

Supply and demand Global perspective

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Moscow, 19th of December



Milk and dairy outlook

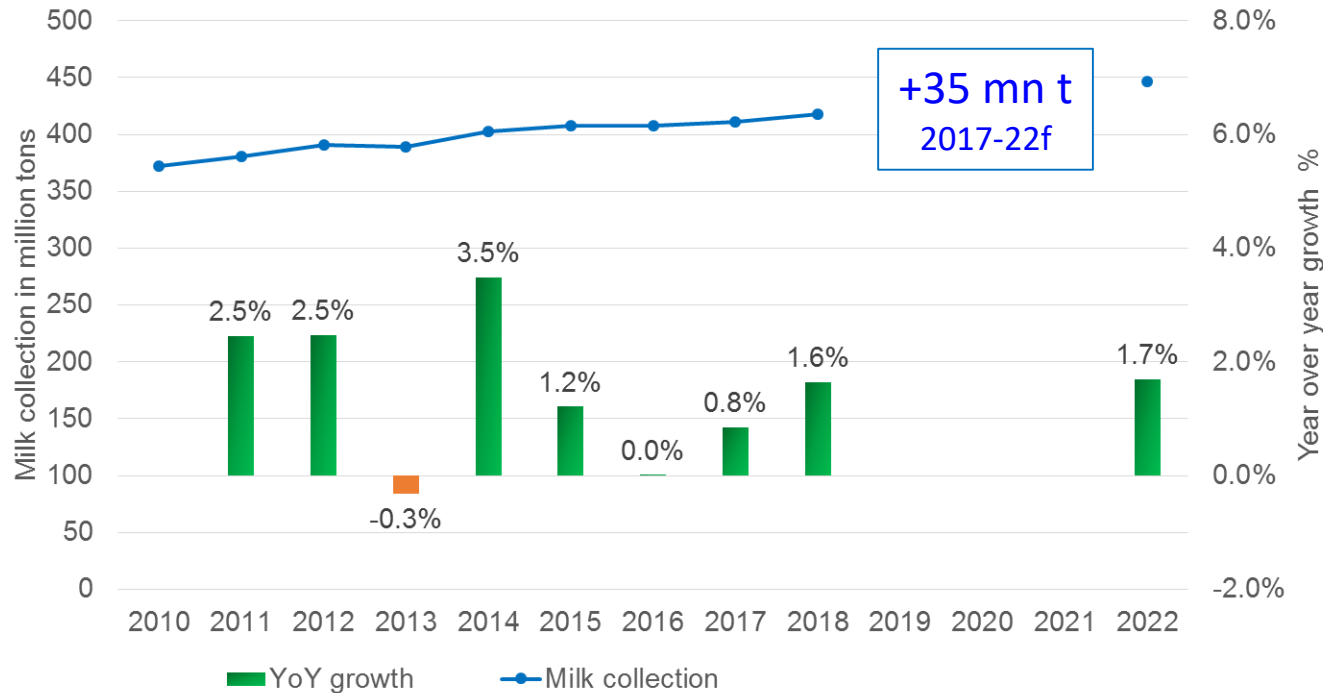
Global overview of future consumption

Global milk collection (excl.India)

35 mn t more milk available to processors to 2022



Milk collection and YoY growth for GDC countries (excl. India), in '000 tons & %, 2010-2022f

