

What's the state of play for dairy – 2023 and beyond

Joanne Bills and Steve Spencer

fresh *agenda*

Freshagenda

- Specialist analysis business
- Melbourne base
- Analysis and consulting
 - Dairy and other agrifood sectors
- 3 dairy analysis platforms
- Global client base

globaldairydirections

Global dairy fundamentals



**Australian
Dairy Insights**

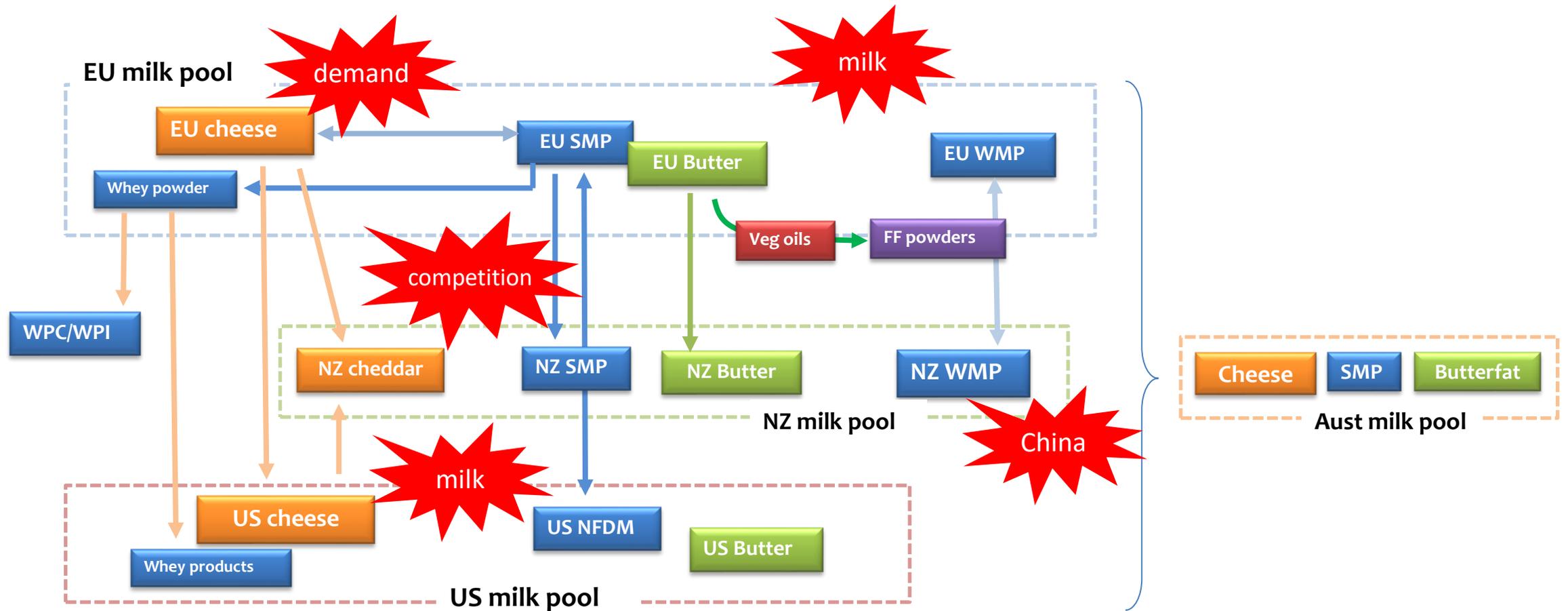


LongView2035

Scenario planning platform

State of play in the global market

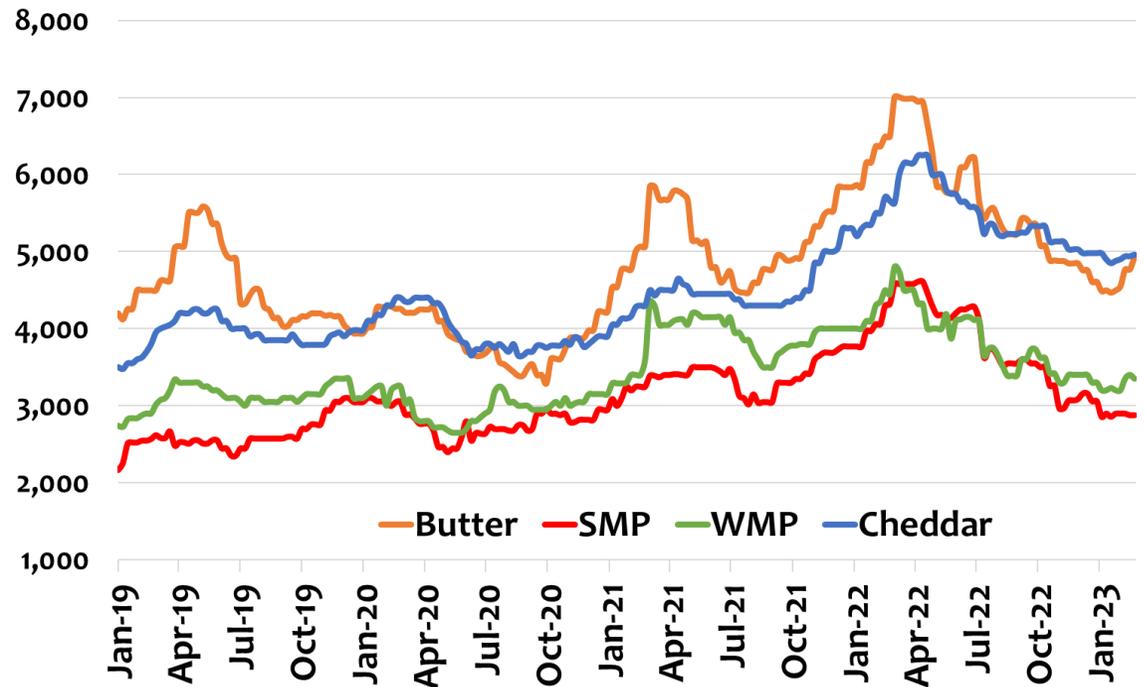
How commodity values are influenced



What's happening in the world?

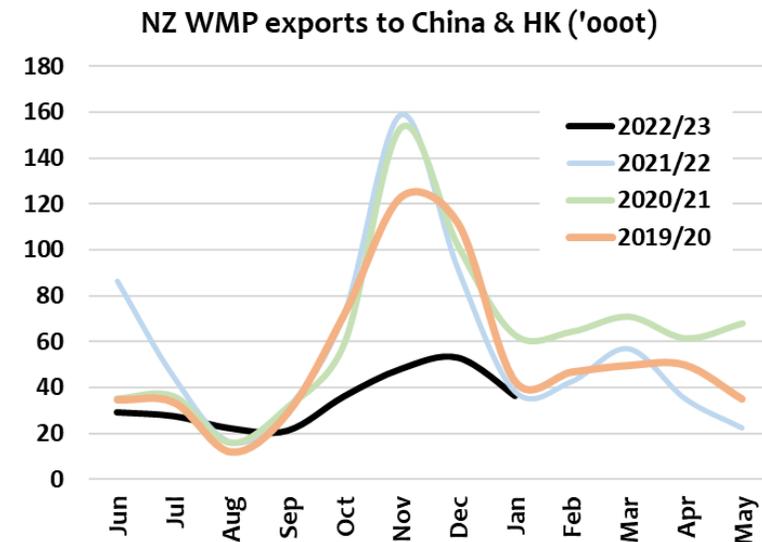
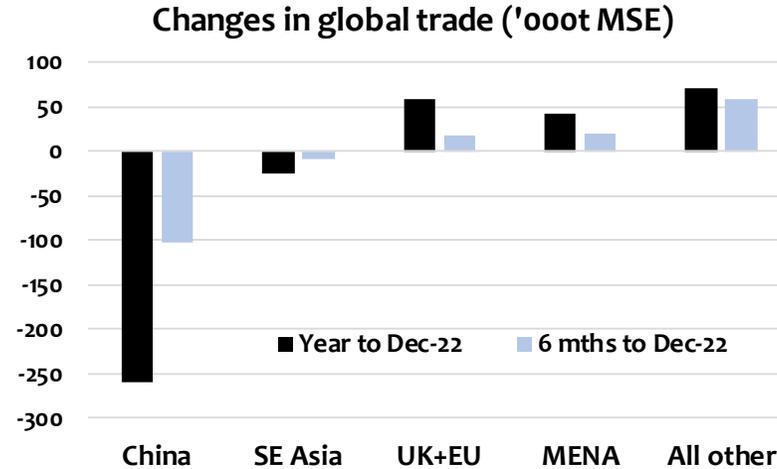
- Commodity prices past the bottom in this cycle
- Risks ahead
- Demand reviving
 - Still weak in the EU
 - Trade remains patchy
- Slowing growth in milk output
- Market firmer H2-2023 into 2024

Oceania spot prices - US\$/t since 2019



What's happening in the world?

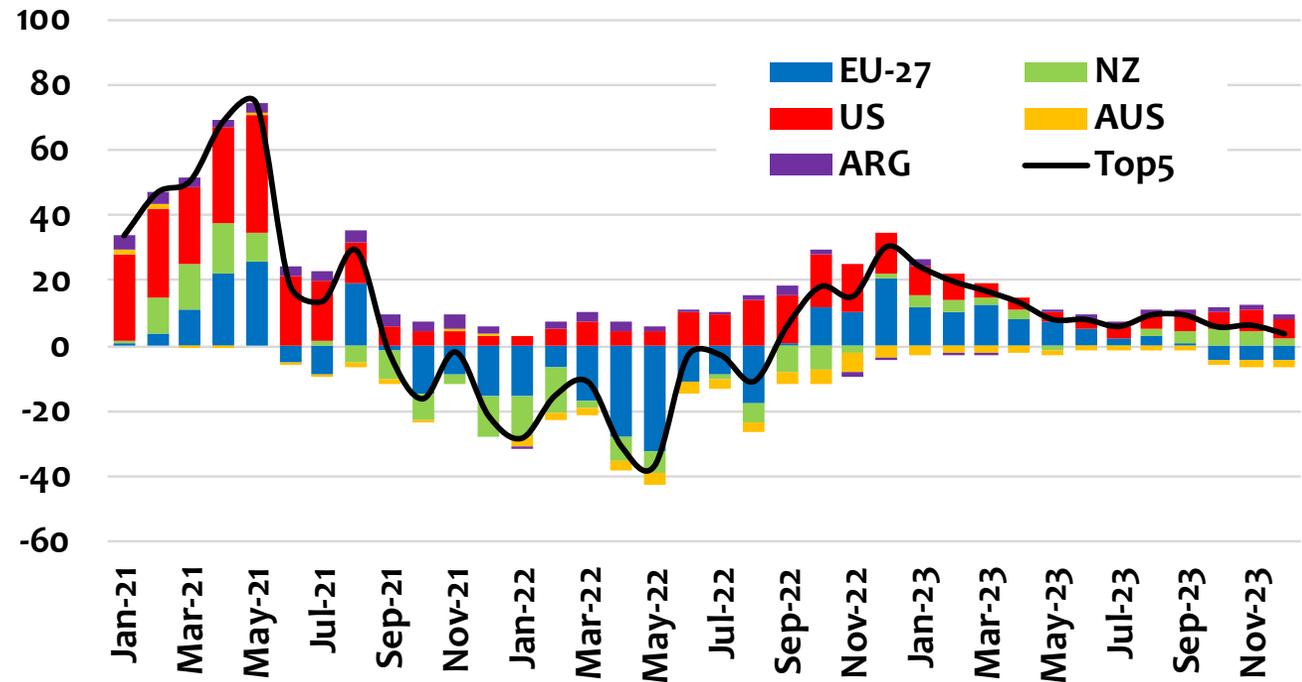
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YOY growth in kgMS production ('000t)



