Unfavourable milk: feed price ratios will result in slower production growth or lower production over time.

In November 2022, the feed meal price reached a new historic high of R 6700/ton (42.2% higher than in November 2021). This situation changed noteworthy in 2023, with the April 2023 feed meal price 25% lower than November 2022.

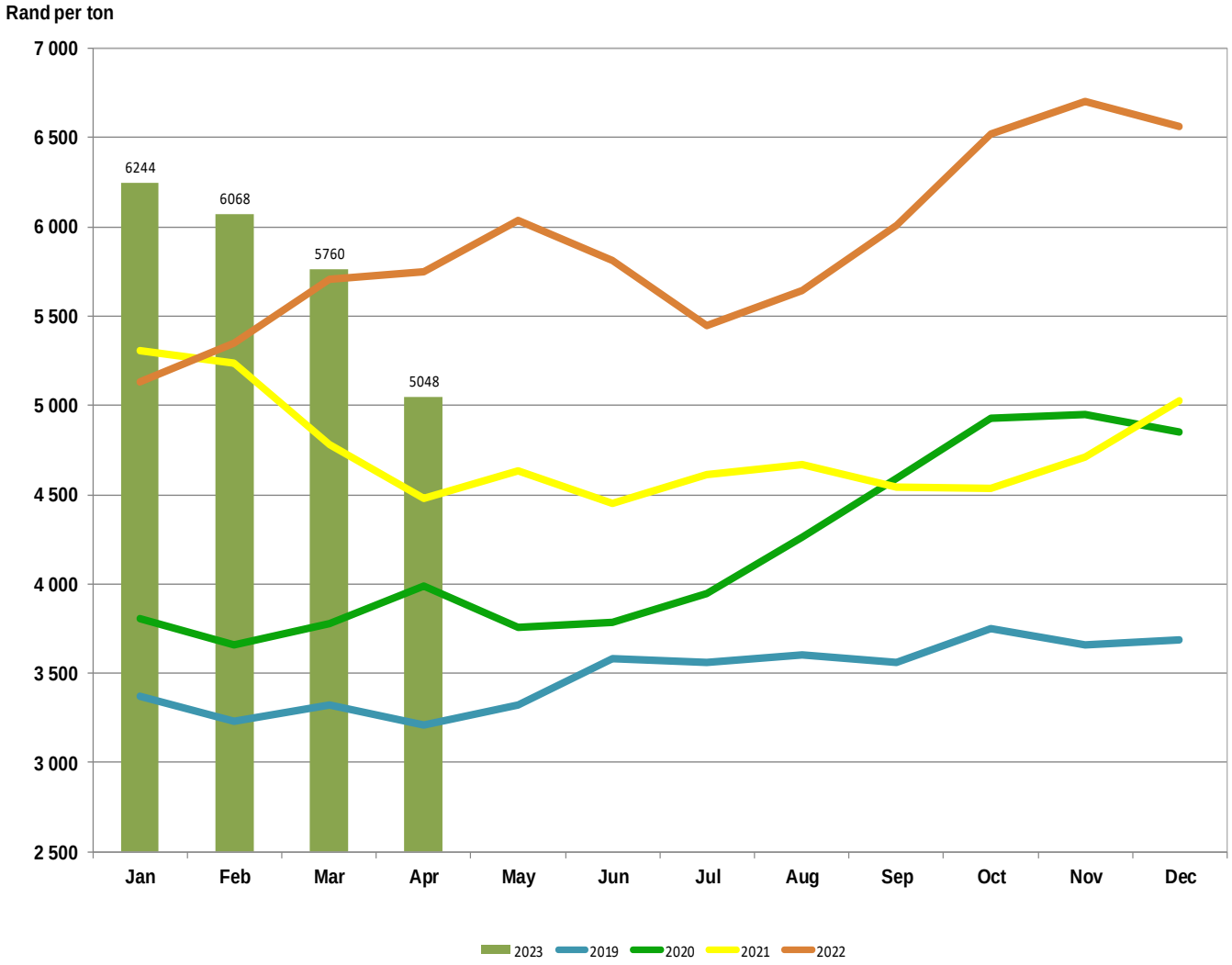
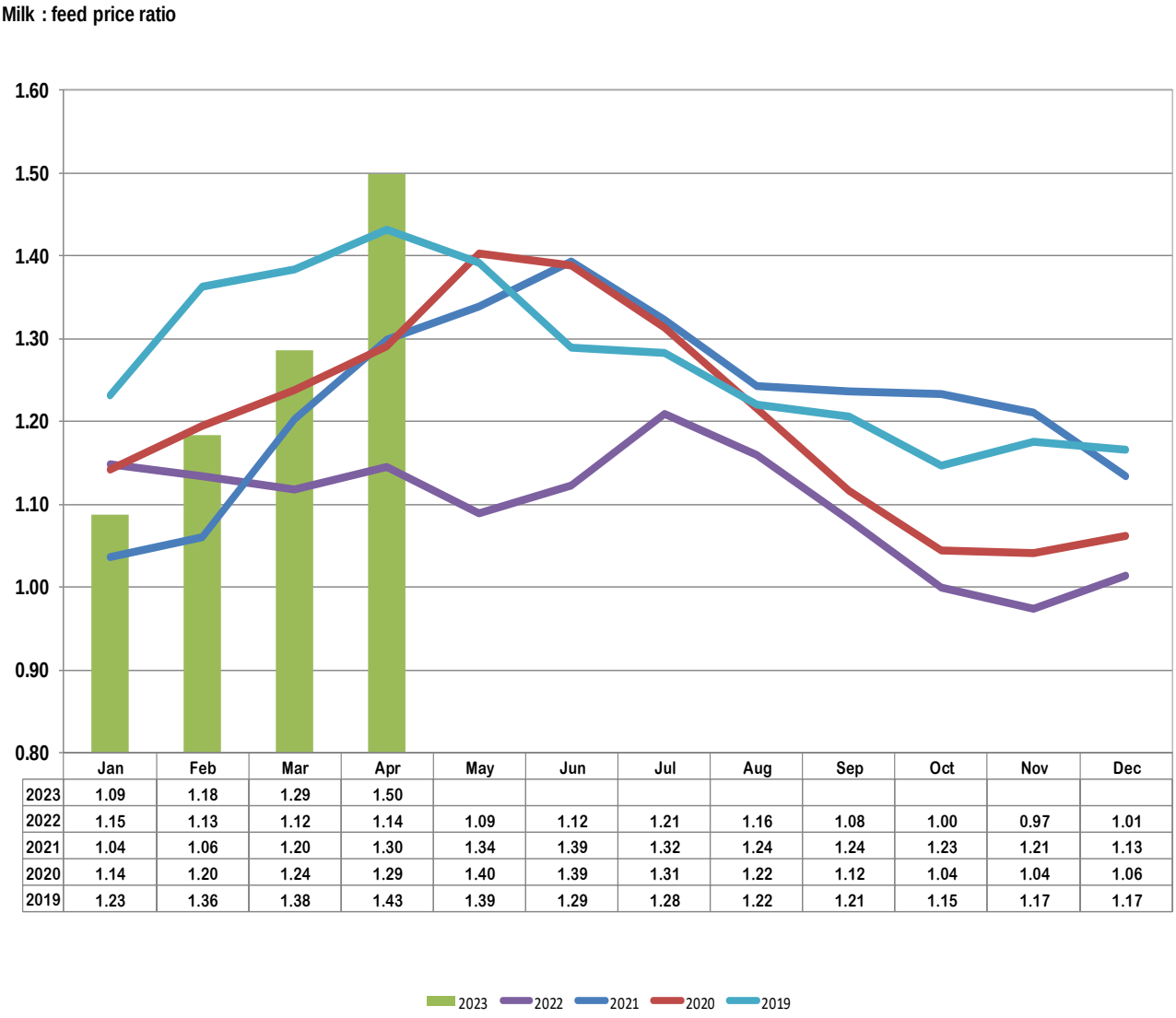