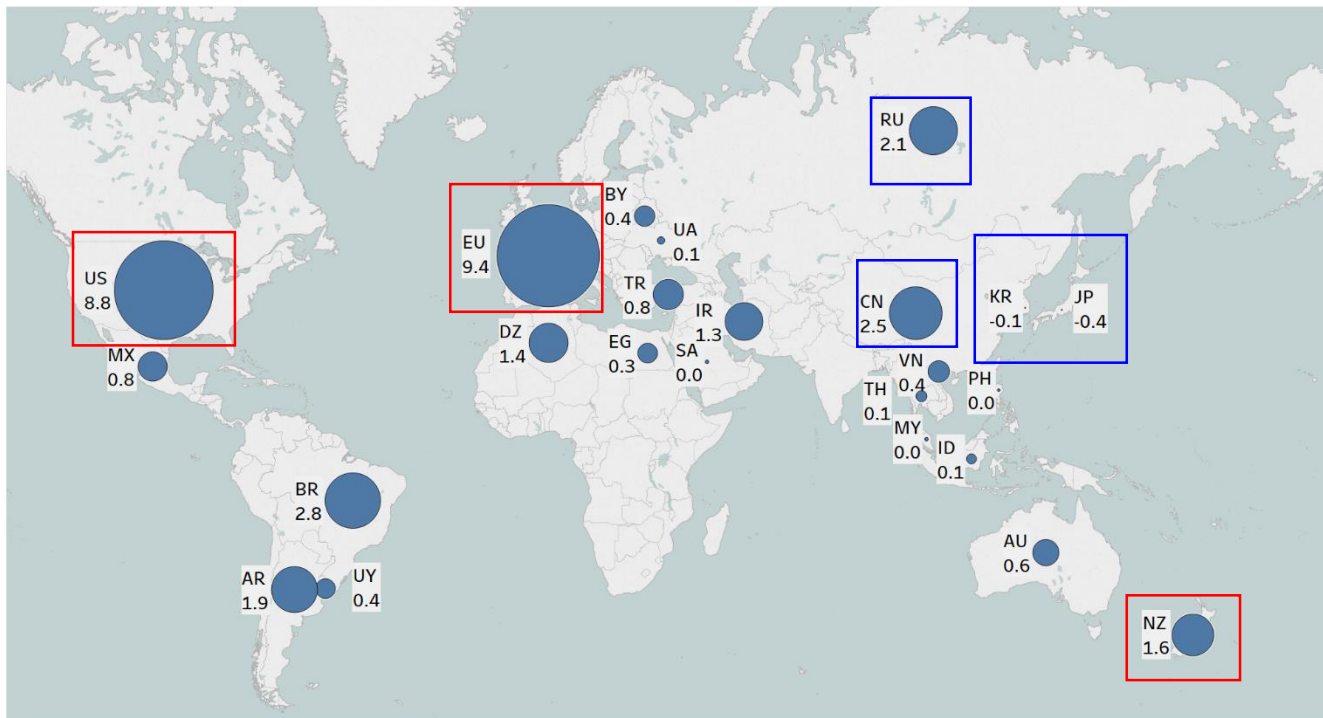


Source: Gira Dairy Club 2017

Milk collection growth in 2022

EU & US far ahead; 2017-2022: +35.2 mio. tons

GDC World milk collection *change in total* in 2017 to 2022, in '000 tons



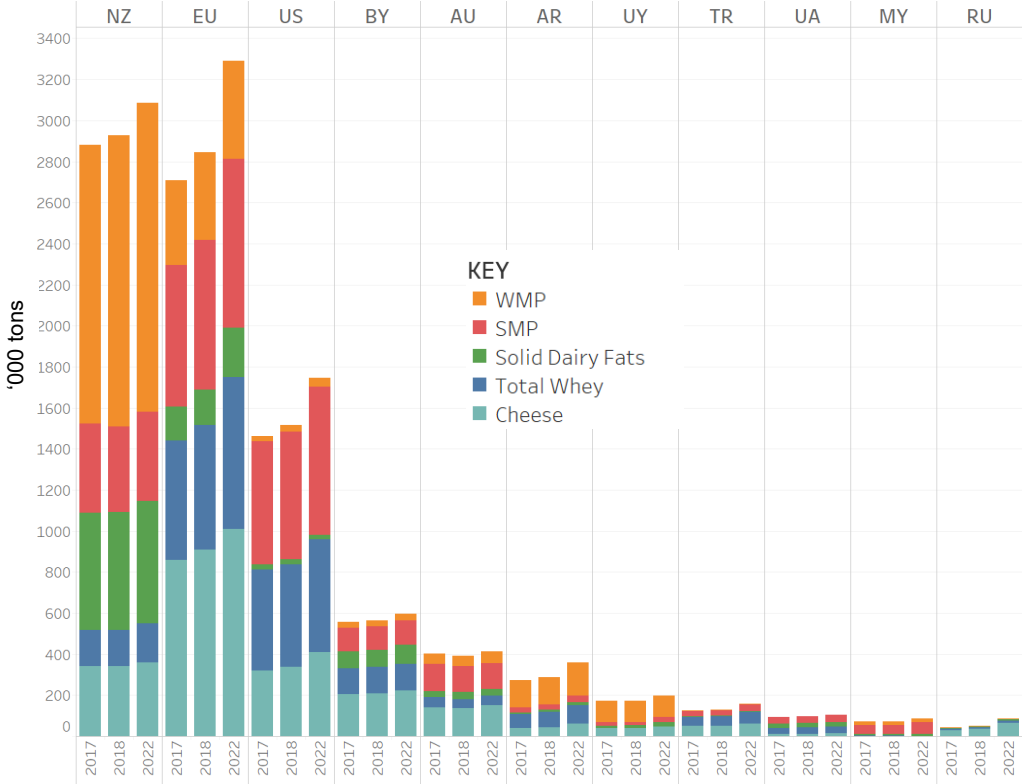
Source: Gira compilation

Commodity Exports

NZ & EU dominate, but growth everywhere



Main dairy commodities exports by country, 2016-22f, in '000 tons