Consumers seeking value

EU and US

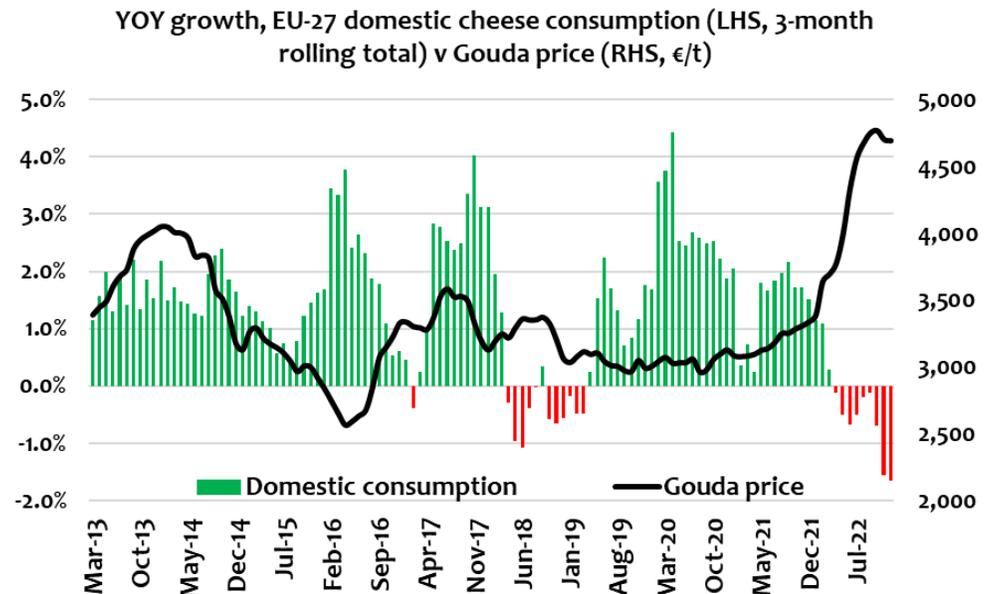
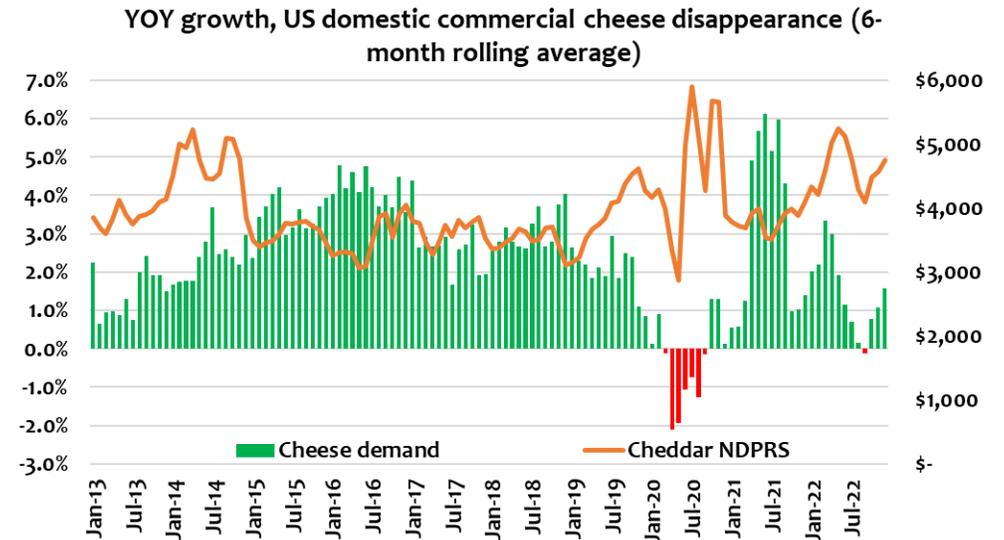
- Reducing purchase volumes of food (prices till rising!)
- Private labels shares in EU up 3-5%
- Discounters shares rising
- Trading down in US to more cheese

Australia

- Higher private label shares in cheese and milk category
- Trading down to smaller packs
- Still strong YOY growth in eating out (at much higher prices)

Consumer trends in US & EU

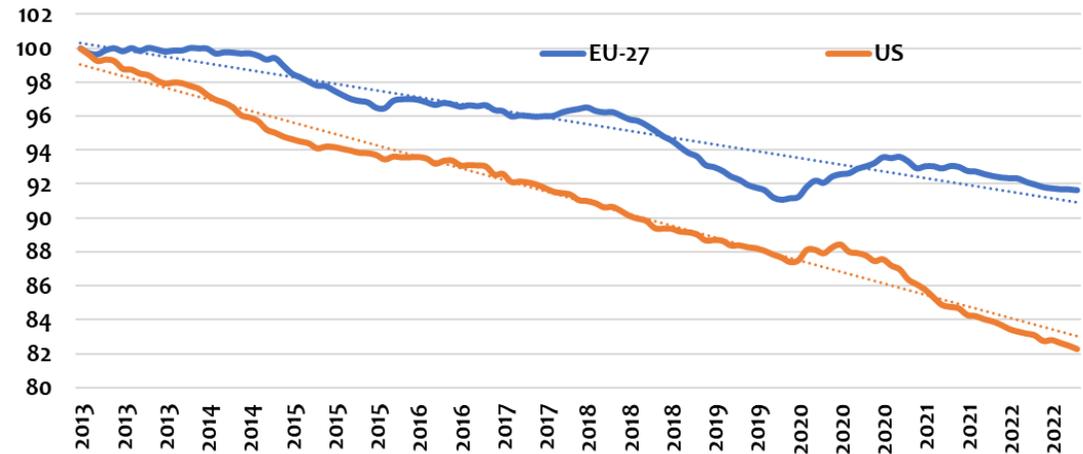
- Cheese more resilient through economic cycles in the US
- More traditional in EU, sensitive to price for discretionary/premium



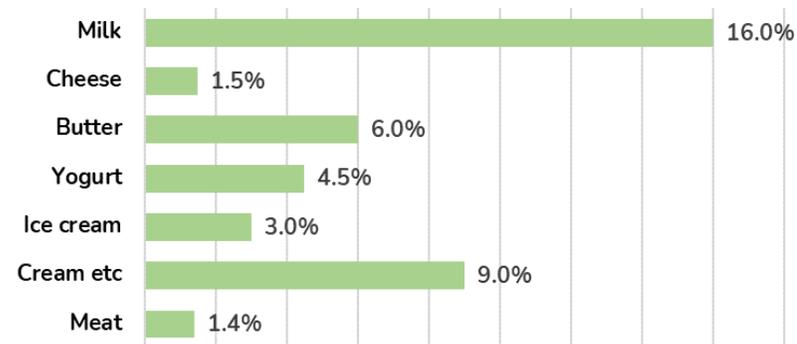
Consumer trends in US & EU

- Drinking milk under attack
 - Diet + sustainability
 - Plant-based rising but price sensitive
- Plant based rising
- US 16%, EU 5%
- Oat rising fast, Almond, Soy losing

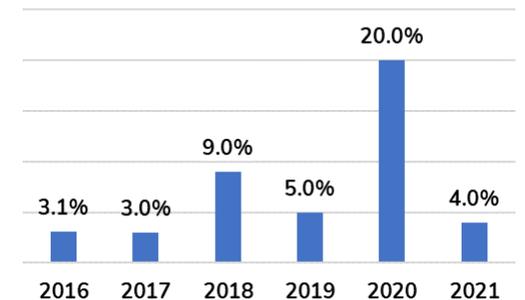
Drinking milk sales index (Rolling annual total, Jan-13=100)