Figure 9 Calculated dairy concentrate feed prices, 2019- April 2023 *Source: Safex nearest month data*

The milk: feed meal price ratio is illustrated in Figure 10. The ratio is since November 2021, at levels where unprocessed milk production growth will be negatively influenced or lower production will take effect. At these levels, many dairy farmers produce at a loss. The ratio was less than 1 for October and November, and coupled with other abnormally high increases in major production inputs could force dairy farmers to apply different quantitative management practices (e.g., less fertiliser/ha = lower yield = lower carrying capacity) that will result in lower unprocessed milk production.

However, this situation changed drastically in 2023 with the ratio improving every month since January 2023 and reaching an all-time high in April 2023 for the period covered in Figure 10. The continues improvement of the ratio was a combination of the lower cost of feed meal (25% lower than the peak price in November 2022) and the increased producer price (16% up from November 2022). At a ratio of 1.5:1 unprocessed milk production should be stimulated. External factors including climatic conditions in the major production areas, rolling blackouts and current herd capacity could suppress the level of stimulation.

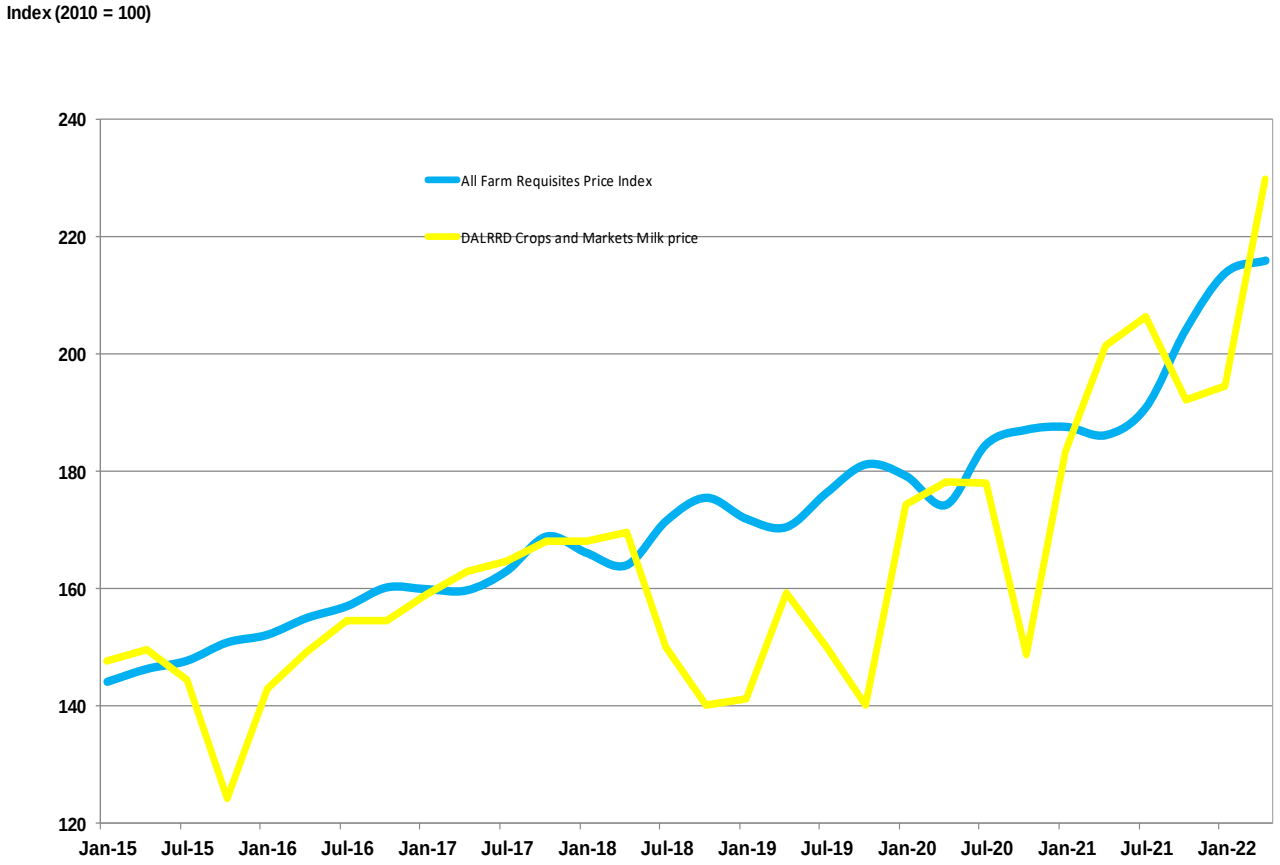


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	1.09	1.18	1.29	1.50								
2022	1.15	1.13	1.12	1.14	1.09	1.12	1.21	1.16	1.08	1.00	0.97	1.01
2021	1.04	1.06	1.20	1.30	1.34	1.39	1.32	1.24	1.24	1.23	1.21	1.13
2020	1.14	1.20	1.24	1.29	1.40	1.39	1.31	1.22	1.12	1.04	1.04	1.06
2019	1.23	1.36	1.38	1.43	1.39	1.29	1.28	1.22	1.21	1.15	1.17	1.17

Figure 10 Milk: concentrate feed price ratio, 2019- April 2023 (*Source: MPO calculations)*

1.10 Input prices

The Department of Agriculture, Land Reform, and Rural Development (DALRRD) publishes price indexes for farm requisites on a quarterly basis. As with all indexes, this index simplifies a very complex data set to a level that does not correspond to individual farm data sets. However, the trend in this index indicates the direction of input price changes.