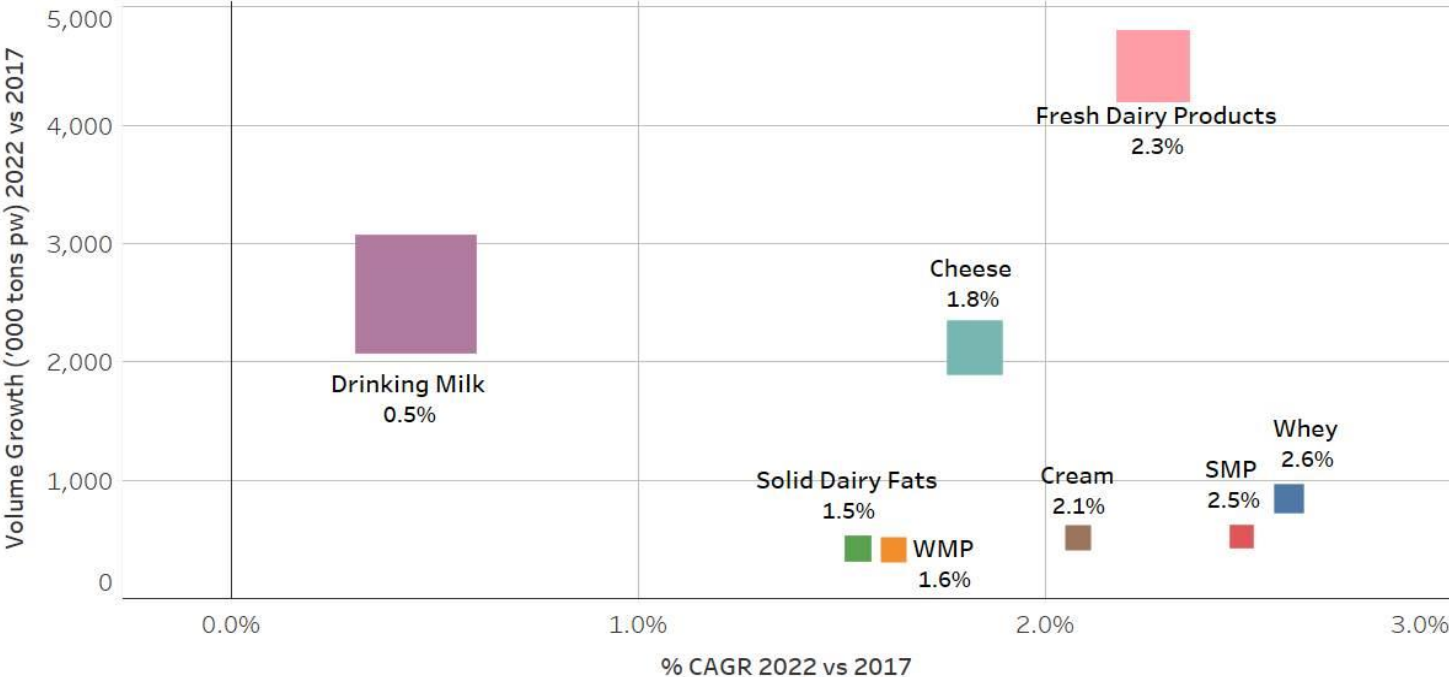
Dairy production by main categories of products

Production growth by main categories of products

Drinking milk is the only product showing a low growth for the future



Production Growth in GDC Countries (excl. India) 2022 vs 2017



Source: Gira GDC17

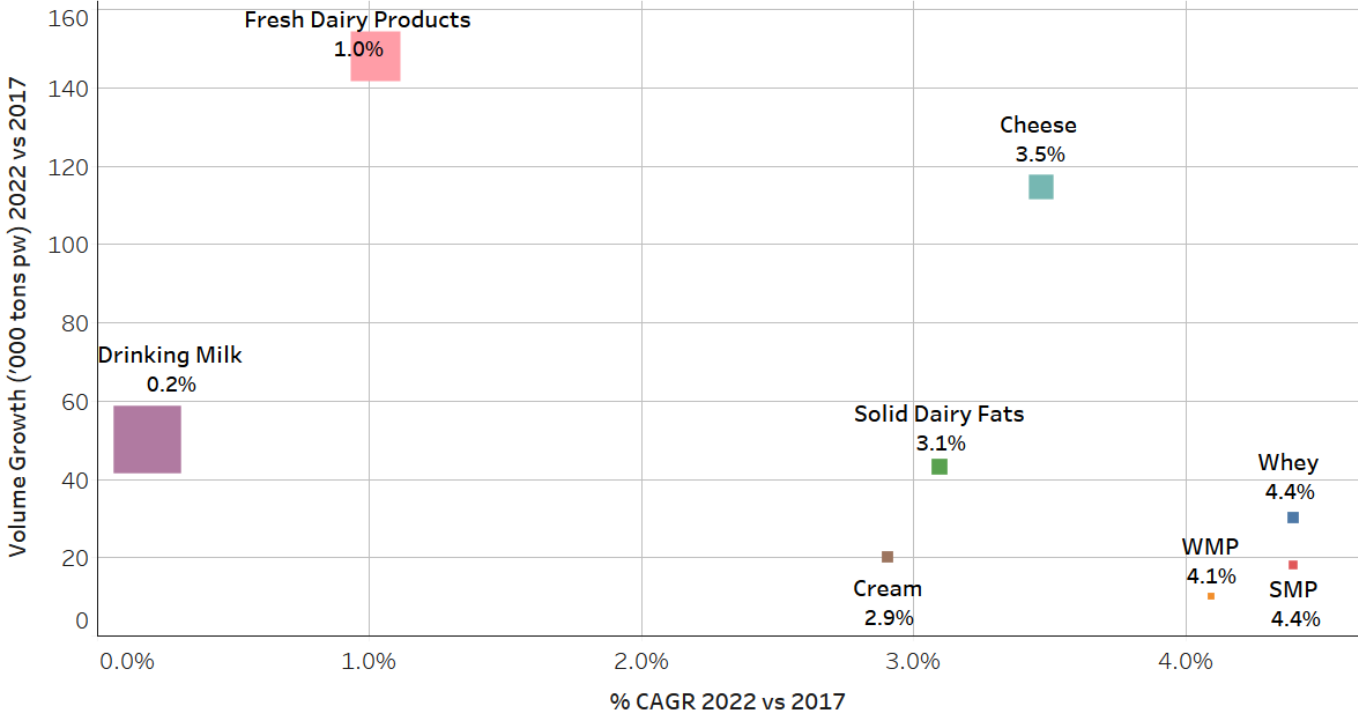
Notes: 1. The size of the squares is proportional to the production volume in 2022. 2. India was excluded.