Estimated plant based products share of US retail sales in 2021

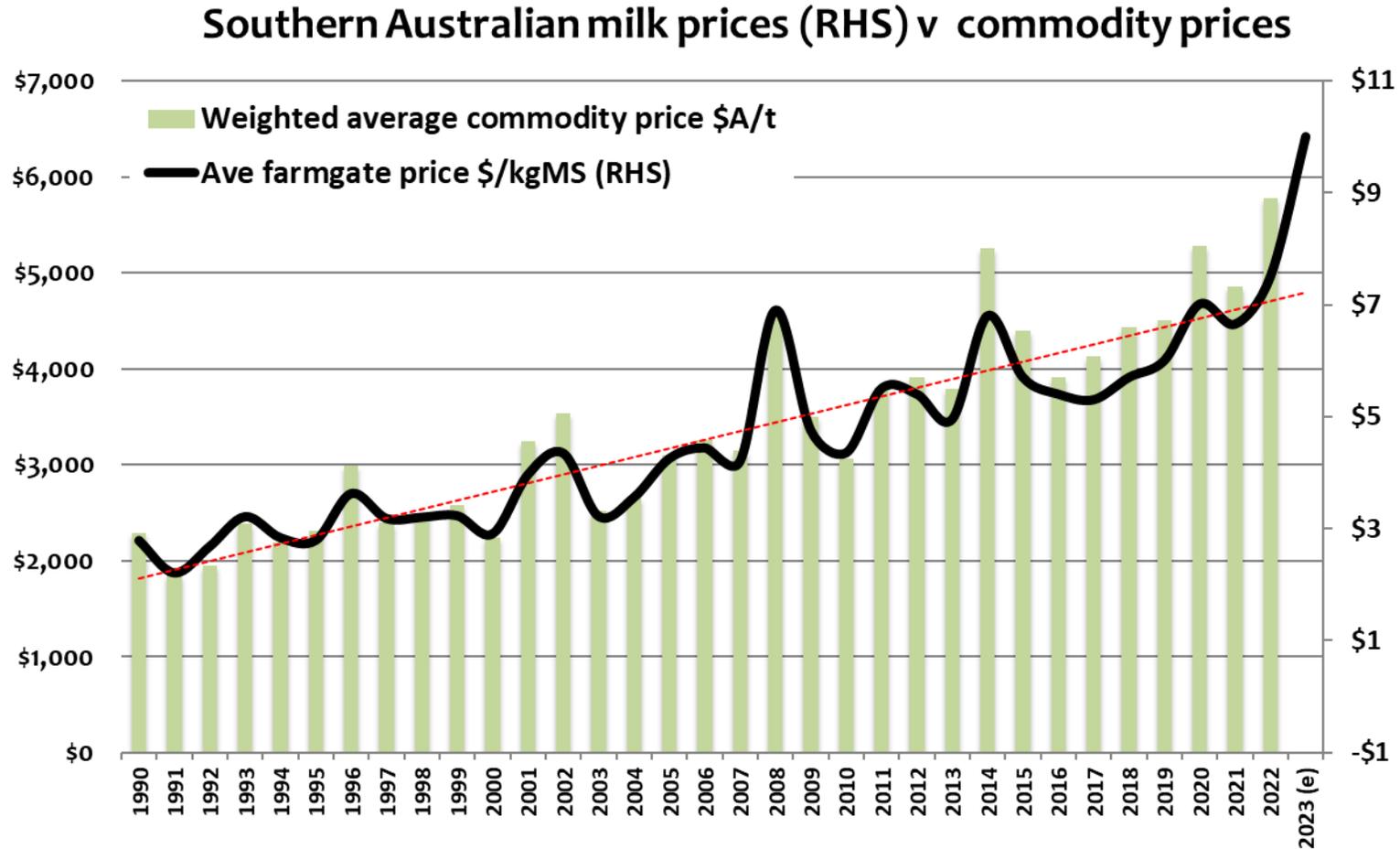


Growth in US plant based retail milk sales - 2016-21

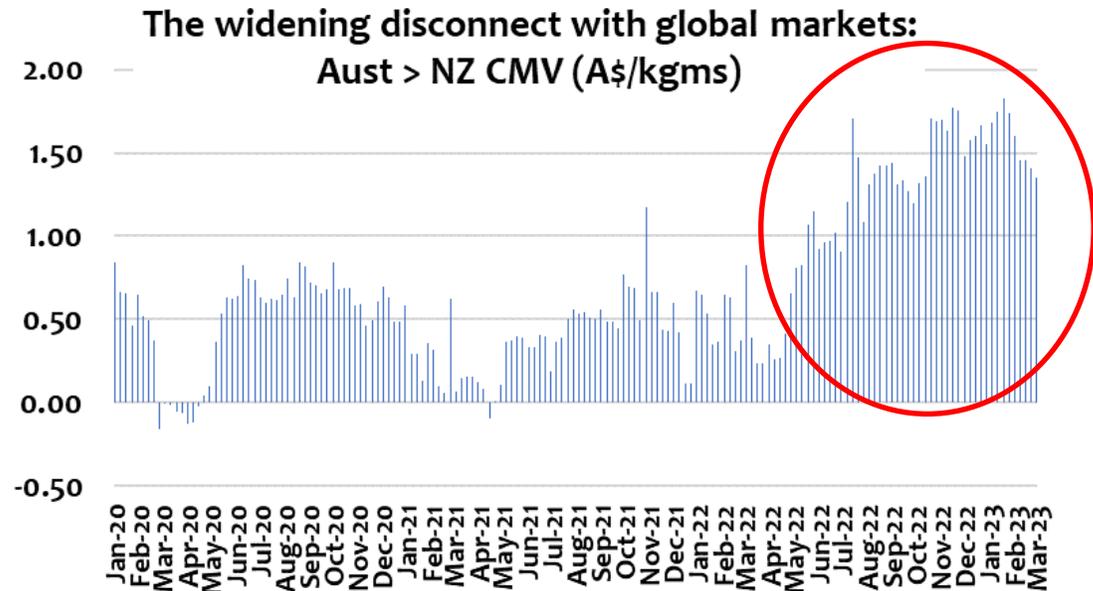
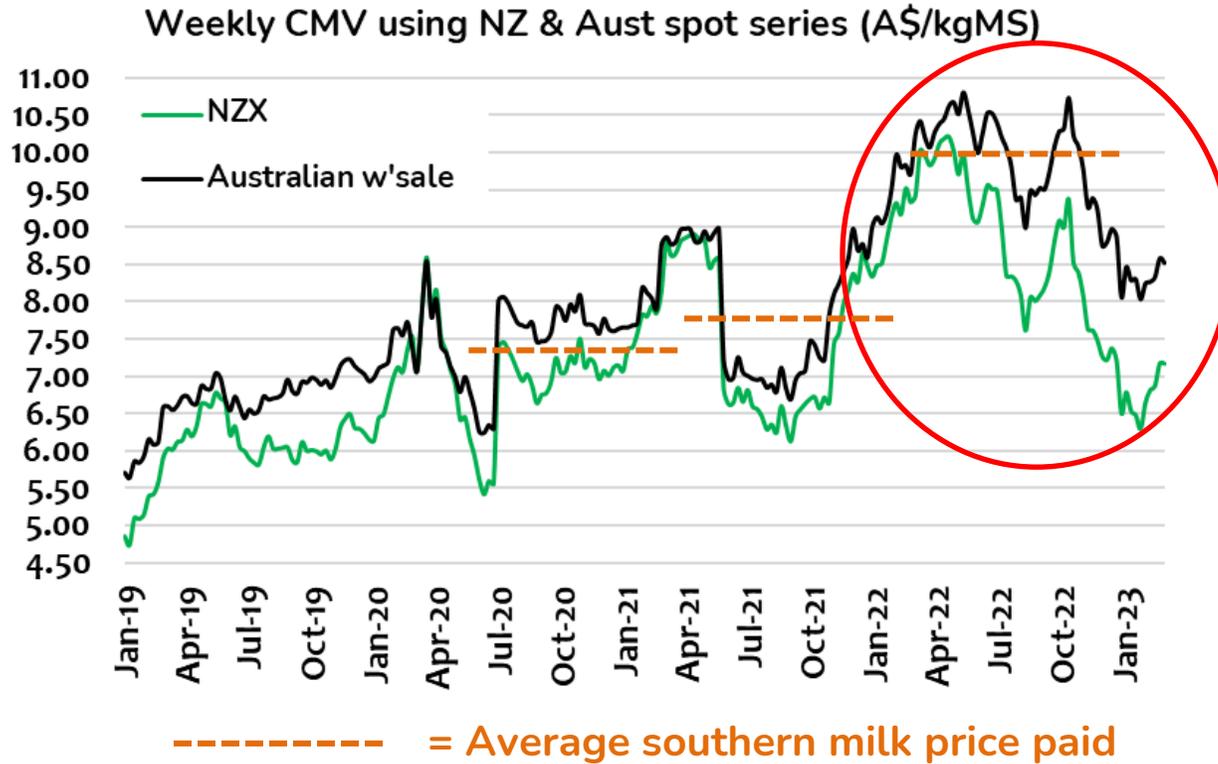


What's driving Australian milk prices

The rollercoaster



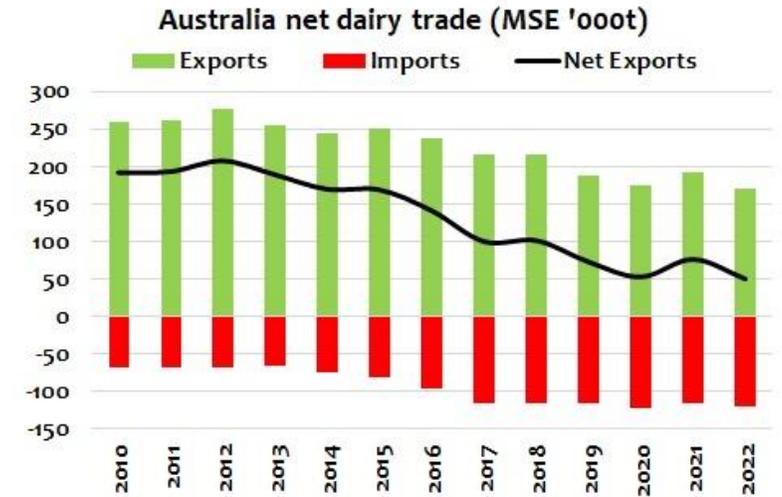
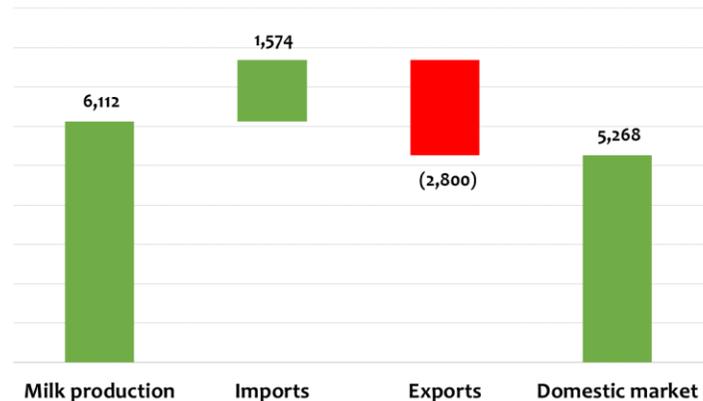
Gone past a tipping point



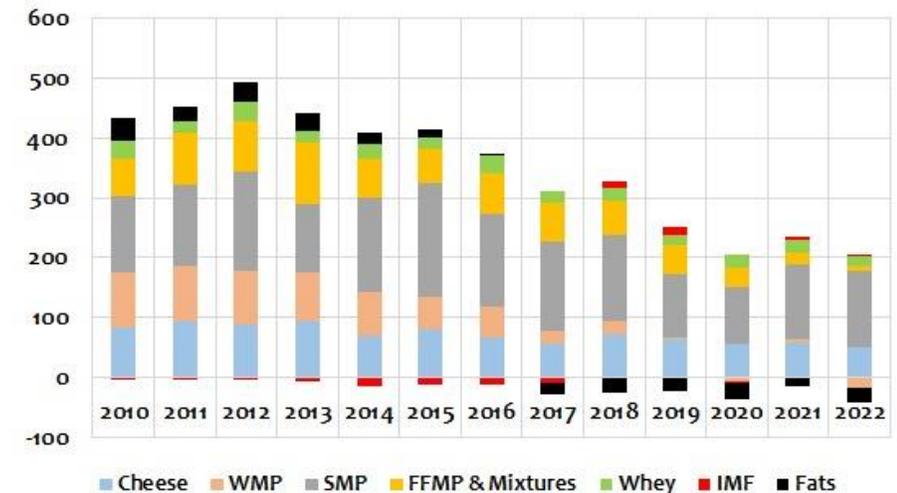
Australia: The game changers!!

- Narrowing net trade
 - Declining exports
 - Increasing imports in commodities
 - Down to ~ 670m litres in 2022

Australian manufacturing milk balance 2021/22 in milk equiv (millions)

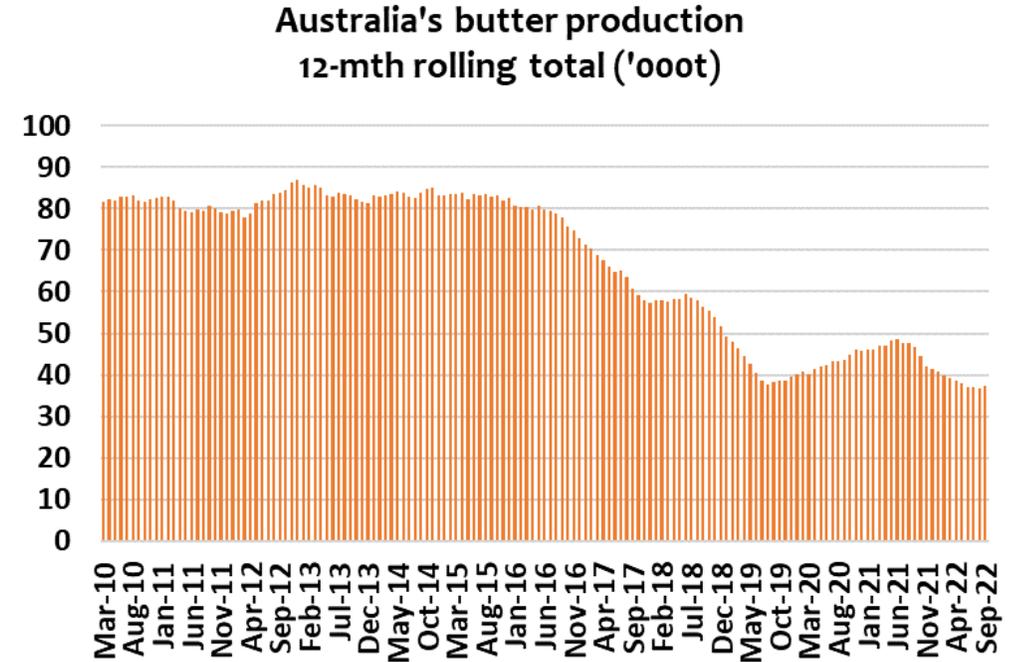


Australia net exports ('000t)



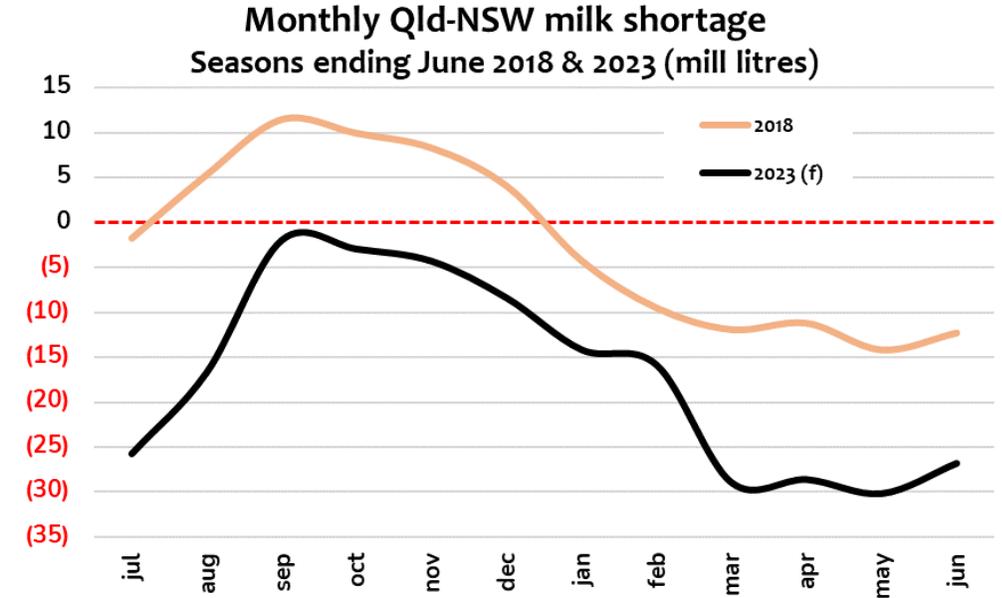
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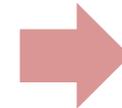
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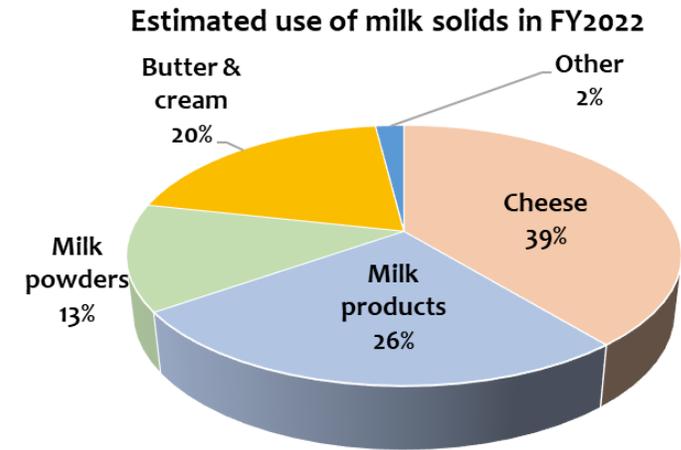


Australia: The game changers!!