Source: MPO and DALRRD, Crops, and Markets

Figure 11 Quarterly Farm Requisites Price Index and Producer Price Index Jan 2015 – April 2022.

1.11 International food prices

The FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average of five commodity group price indices weighted by the average export shares of each of the groups over 2014-2016. The five commodities are meat, dairy, cereals, sugar and vegetable oil.

Thes commodity indices started to turn south in May/June 2022, and continued on that trend into 2023 except for sugar. Although prices started to come down, the April 2023 aggregate food price index was still 36% above the pre-Covid-19 levels, meat 17%, dairy also 17%, cereals 44% while sugar reversed the downward trend and is up by 89%. According to a Trading Economics publication, food inflation in the EU peaked in March 2023 at 19.2% and dropped to 16.4% in April, in the UK the April 2023 food inflation registered 19%, in the USA food inflation peaked on 11.4% in August 2022 and registered 7.7% in April 2023, in China food inflation peaked on 8.8% in September 2022 and registered 0.4% in April 2023 and in South Africa food inflation was 14.3% in April 2023 (source Stats SA). It seems that in some regions of the world supply chains are still struggling to meet demand, inherent input costs are

still keeping food prices relatively high and logistical challenges persist although at a lesser level.

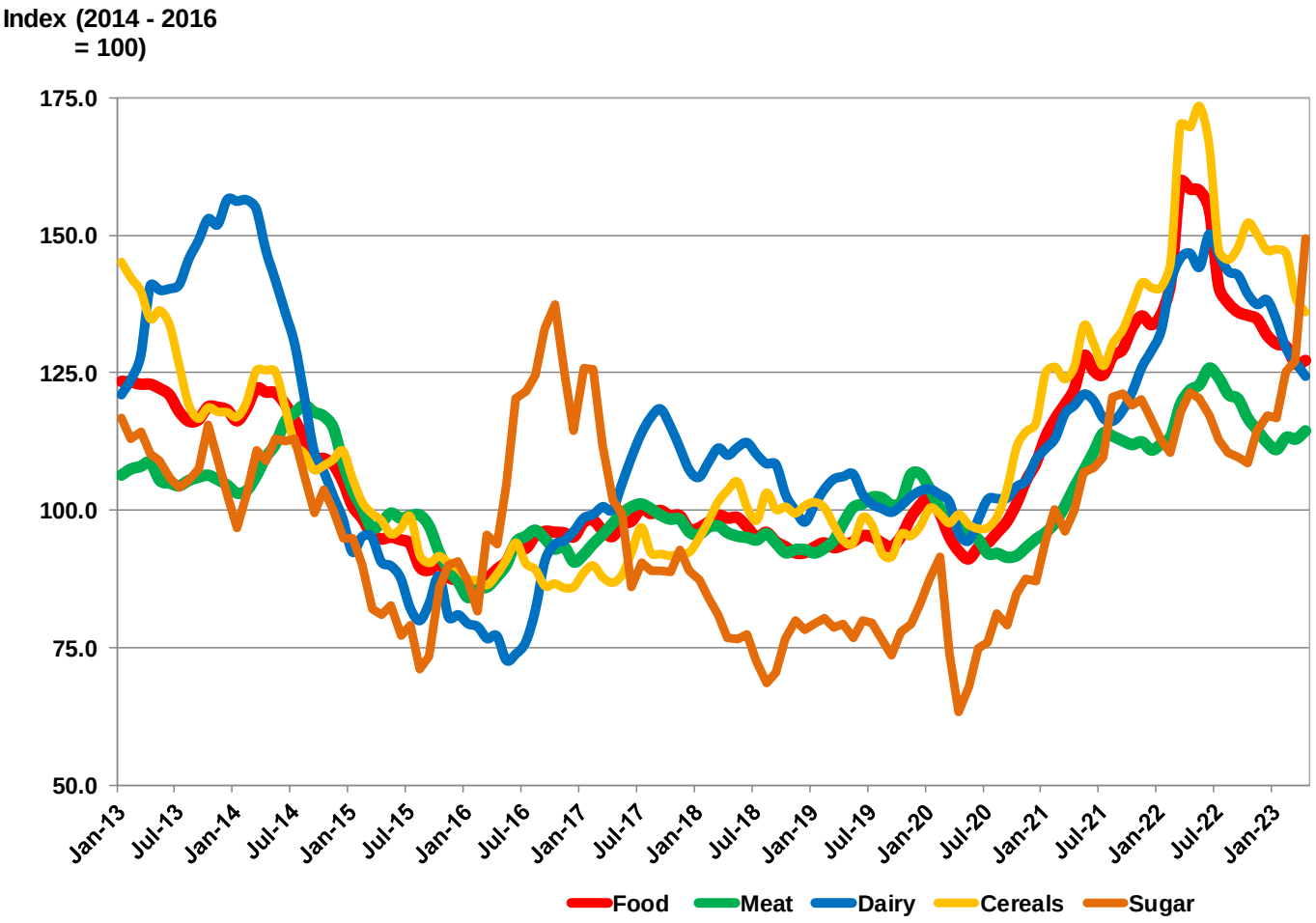


Figure 12 Monthly FAO food price indexes 2013 to April 2023

Source: FAO food price index

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 and/or offers.

Figure 13 shows the movement of the Global Dairy Trade (GDT) price index inclusive of November 2021. At the initial stages of the worldwide pandemic, the index zig-zagged with the index showing an 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. Both December 2020 and January 2021 registered strong upward momentum. **A double upward break occurred in March 2021. The 1 100 and 1 200 index resistance levels were sliced through, showing strong demand with limited supply.** The April index moved sideways, May retreated to below the 1 300-index level, and the June through August trend remained downward. It seems that global manufacturing and shipping time lost during the hard lockdown in 2020 has been partially made good with better supply and distribution causing the prices to reduce. However, the September index bounced back from 1168 points

in August 2021 to 1223 points in September 2021. The upward trend continued until December 2021, breaking the 1 300-resistance level once again at 1 344 points.

The index increased aggressively in January and February 2022 and in March averaged 1586 points, up 100 points (6.7 per cent) from February 2022 and setting a new record high, lifting the index 20.1 per cent above its value from a year ago. **A double downward break occurred in May 2022. The 1 500 and 1 400 index support levels were sliced through, indicating a possible new trend and new price levels.** In June 2022 the market took some profit, with July decreasing through the 1 300 points support level and August 2022 obliterating the 1200 points support level and November 2022 going through the 1100 level. The April and May 2023 indices are now in the territory immediately before the Covid-19 pandemic with the April index testing the 1000 points support level. The index dropped from the March 2022 peak to the current level with 36%.