Production Growth in Russia - 2017-2022

Nice growth expected within the next 5 years



Production Growth in Russia 2022 vs 2017



Source: Gira GDC17

Note: The size of the squares is proportional to the consumption volume in 2022.

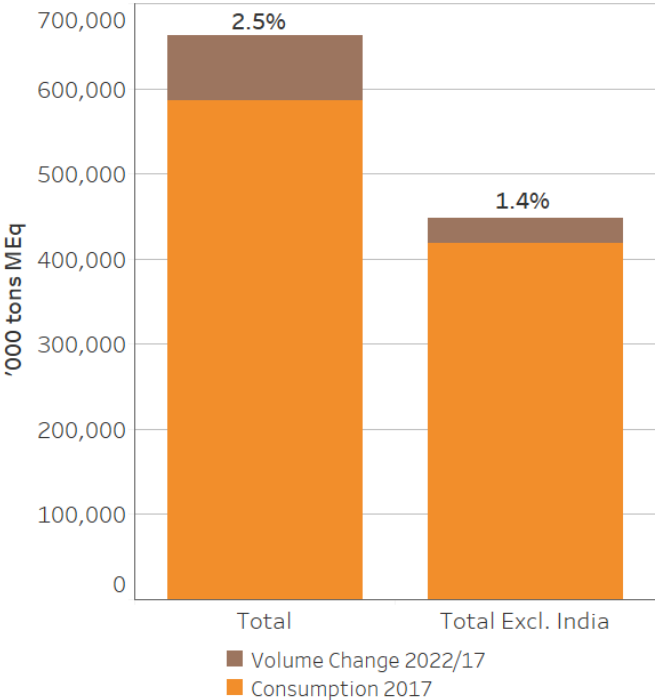
World dairy consumption growth

Dairy Consumption Change 2017-2022

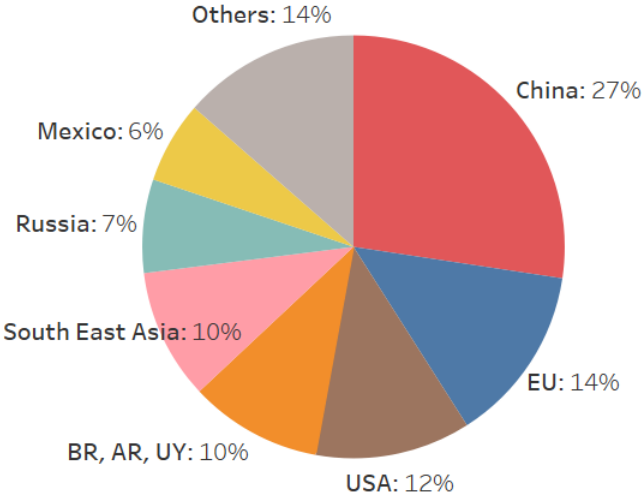
CAGR 17/22: +2.5%



Dairy Consumption - 2017 & 2022



Contributions of GDC Countries (excl. India) to Consumption Change Between 2017 and 2022