- Narrowing net trade
 - Declining exports
 - Increasing imports in commodities
 - Down to ~ 670m litres in 2022
- Structural butterfat deficit
- Northern regions in year-round shortage
- A major grocery chain buys all its milk for private label milk and cheese until 2025

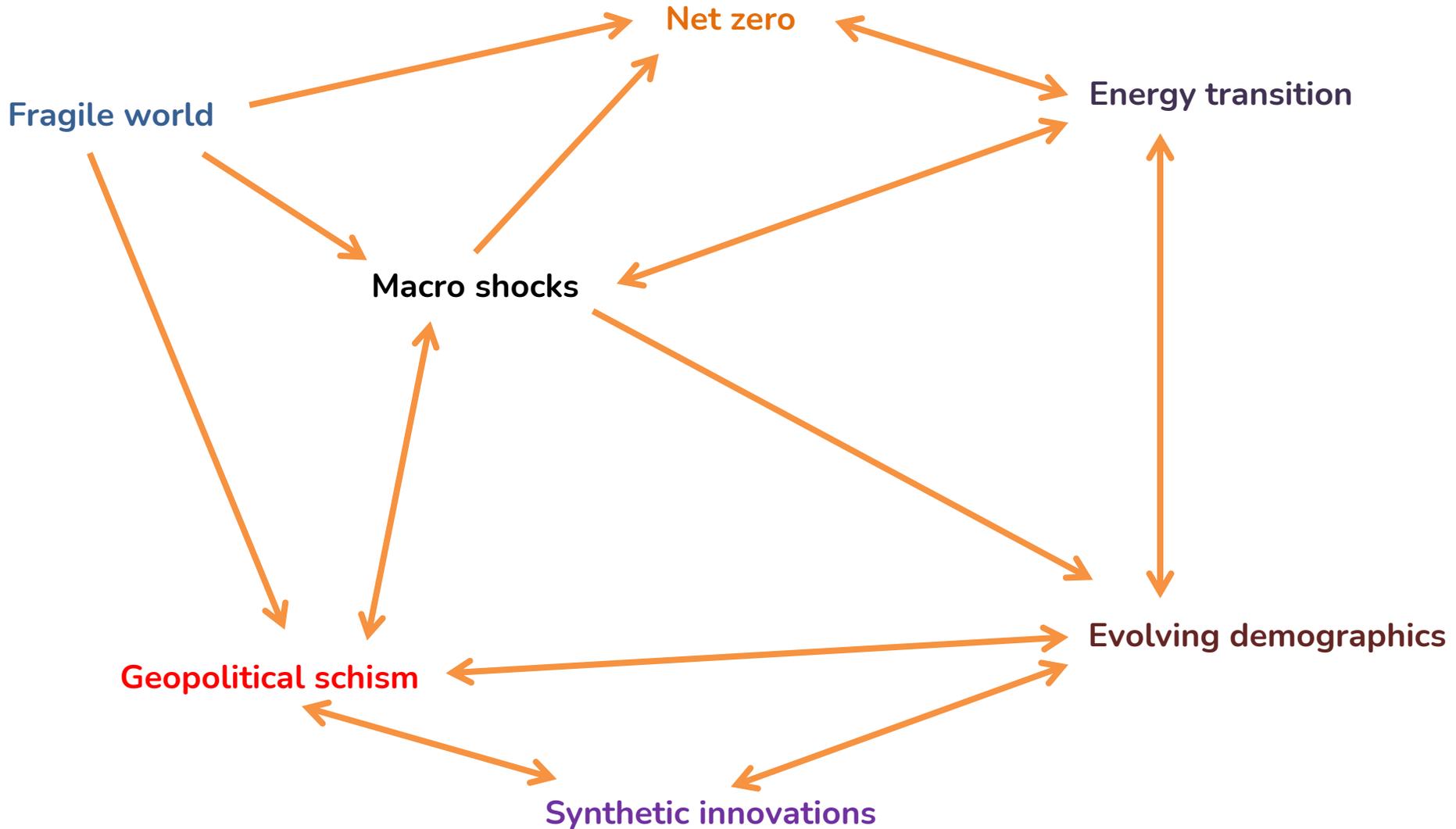


- Firmer farmgate competition
- Stabilises margins in cheese category
- Reduces risk of cheese imports for retail market

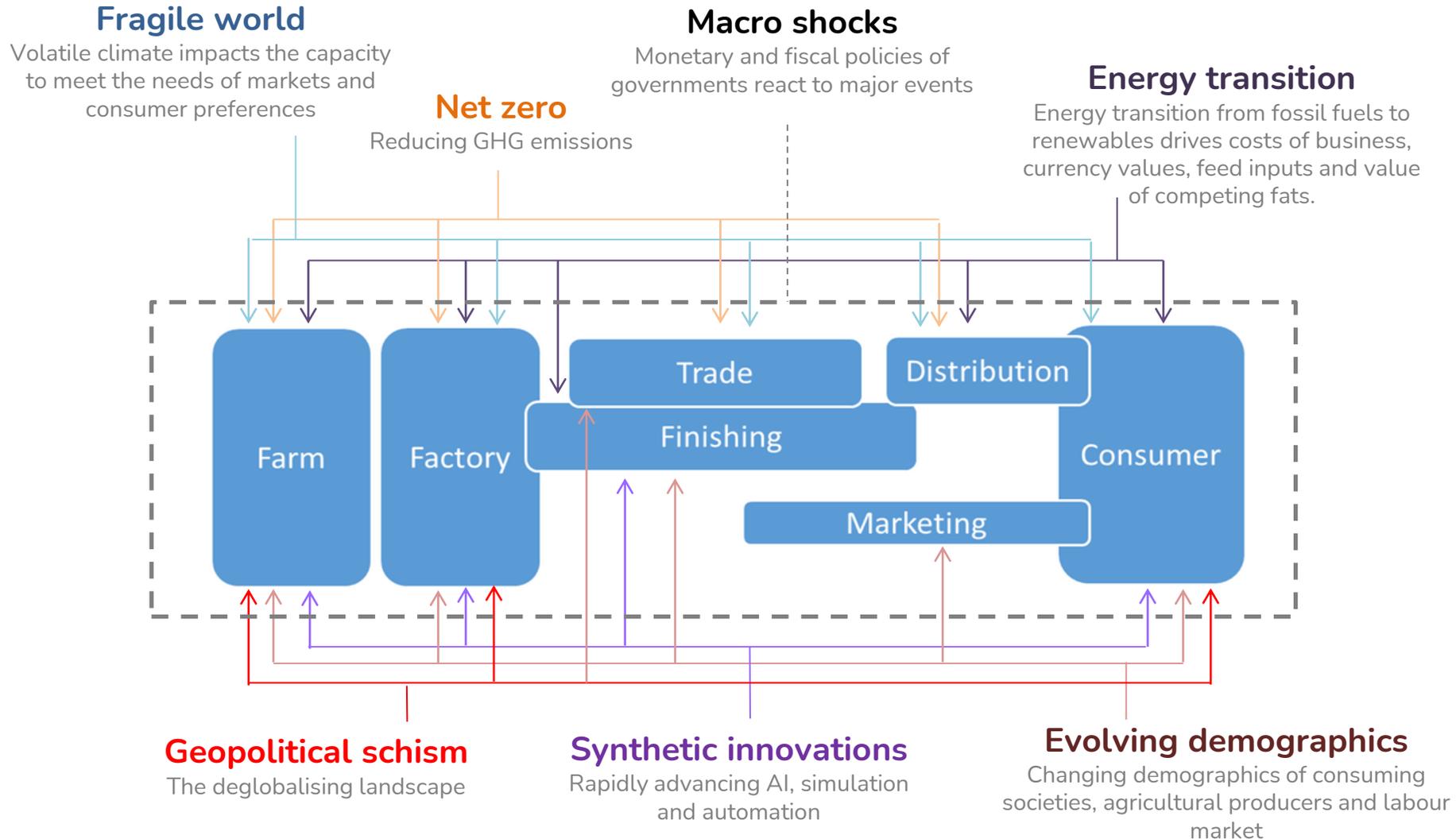


Looking past 2023

What shapes the market to 2030?



What shapes the market to 2030?



What shapes the market to 2030?



The world scenario

- Geopolitical tensions have grown
- US political divide worsens
- No uniform emissions reduction
- Political division on net-zero
 - EU-30 is strongly focused on GHG reductions
 - NZ uses economy-wide scores
 - US governments in denial
 - China's self-sufficiency rules
- Inequality in developing world
- Affluent markets reject livestock agriculture

What shapes the market to 2030?

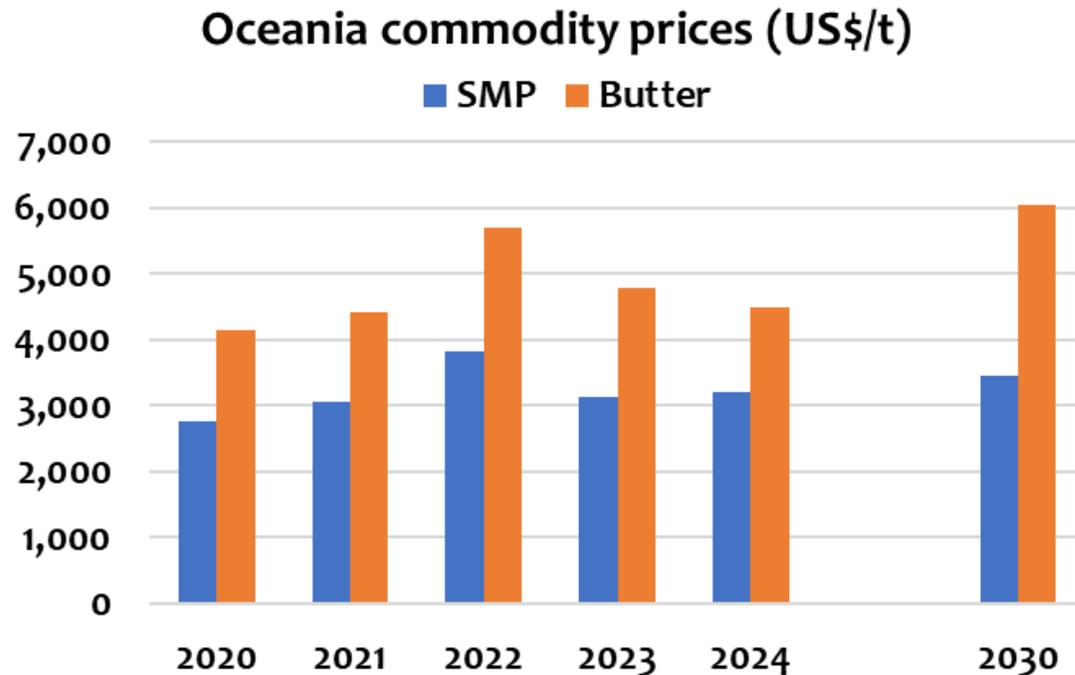


The dairy scenario

- Milk growth 2021-30
 - EU **down 7%**
 - NZ **up 3%**
 - US **up 15%**
 - China **up 57%!**
- EU & US drinking milk **down 15%**
- China's WMP imports **down 10%**

= rising global milk value

What does 2030 look like?