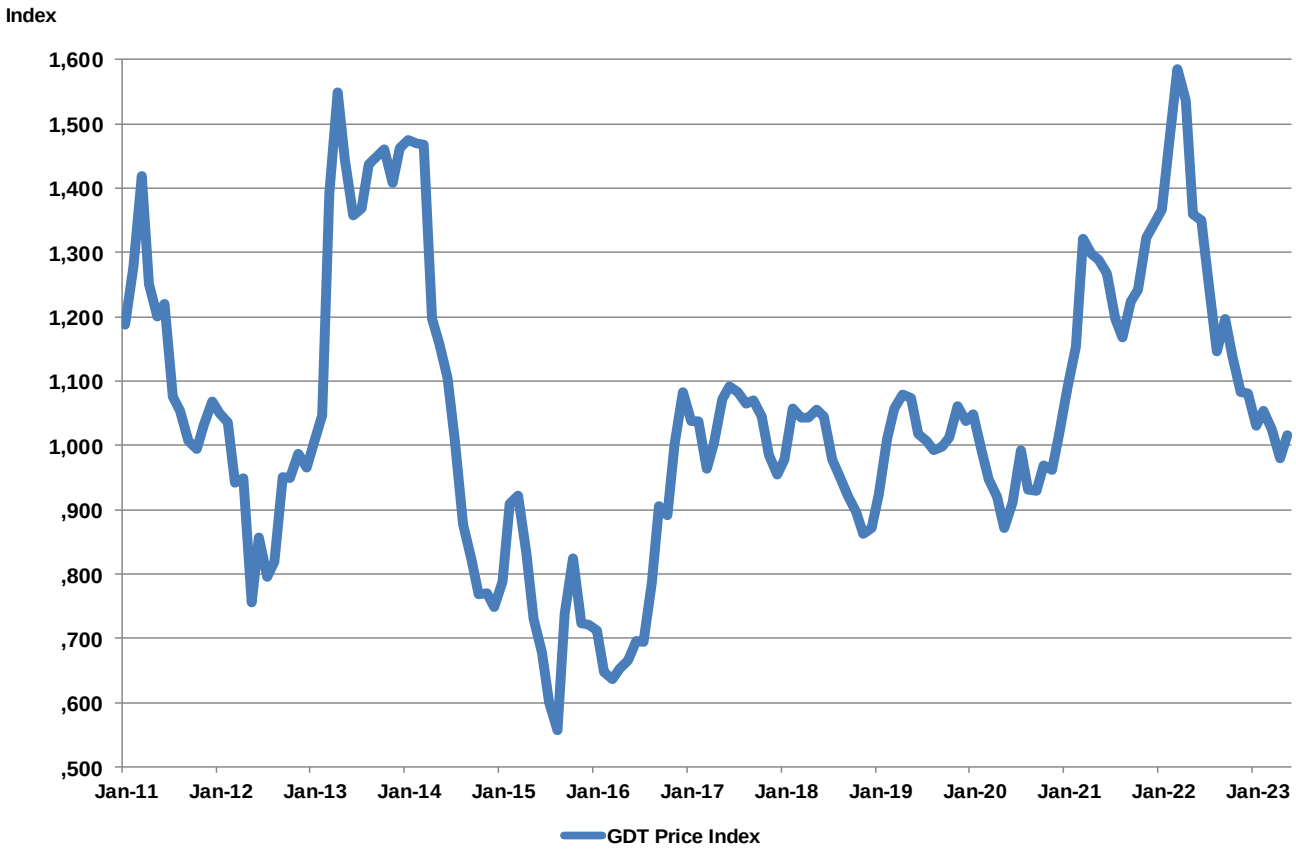


Figure 13 Global dairy trade-weighted price index 2011 to May 2023

Source: Global dairy trade

Figure 14 shows international Free On Board (FOB) prices for milk powders, butter, and Cheddar cheese. International product prices (Figure 14) for butter, Cheddar, full-cream milk powder (FMP), and skimmed milk powder (SMP), as published by the United States Department of Agriculture (USDA) and converted to rand prices by the MPO (rand price source: the South African Reserve Bank).

In ZAR terms the price for butter decreased from the March 2022 peak with 18% to the April 2023 level but is still some 14% above the prices as before the Covid-19 pandemic and Russian attack on the Ukraine, the price for Cheddar decreased from the April 2022 peak with 16% to the April 2023 level but is still some 21% above the price levels as before the Covid-19 pandemic and Russian attack on the Ukraine, the price for SMP decreased from the March 2022 peak with 30% to the April 2023 level but is still some 32% above the price levels as before the Covid-19 pandemic and Russian attack on the Ukraine and the price for FMP decreased from the March 2022 peak with 18% to the April 2023 level but is still some 29% above the prices as before the Covid-19 pandemic and Russian attack on the Ukraine. The role of the ZAR is clearly visible in the FOB price levels of April 2023 and with the May slap that the ZAR got will further hurt imports.

In USD terms prices for the four dairy commodities, butter decreased with 33%, SMP by 43%, Cheddar by 31% and FMP by 27% from the March 2022 peak prices and are now in the same territory as before the Covid-19 pandemic and Russian attack on the Ukraine.

The Global Dairy Trade Price Index (GDT index) (Figure 13) confirms the mood change in the market – prices losing significant steam and starting to trade at levels associated with the period before the disruptors of the Covid-19 pandemic and Russian attack on the Ukraine.