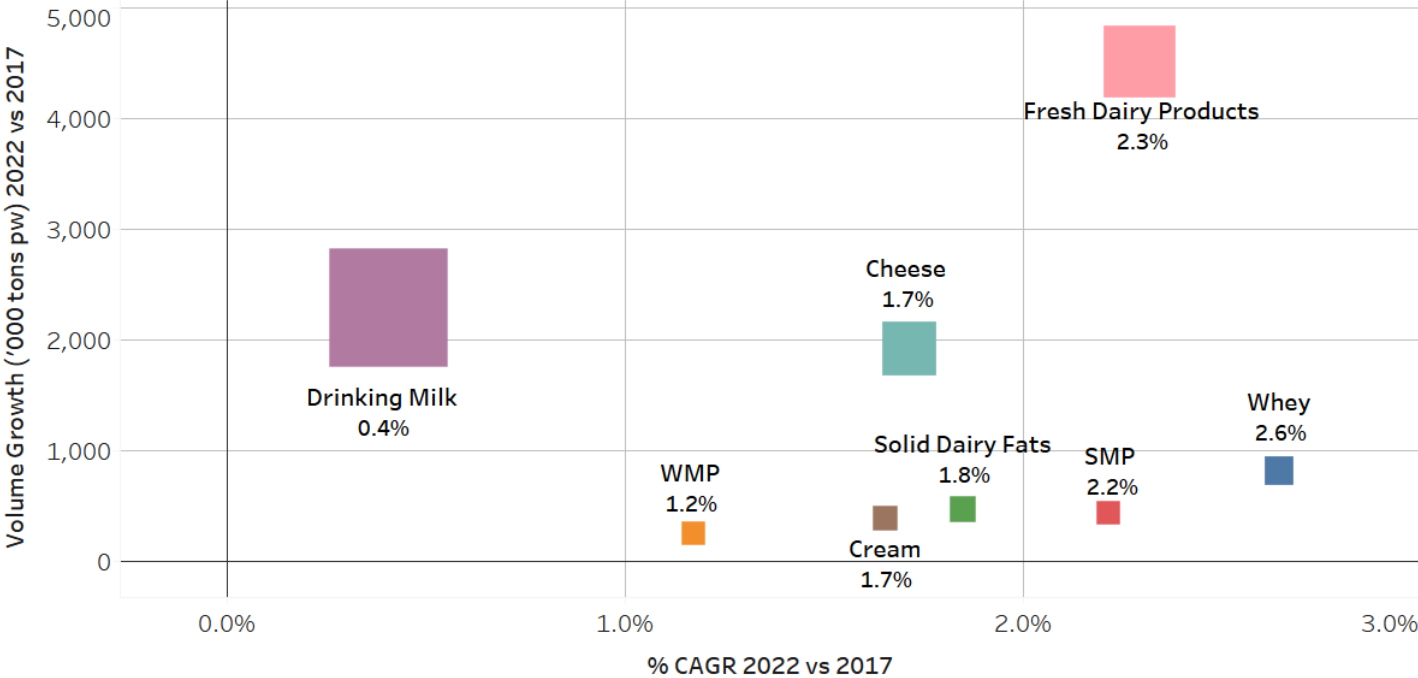
Source: Gira GDC17

Global Consumption Growth - 2017-2022

Lowest growth rate for drinking; Strong growth for fresh products



Consumption Growth in GDC Countries (excl. India) 2022 vs 2017



Source: Gira GDC17

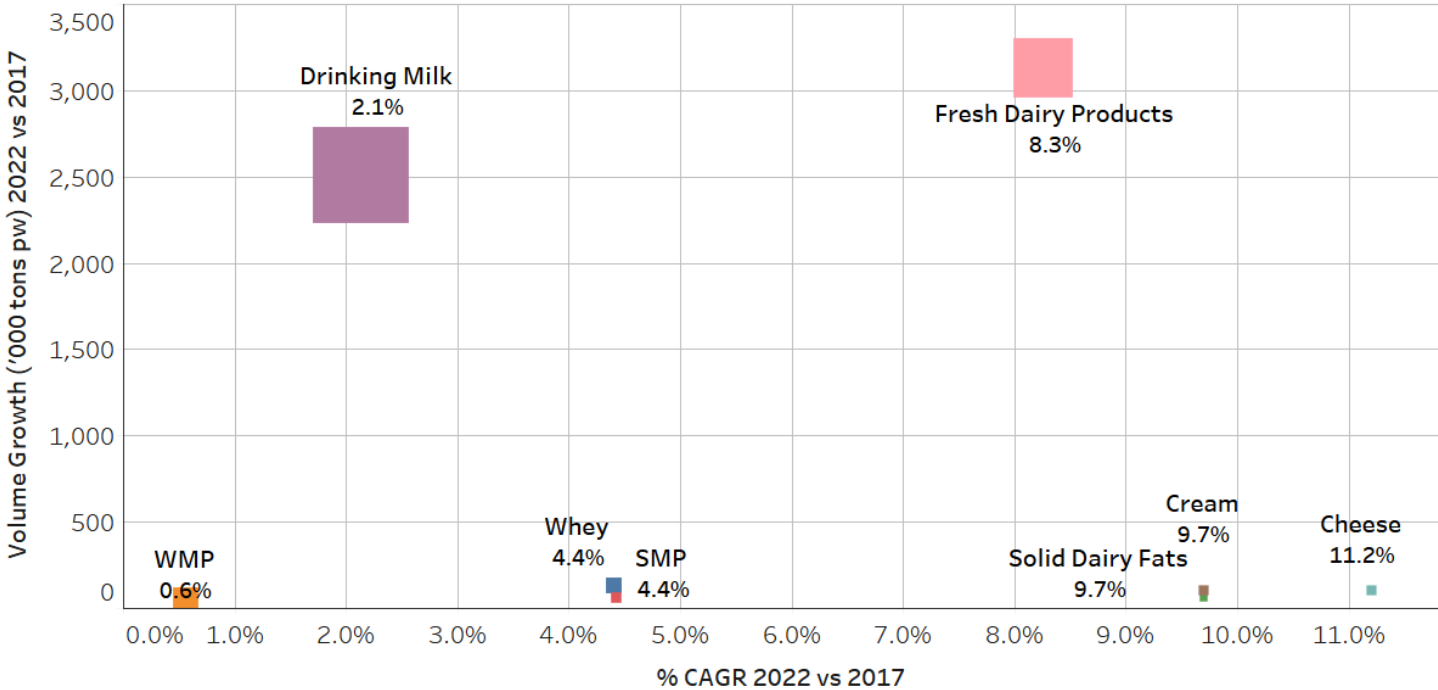
Notes: 1.The size of the squares is proportional to the consumption volume in 2022. 2.India was excluded.