The dairy scenario

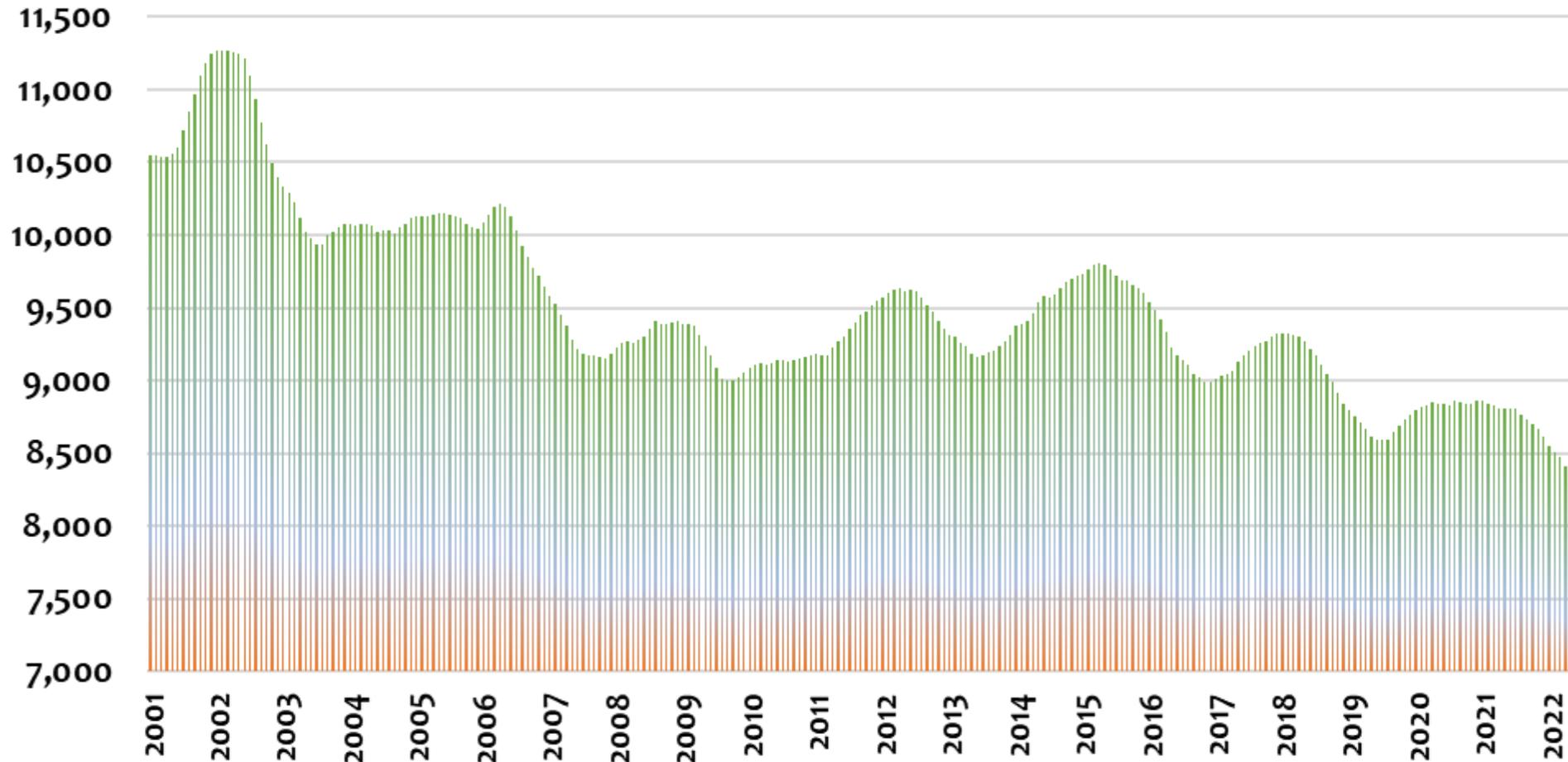
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Where is milk supply headed?

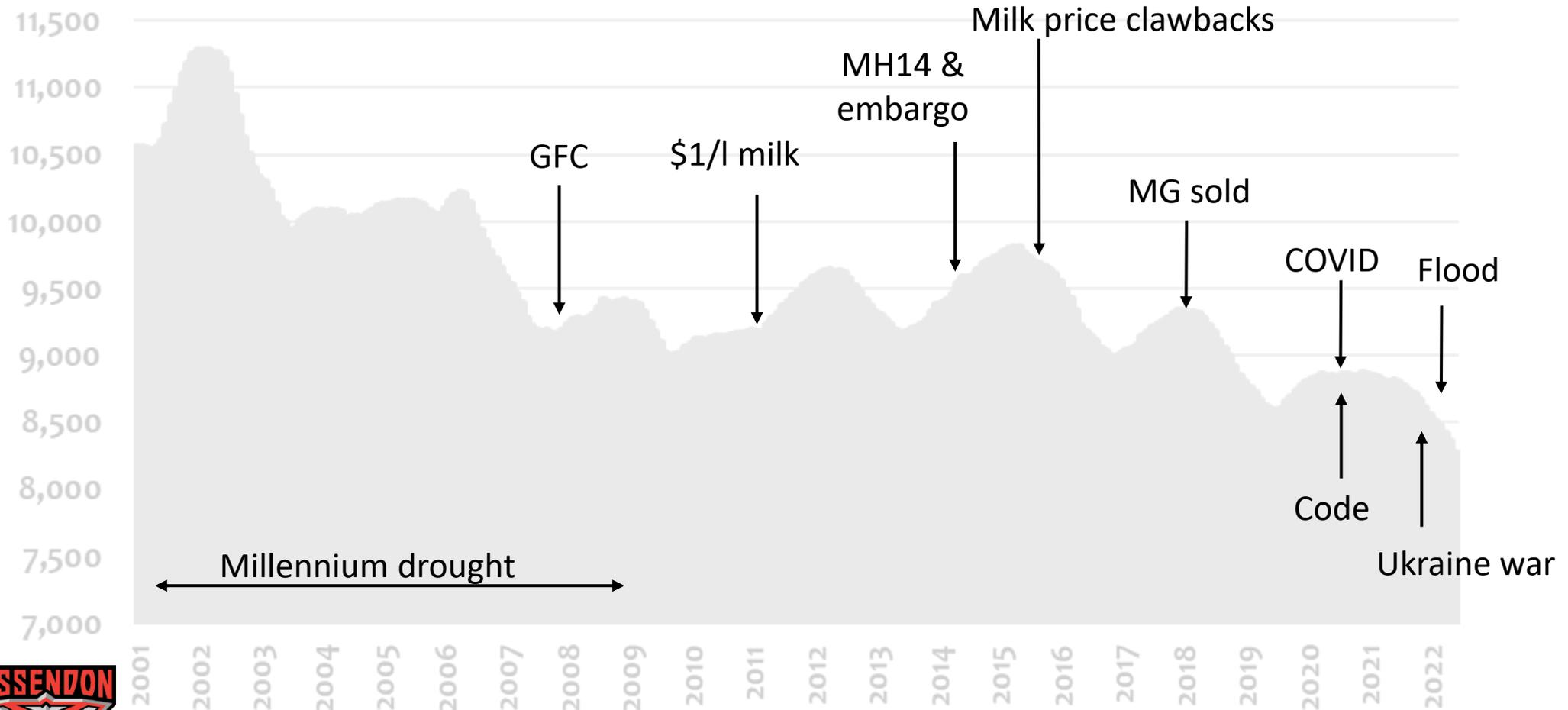
How did we get here?

Moving Annual Total, Australian milk output (mn litres)



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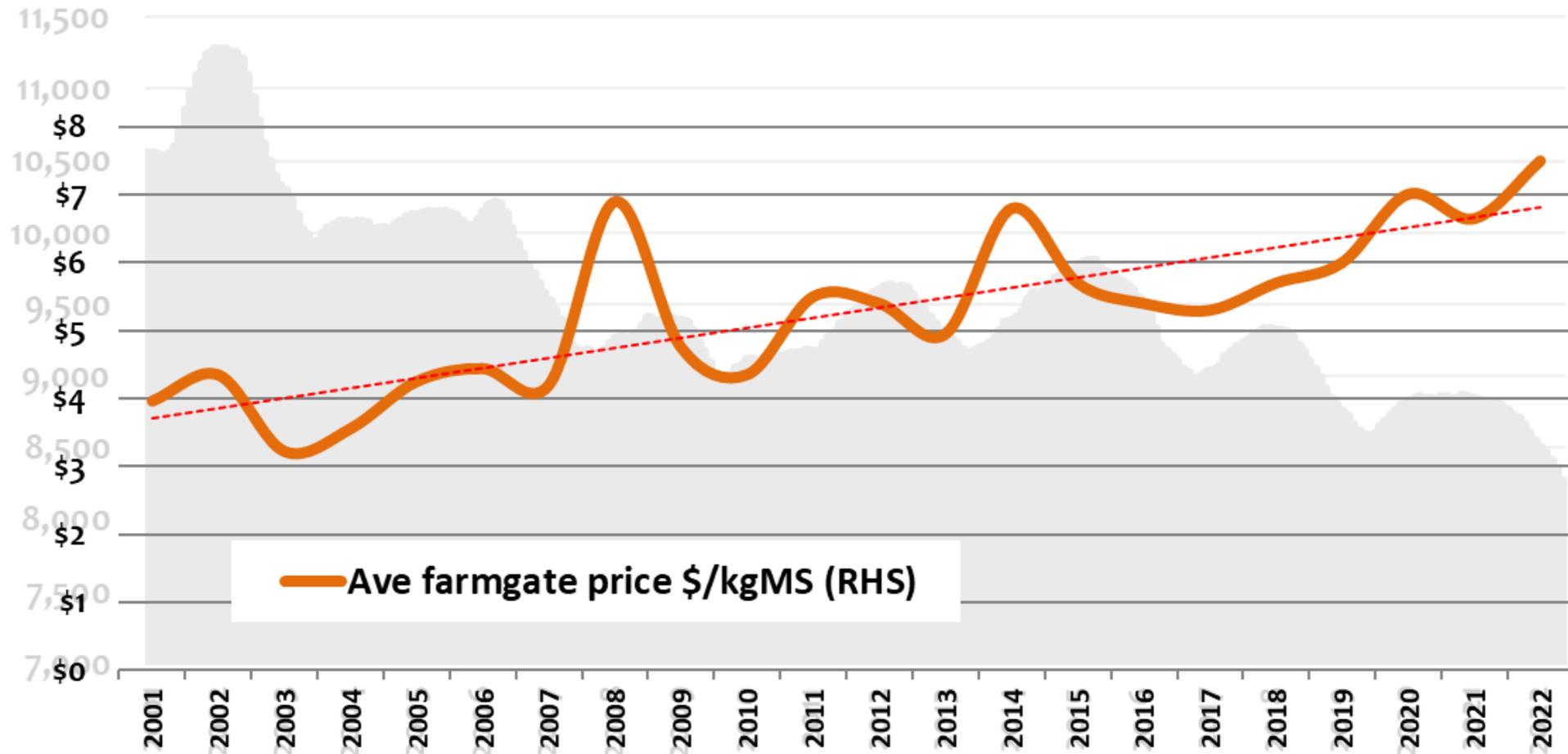
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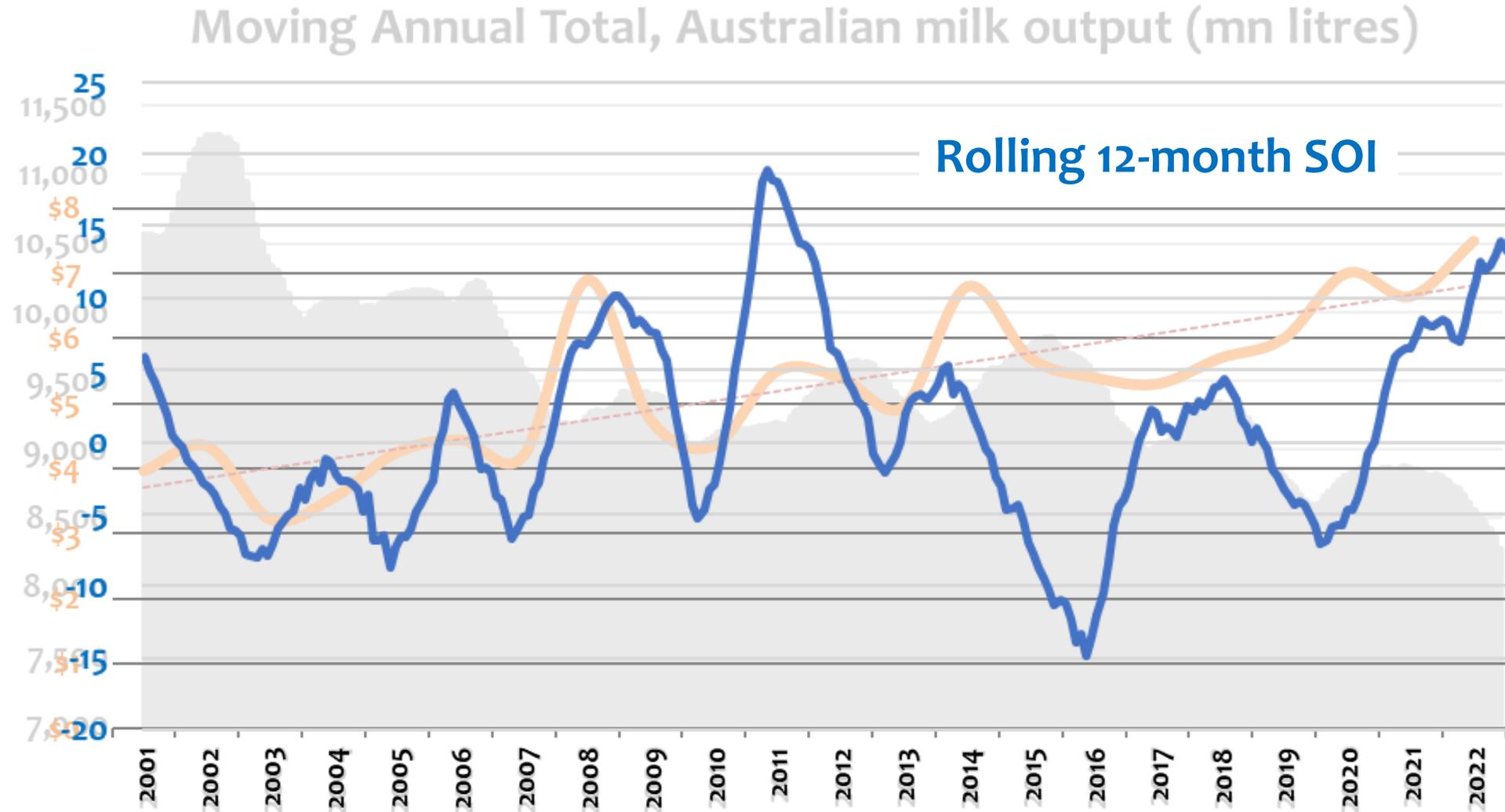
No Essendon premierships