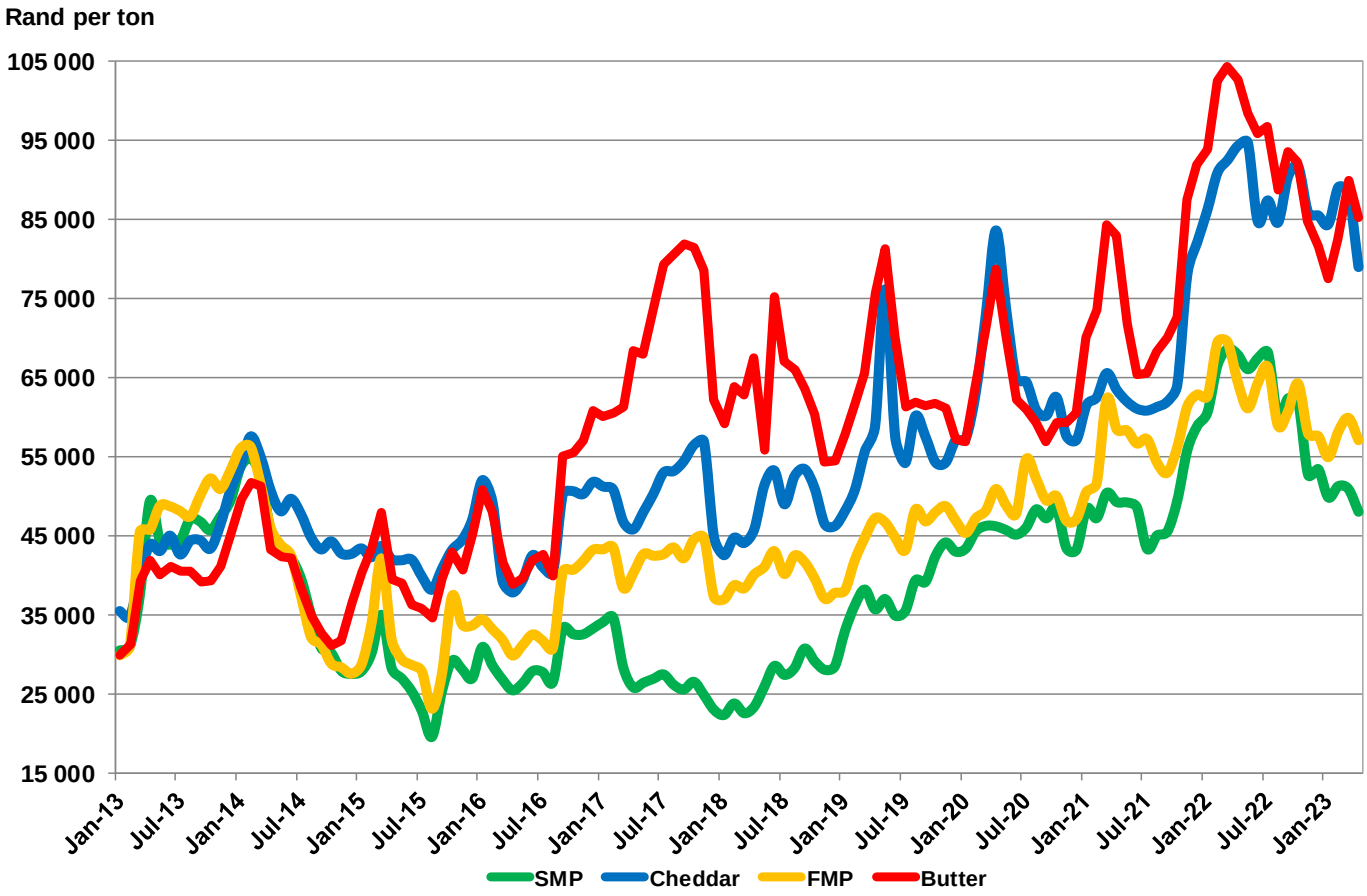


Figure 14 International dairy product prices 2013 to April 2023 (Rand/ton)

Source: USDA, SA Reserve Bank

1.12 Import parity and producer prices

The MPO's benchmark import parity is based on the published USDA FOB prices, SA Rand/$ exchange rates, standard import tariffs, and import and production costs as supplied by industry sources. The calculation methodology is standardised and while import parity may differ for a specific importer, based on a specific import mix and individual cost structure, the trend indicated by the import parity index applies to all importers. The aggressive upward move of import parity since July 2021 is on the back of record-high international dairy product prices (butter and skimmed milk powder) and the depreciation of the ZAR. International product prices started to decrease in April 2022 while producer prices moved sideways with the consequential decrease in import parity. The downward trend in international dairy products prices continued into 2023 and local producer prices started to increase in December 2022 and that trend continued into April 2023. The effect of the decrease in international dairy products prices while local producer prices increased, decreased the import parity gap to the lowest level since March 2018.

Import parity and producer prices are reflected in Figure 15.

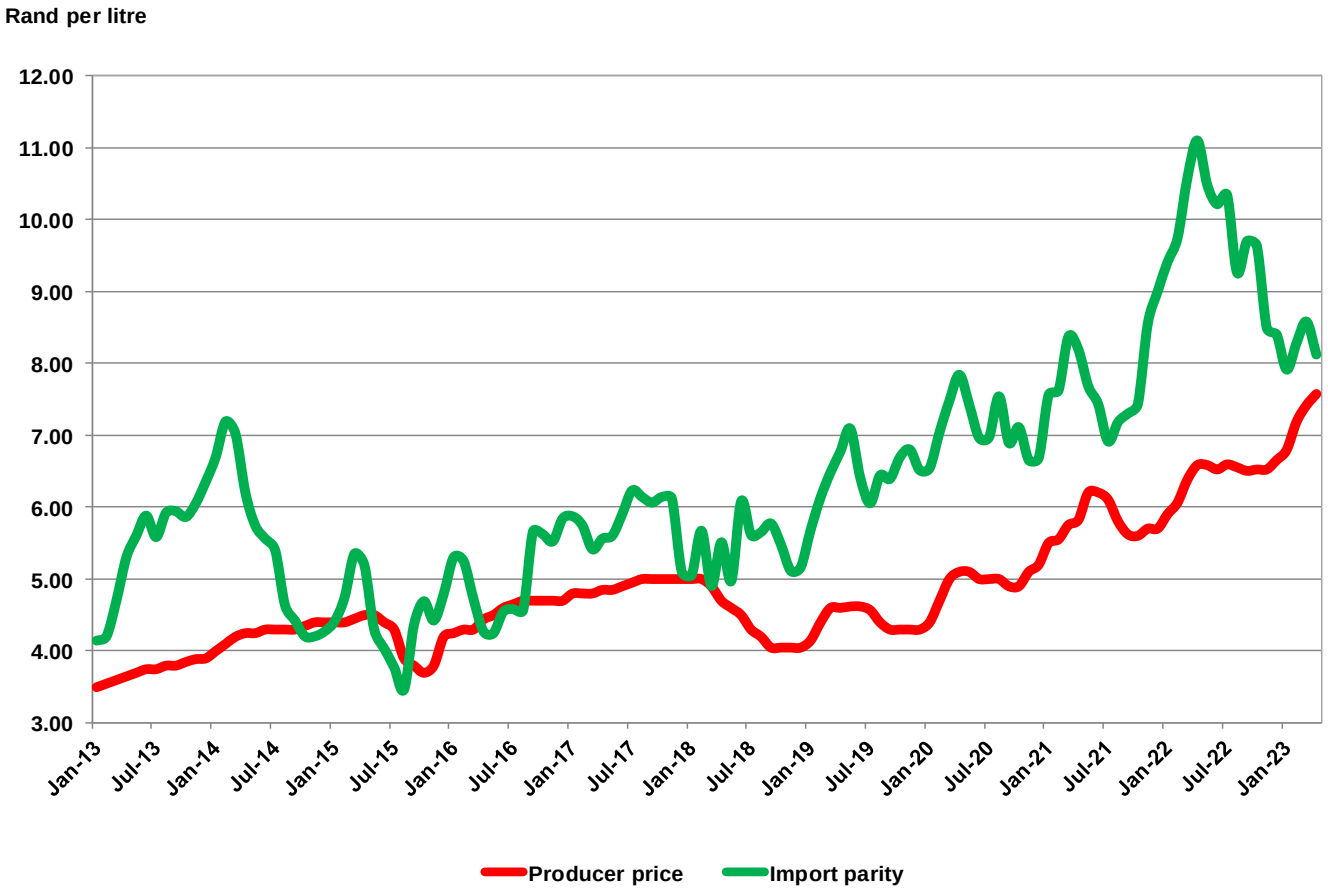


Figure 15 Monthly producer and import parity prices 2013 to April 2023.