Consumption Growth in China - 2017-2022

Yogurt expected to lead consumption volume growth



Consumption Growth in China 2022 vs 2017



Source: Gira GDC17

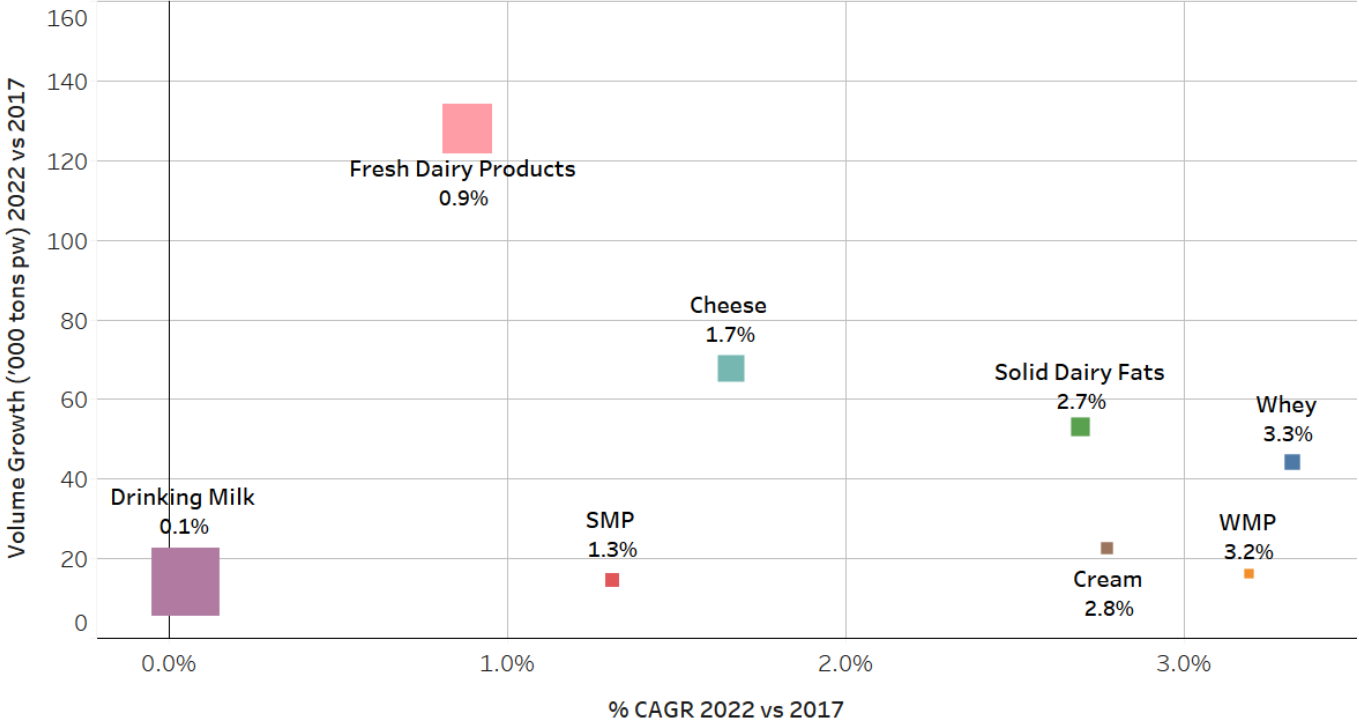
Note: The size of the squares is proportional to the consumption volume in 2022.