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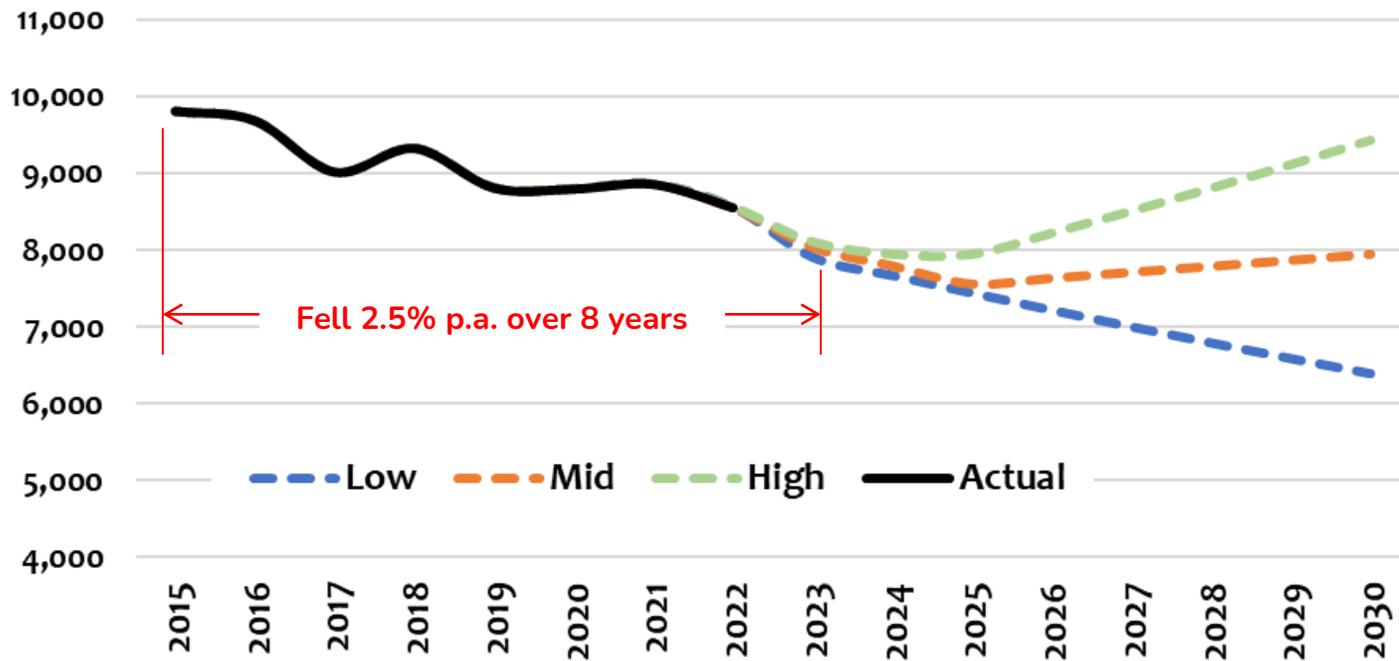


How did we get here?



3 scenarios to 2030

Milk production scenarios to 2030 (mill litres)



9.4bn = falls 2% to 2024, rises 3.5% p.a.

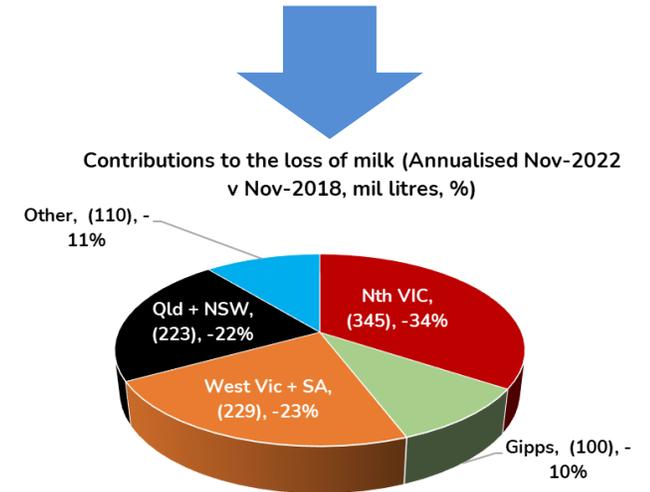
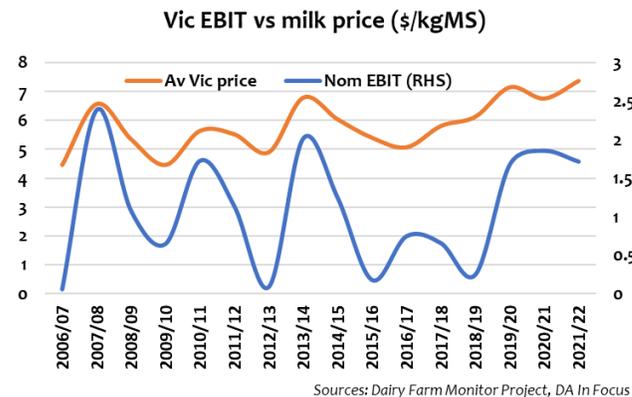
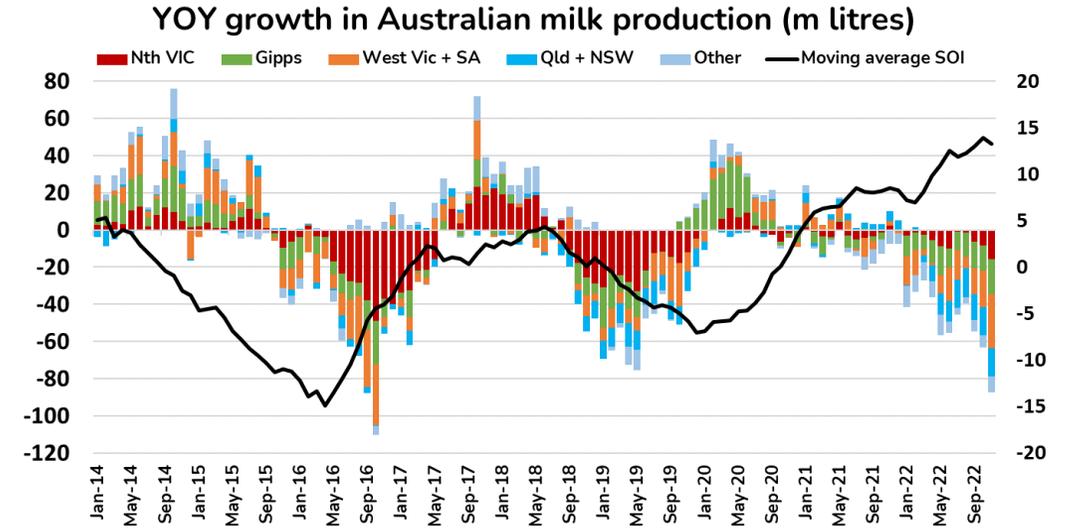
8.0bn = falls 3% to 2025, rises 1% p.a.

6.4bn = falls 3% p.a.

Can it be turned around?

- There have been significant shocks
 - Climate
 - Corporate behaviour
 - Confidence & trust
- Three good years, but less milk!
 - Context
 - Competition
 - Capital

Individual rational decisions does not answer an industry call



Can it be turned around?

- Context

- Increasing complexity
- Climate, risks, sustainability
- Greater management challenge

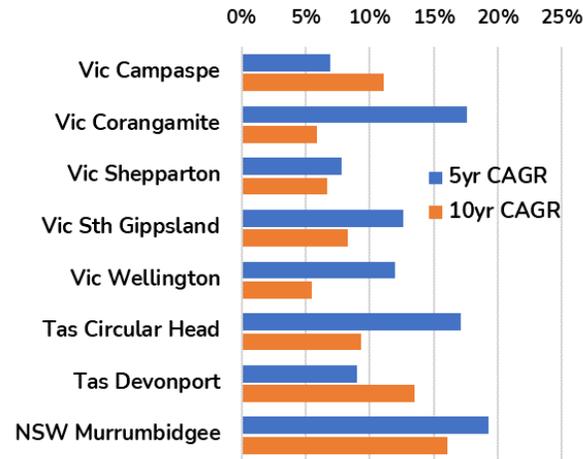
- Competition

- Labour
- Land and water resources
- Fragmented processing sector

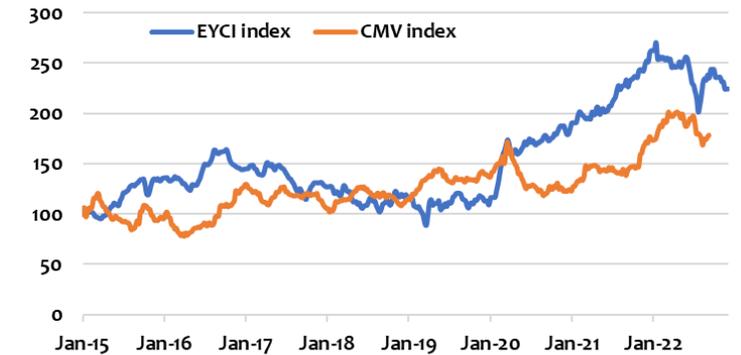
- Capital

- Exiting farms cashing in
- Barrier for entrants
- Succession hard

Growth in land values to 2021

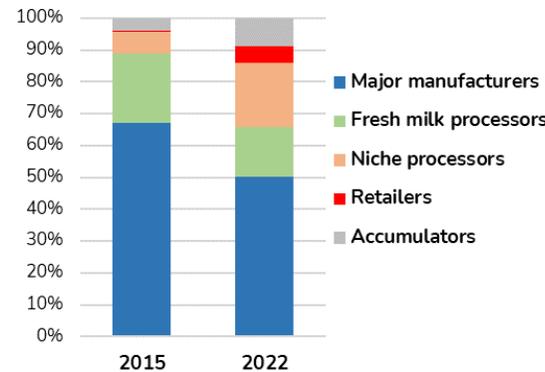


Spot values of beef vs milk
Index Jan 2015 = 100

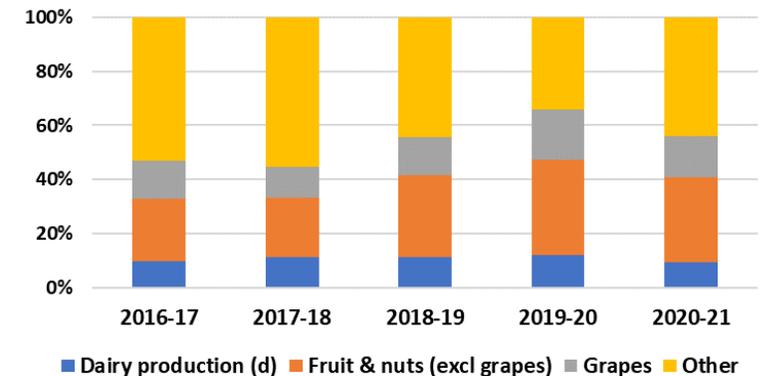


Source: MLA EYCI, Freshagenda CMV

Changes in farmgate milk buyers
(% of national milk intake, season ended June)



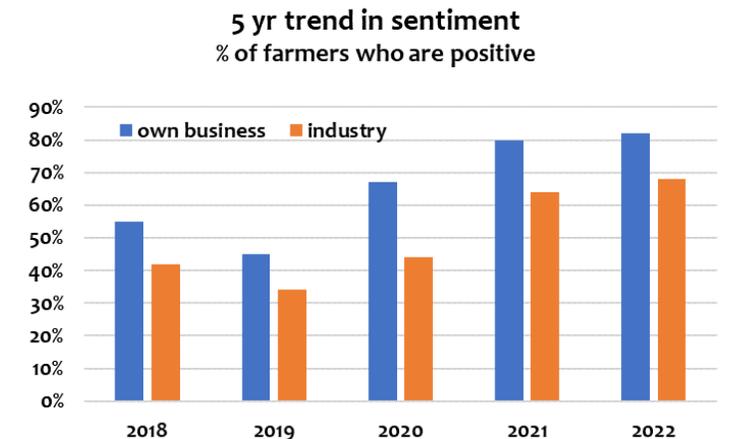
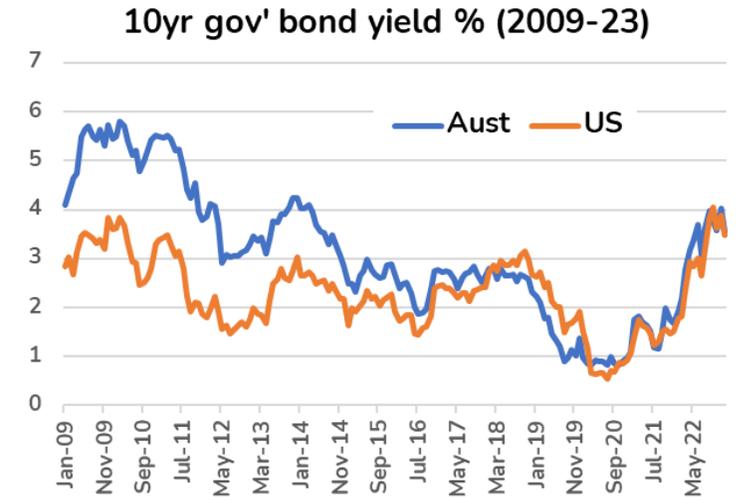
Share of GVIP in MDB



Can it be turned around?