Source: MPO calculations, November 2022 preliminary

Import parity and producer prices
Import parity at or below average producer prices implies that processors can import dairy products at current international prices at a lower price per litre than they have to pay local producers. An importing processor will still have to service the fixed cost of infrastructure and an importing retailer has to pay for packaging and manage returns.

2. Changes in cumulative unprocessed milk production in the major dairy exporting countries

Changes (%) in cumulative unprocessed milk production in the major dairy exporting countries and South Africa 2018 – March 2023.

	2018	2019	2020	2021	2022	2023*
USA	**1.1**	**0.3**	**2.2**	**1.3**	**-0.1**	**1.0**
EU27	**1.4**	**0.4**	**1.6**	**-0.3**	**-0.4**	**0.6**
AUS	**0.9**	**-7.3**	**2.8**	**-0.9**	**-6.4**	**-4.0**
NZ	**1.3**	**-0.8**	**0.4**	**0.1**	**-5.0**	**1.3**
URU	**5.7**	**-4.0**	**5.4**	**1.8**	**-1.8**	**-4.7**
ARG	**6.4**	**-2.3**	**7.4**	**4.0**	**0.7**	**-0.2**
ZA	**5.0**	**0.7**	**-0.16**	**-0.71**	**-0.54**	**-2.2**

(Source: CLAL and Milk SA) *(2023 first three months; SA first four months)

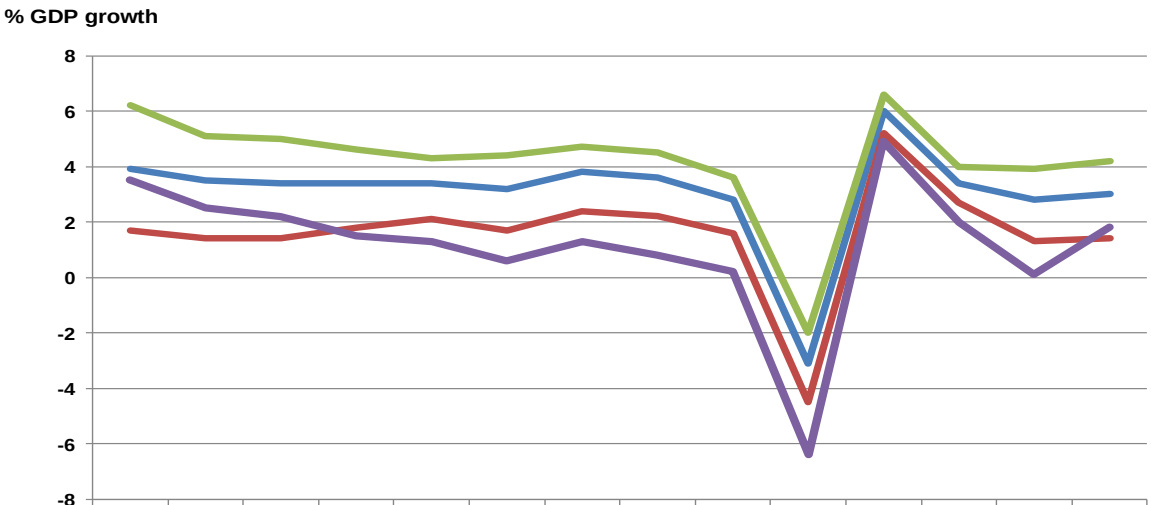
Milk production for the first three months in the USA, EU27 and Nieu Zeeland turned from negative growth in 2022 to positive growth in 2023. Argentina went from positive growth to negative growth while Australia, Uruguay and South Africa remained in negative territory. The methodology used for comparison is based on the current year compared with the same period in the previous year.

3. Economic Overview

3.1 International economic outlook

The International Monetary Fund's (IMF) April 2023 World Economic Outlook presented the lowest medium-term forecast in decades. Global economic growth for 2023 is forecast at 2,8% (down from 3,3% in 2022), to settle at 3% for the next five years. Advanced economies are expected to see an especially pronounced growth slowdown, from 2,7% in 2022 to 1,3% in 2023. Food and energy prices decreased but underlying price pressures remain, with tight labour markets causing inflation to decline more slowly, skewing the outlook heavily to the downside risk, which could see global economic growth slumping to 2,5% in 2023, with advanced economies growth falling below 1%.

Although bottlenecks in the supply chain and high inherent input prices are expected to eventually ease as production elsewhere responds to higher prices and new capacity becomes operational, supply shortages in some sectors are expected to last well into 2023.



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*	2023**	2024**
World	3.9	3.5	3.4	3.4	3.4	3.2	3.8	3.6	2.8	-3.1	6	3.4	2.8	3
Advanced economies	1.7	1.4	1.4	1.8	2.1	1.7	2.4	2.2	1.6	-4.5	5.2	2.7	1.3	1.4
Developing economies	6.2	5.1	5	4.6	4.3	4.4	4.7	4.5	3.6	-2	6.6	4	3.9	4.2
South Africa	3.5	2.5	2.2	1.5	1.3	0.6	1.3	0.8	0.2	-6.4	4.9	2	0.1	1.8

Figure 16 International economic growth and estimated growth, 2011 to 2024.

* Estimate
** Projection

Source: IMF WEO May 2023

3.2 South African economy

3.2.1 Economic activity and growth

Indicators of economic activity are provided by the SA Reserve Bank in the form of co-incident, leading, and lagging indicators. The monthly movement of the leading and co-incident indicators of economic activity is reflected in Figure 17. The co-incident and leading indicator respectively started with a negative trend from March and May 2022. The leading indicator measuring future economic activity is on a downward trend for the past 10 months.

Indicators of economic activity
The co-incident indicator of economic activity shows whether the economy is in an upwards or downward phase of the business cycle. The leading indicator shows possible changes in economic activity in the future.