Consumption Growth in Russia - 2017-2022

Fresh and cheese will continue to lead the growth



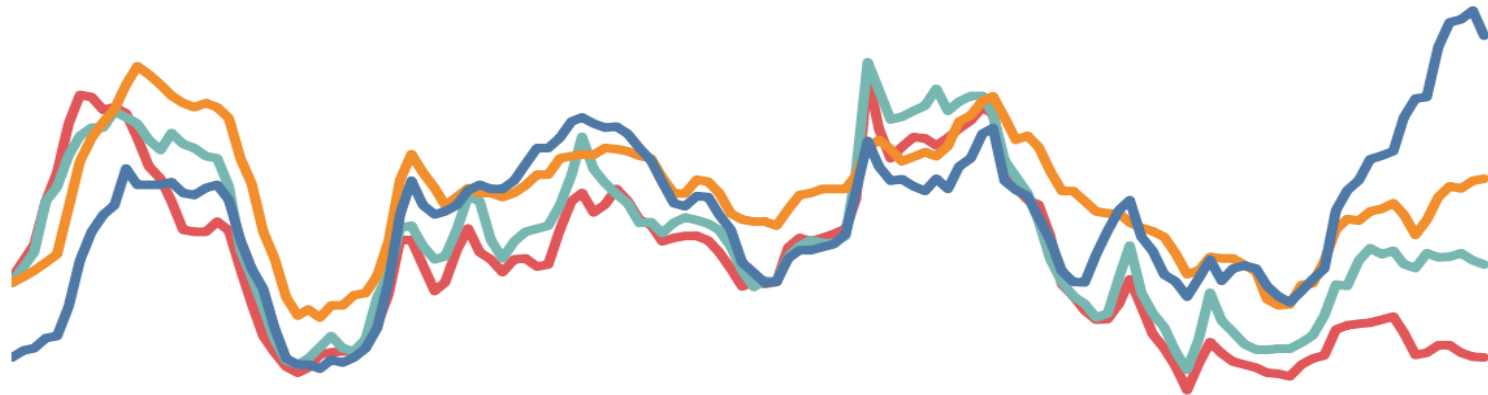
Consumption Growth in Russia 2022 vs 2017



Source: Gira GDC17

Note: The size of the squares is proportional to the consumption volume in 2022.

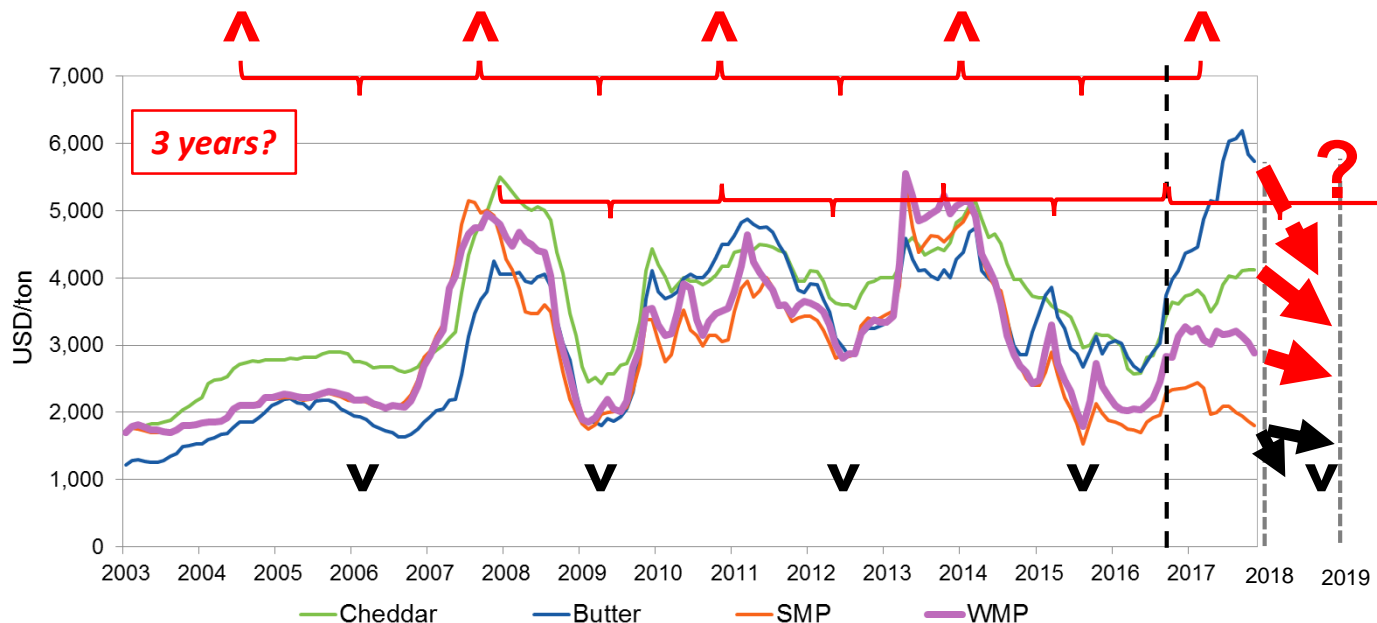
Expectations for dairy prices Global perspective



Where we are now. Current prices 2017...

Price spreads unseen ever before; 2018 price fall?

Oceania Dairy Commodity Prices, 2003-17



Source: GIRA from USDA, AMS Dairy Market News. Oceania prices.