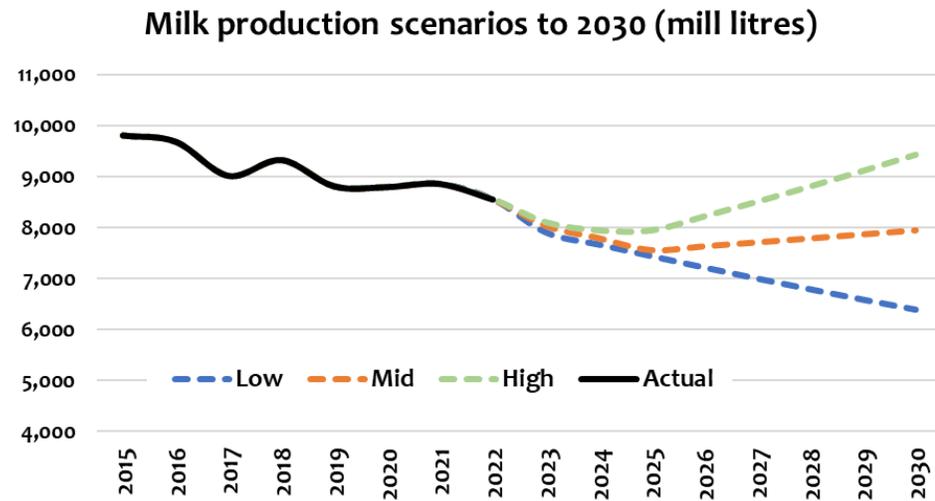
- Entry barriers are getting higher
- Pathways for equity growth
- Corporate investors?
 - Hurdle rates
 - Models to empower and inspire
- Where to invest?

- Can confidence and trust be rebuilt?

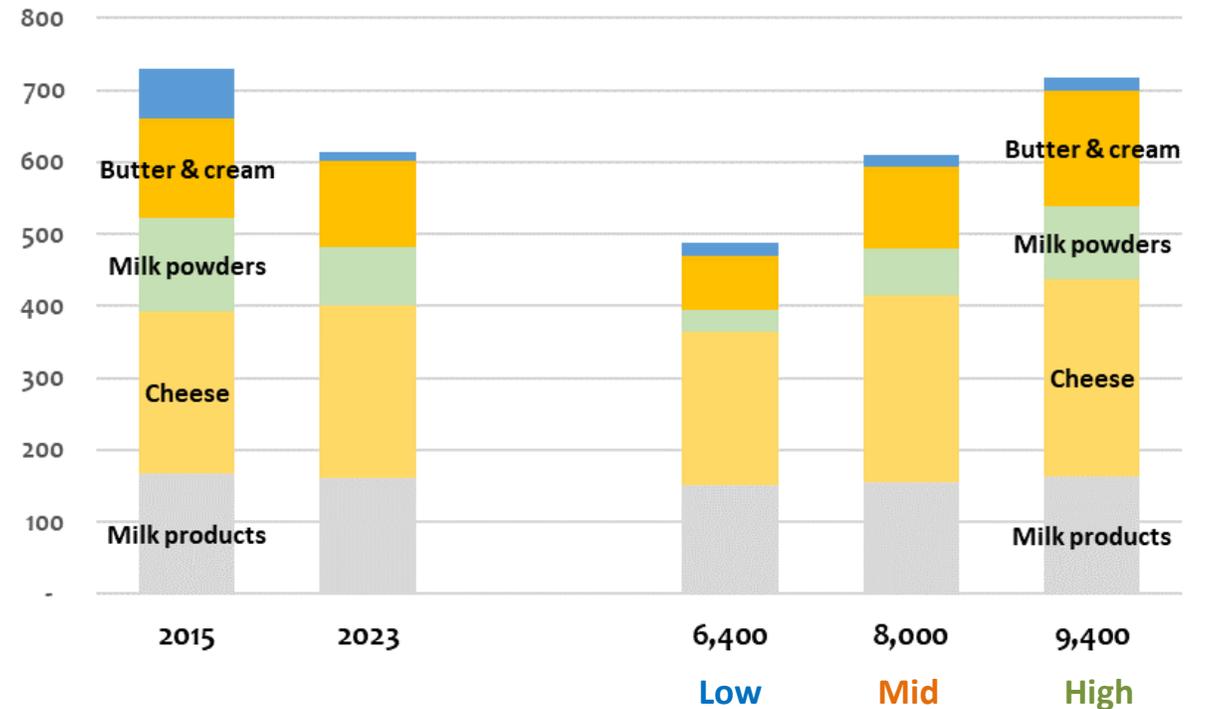


Source: Nat Dairy Farmer Survey, Dairy Australia

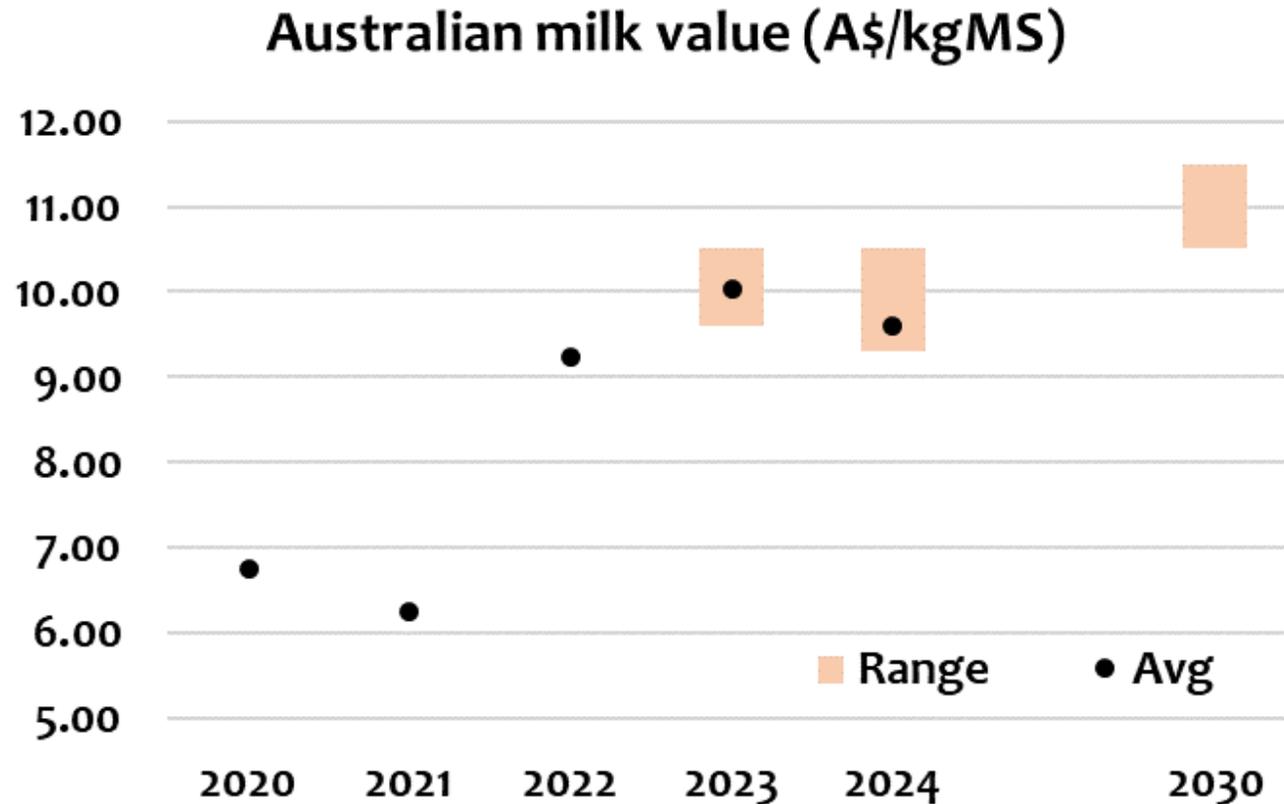
How will milk be used?



Mass balance - past and potential use of milk solids ('000t)



Milk value in our scenario



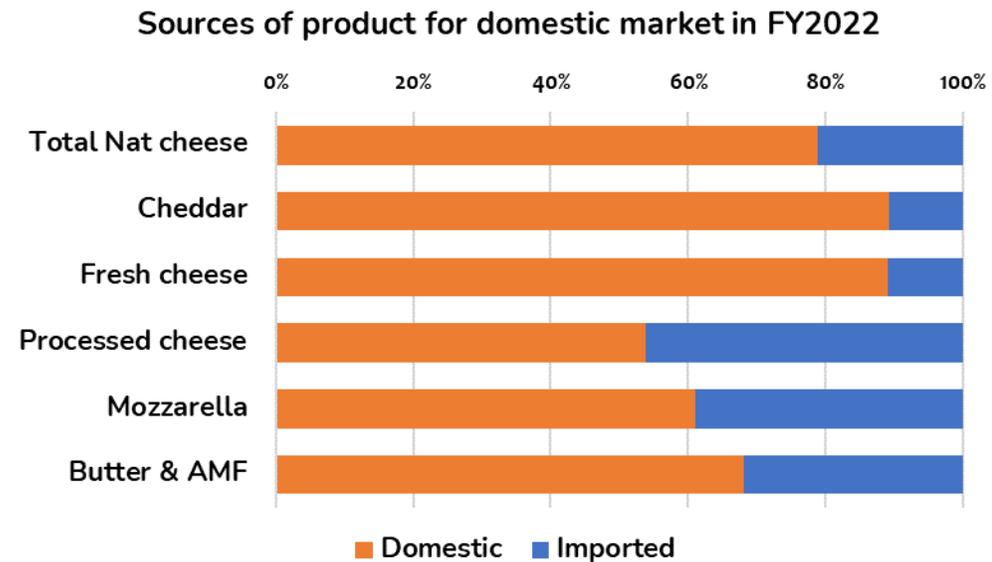
Assumes

- Scenario 3 global settings
- Stable domestic premium
- A\$1=70c

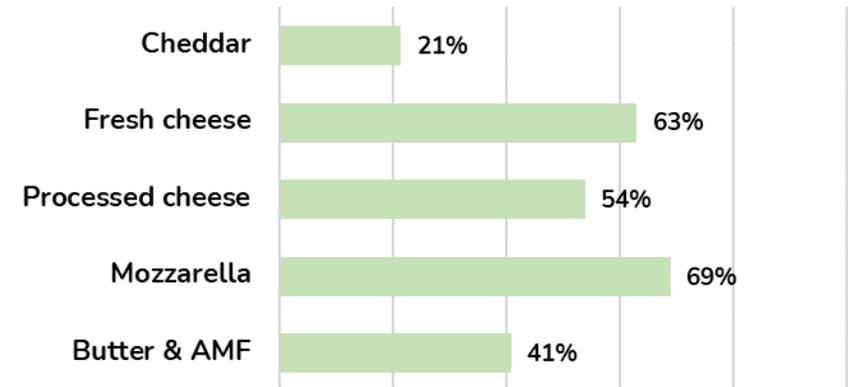
...and it doesn't matter what our milk production is!!