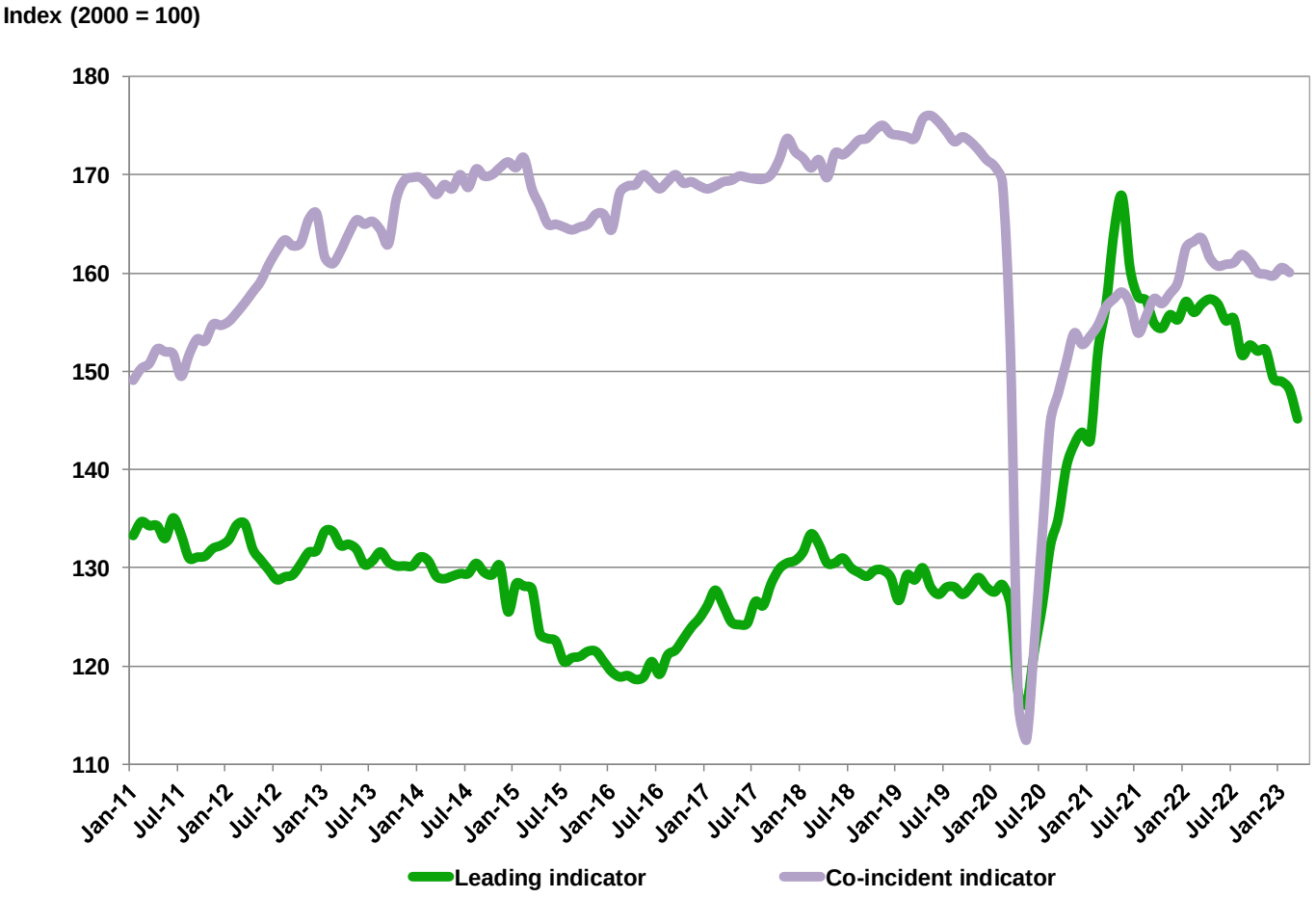


Figure 17 Leading and co-incident indicators of economic activity from 2011 to March 2023. (*Source: SARB)*

Figure 18 shows the quarterly growth rate of the SA gross domestic product. In the fourth quarter of 2022, the real gross domestic product decreased by 1.3%. Seven industries of the domestic product, which consists of ten industries, recorded negative growth between the third and the fourth quarters of 2022. The industries that decreased were the agricultural industry by 3.3% (coming from a high base in the third quarter of 2022), mining and quarrying by 3.2%, finance, real estate and business services by 2.3%, trade, catering and accommodation by 2.1%, electricity, gas and water by 1.9%, manufacturing industry by 0.9% and general government services by 0.7%. Industries that increased were the construction by 0.5%, transport, storage and communication by 0.7% and personal services by 0.2%.

The annual GDP increased by 2.0% in 2022, and were primarily led by increased economic activity in transport, storage and communication by 8.6%, finance, real estate and business services by 3.9% and trade, catering and accommodation by 3.5%.