Does the world market matter?

“Surely we can just make for the Australian market and forget about the world market??”

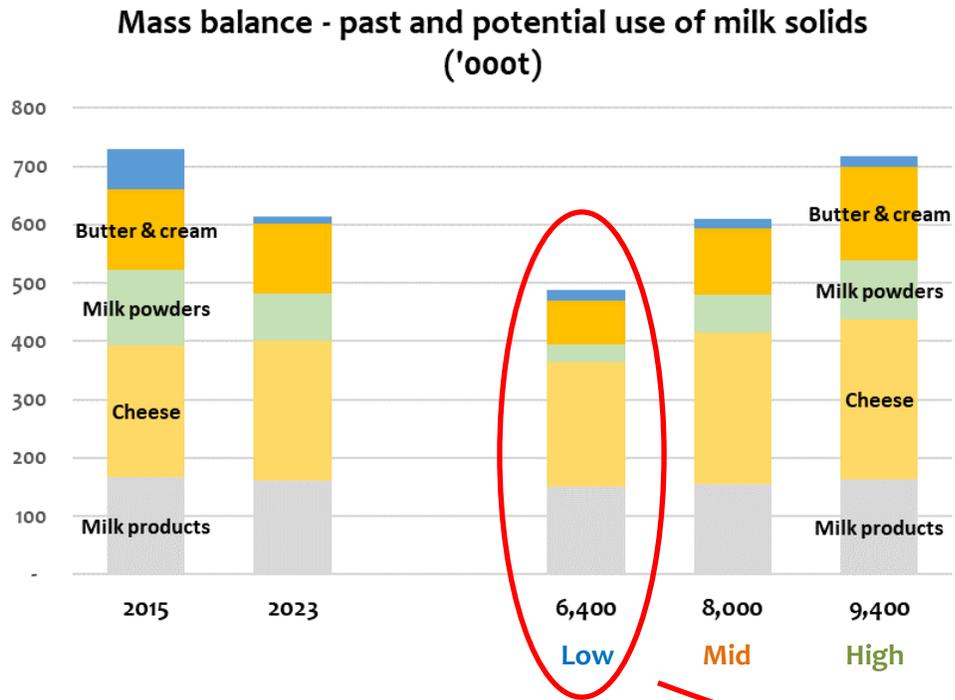


% of available product (production + imports) which was trade-exposed in 2021/22

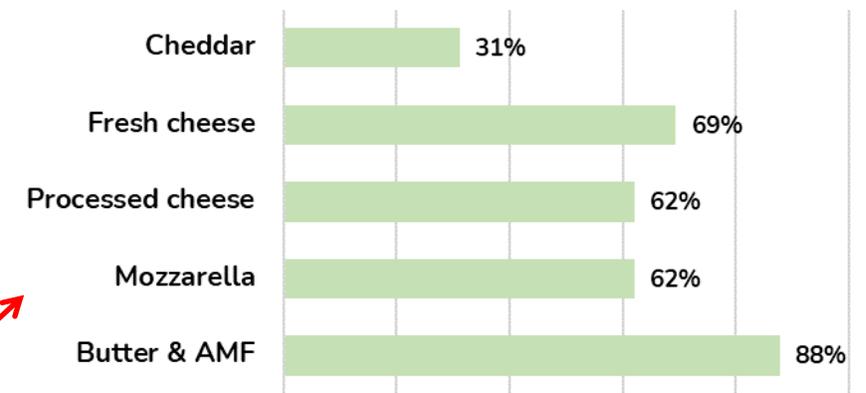


Does the world market matter?

The influence of global prices will increase!!



% of available product (production + imports) which was trade-exposed in 2029/30 (low case)



What might the industry look like?

Some principles

- Prioritise higher value uses
- Security of milk supply is king
- Specialised supply chains
- Not efficient or world-competitive, but “agile premium niche”
- Import commodities, avoid making them
 - Opportunistic tolling/trading

Some risks with shrinkage

- Balancing milk in regions with less capacity
- Less scope to take opportunities
- Less critical mass for services
- Higher cost to service smaller discrete milk pools
- Less “clout” as a sector
- More inviting import market

Market-driven social licence

What is the market looking for

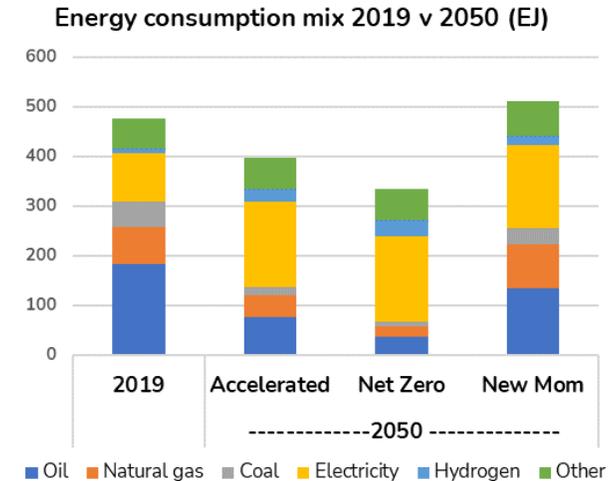
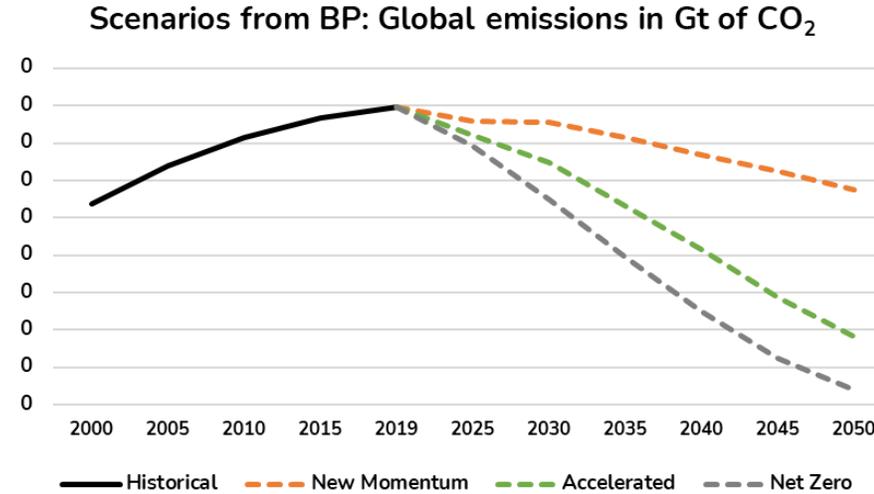
- Some principles
 - Legitimacy
 - Credibility
 - Trust
- Rising consumer vigilance
- Differing views on what's acceptable
 - Rural/urban divide
- Permission to consume
 - Nutrient density
 - “I feel good buying this product”
 - Stewards of the land and animals



The GHG challenge

What's driving the change?

- Energy transition
- Net zero 2050
 - 2030 interim targets
 - Livestock agriculture in focus



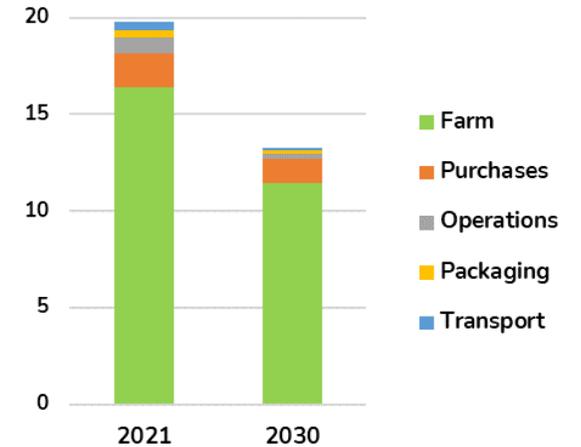
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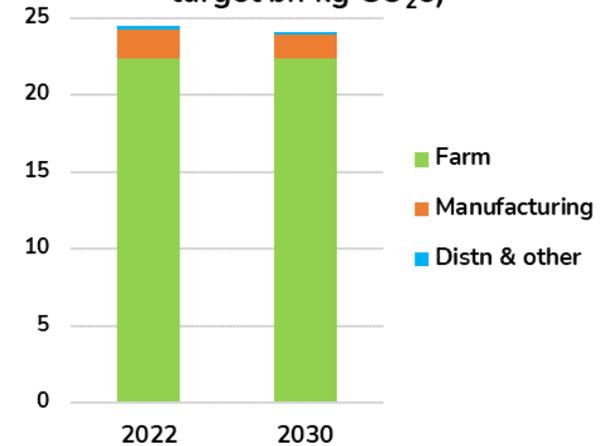
- Energy transition
- Net zero 2050
 - 2030 interim targets
 - Livestock agriculture in focus
- Who is driving it in dairy?
 - Consumers and society
 - Major Governments (EU27 & NZ)
 - FMCG and Retail brands
- What others are doing?



Arla emissions 2021 v 2030 target

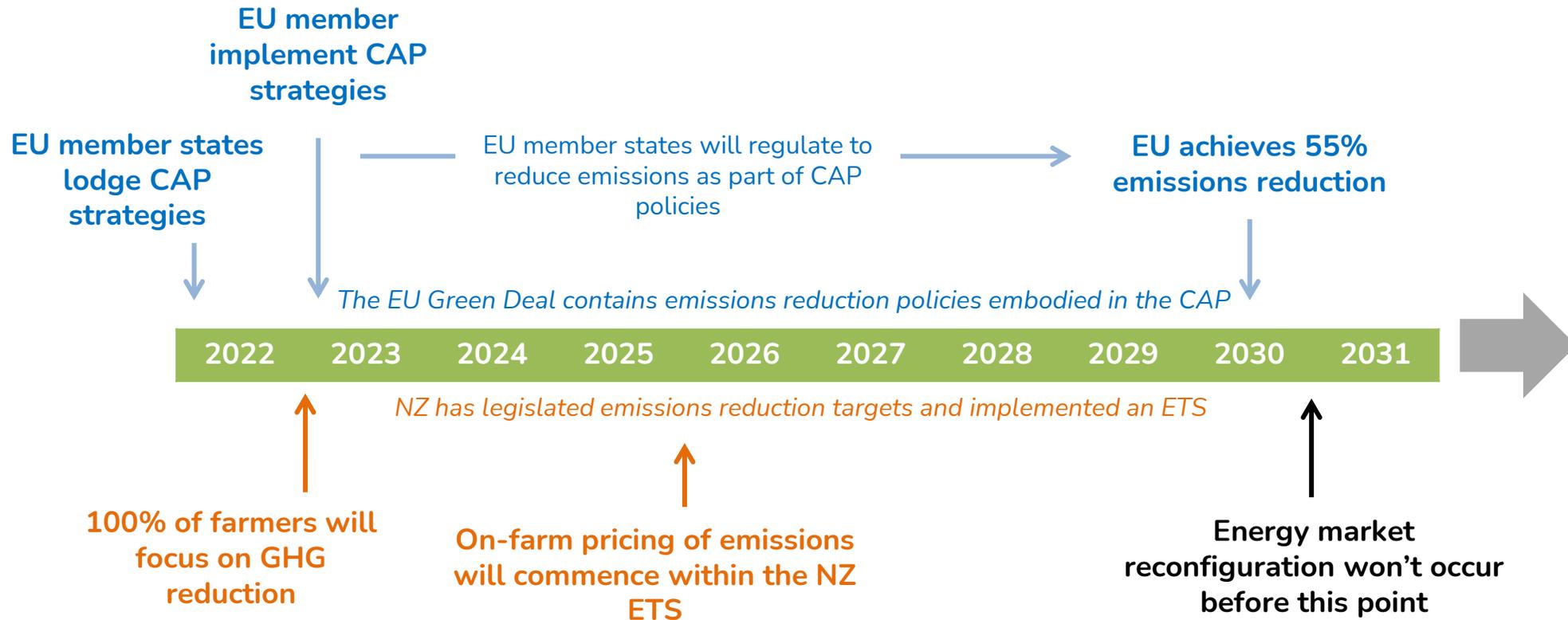


Fonterra emissions 2020 v 2030 target (bn kg CO₂e)



Good food, Good life

What are others doing?



The wrap up

Global dairy market

- Macro factors
- Firming short-term fundamentals
- Long-term complexity, milk growth hard

Australian dairy now & future

- Disconnected from global markets
- But for how long?
- Right-size industry to optimise opportunities

Sustainability & social license agendas

- Not going away
- Driven by communities, corporates and governments



Thanks for listening!

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