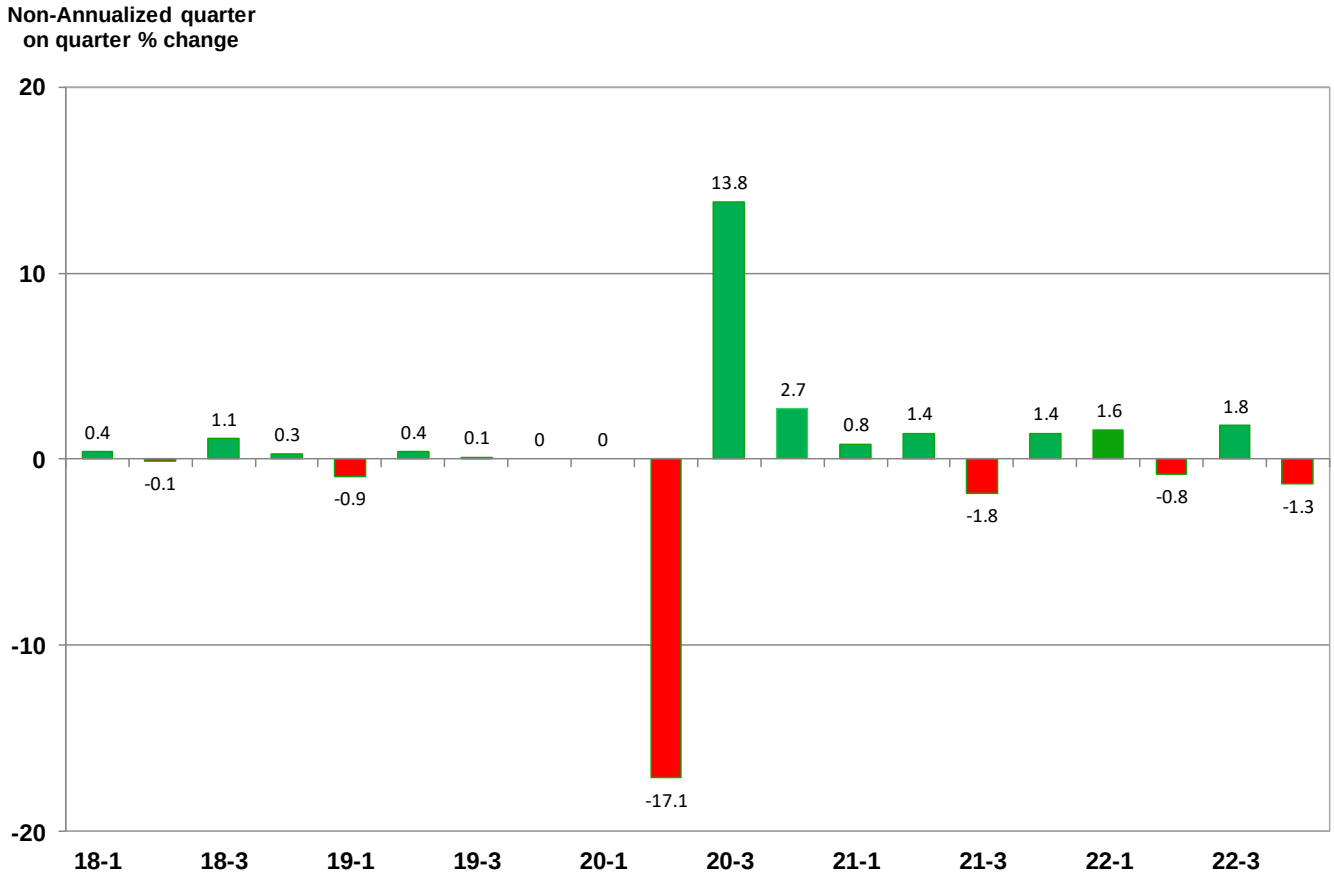


Figure 18 Quarterly change in real gross domestic product from the first quarter of 2018 to the last quarter of 2022.

Source: Stats SA

3.2.2 Household debt and income

Household debt increased in the third quarter of 2020 following an unprecedented decline in the second quarter. However, household debt as a percentage of nominal disposable income decreased from 86,5% in the second quarter of 2020 to 75,7% in the third quarter, as the increase in household disposable income exceeded the increase in debt, a result of the COVID-19 restrictions. Inflation

The consumer price index and monthly inflation rate are reflected in Figure 19. Annual consumer price inflation was 6.8% in April 2023, down from 7.1% in March 2023. The main contributors were food and non-alcoholic beverages increasing by 13.9% year-on-year, transport increasing by 7.6% year-on-year and miscellaneous goods and services by 6.3%. The April CPI rate suggests that inflation is cooling down but the extent of the depreciation of the ZAR in May 2023 could start to fuel the inflation rate once again.

Consumer price index (CPI) and inflation

The CPI is the value of a basket of goods and services at the retail price level. The change in the value of this basket compared to the same period a year ago is called the rate of inflation. The Reserve Bank tries to keep the rate of inflation between 3% and 6%.

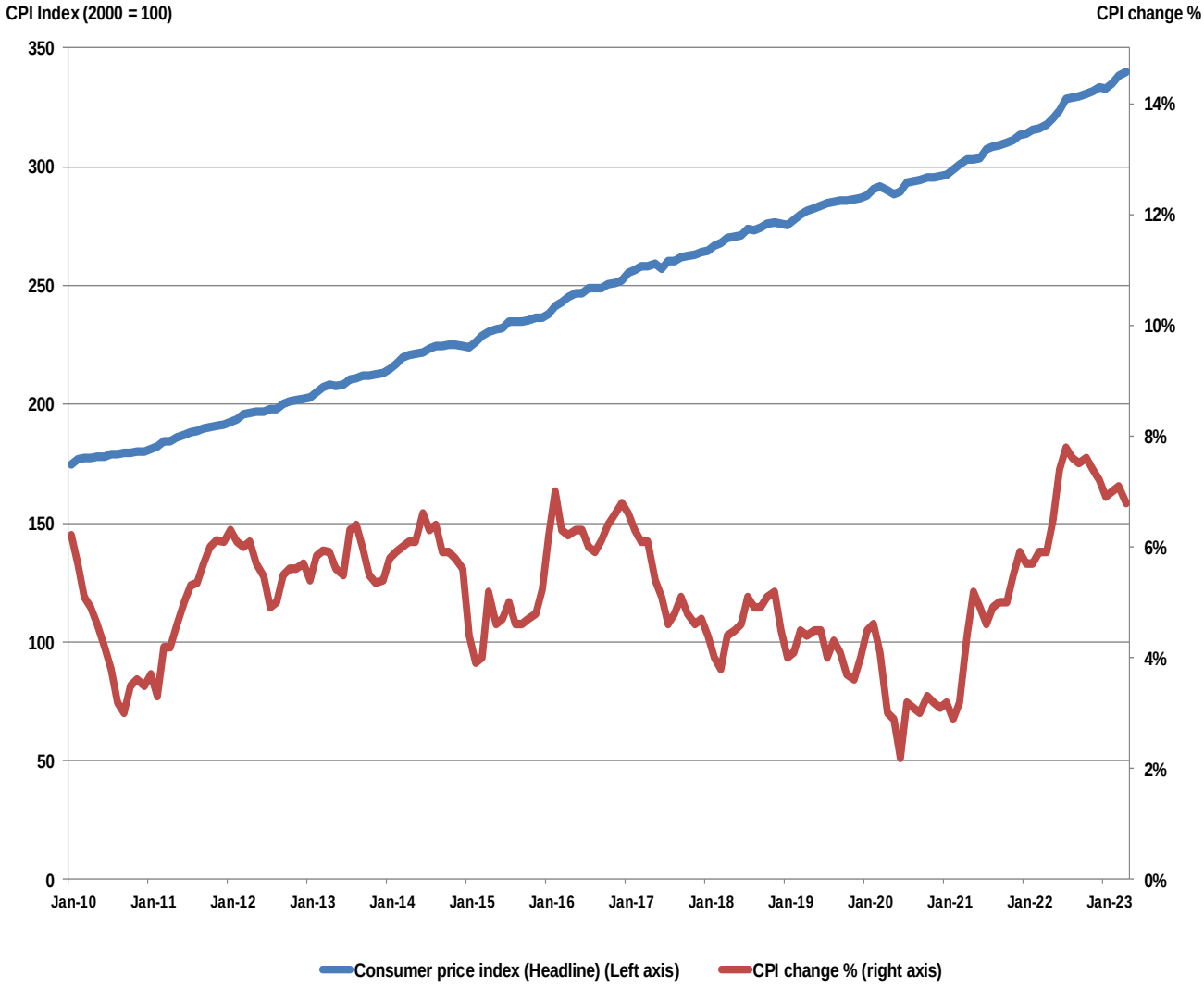


Figure 19 Consumer price index and consumer price inflation, 2010- April 2023

Source: Stats SA