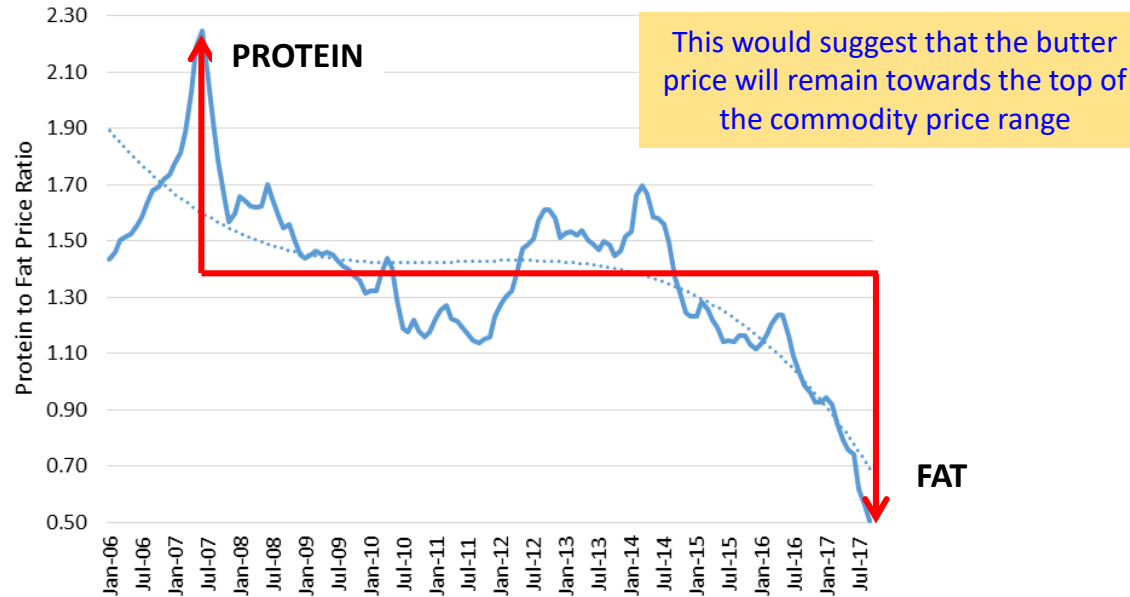
The bottom has been more prolonged, driven by significant underlying market fundamentals... but can return to trend, as seen in other price cycles

The protein to fat price ratio

The protein to fat price ratio in the EU: SMP & Butter

Increased movement towards fat valorisation

EU Protein to Fat Price Ratio, 2006 to Sept-2017



Demand for milkfats has increased strongly in recent years.
But the fat : protein balance in milk collected has hardly changed.
So we now see supply imbalance, with a major market valuation shift.

Country analysis

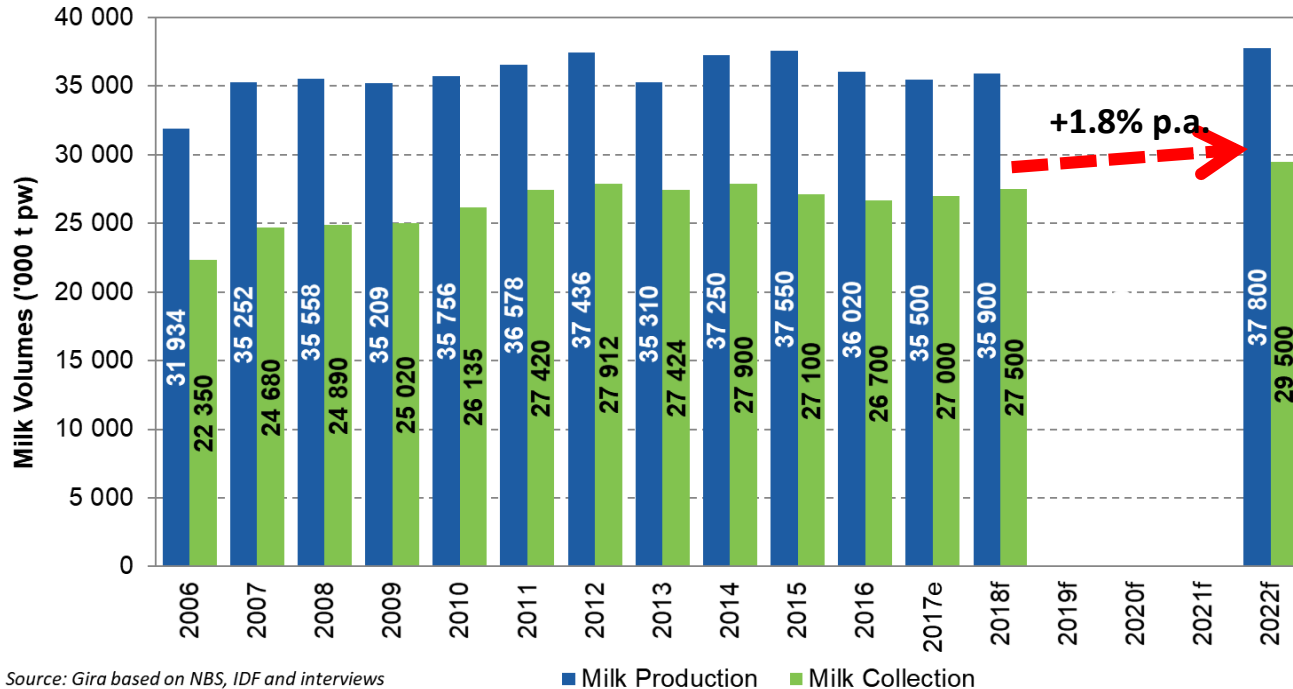
China: setting the scene

2022 forecasts and main trends

Milk collection

Modest growth for next 5 years (+1.8% p.a.)

Milk Production and Collection (2006-2022f)

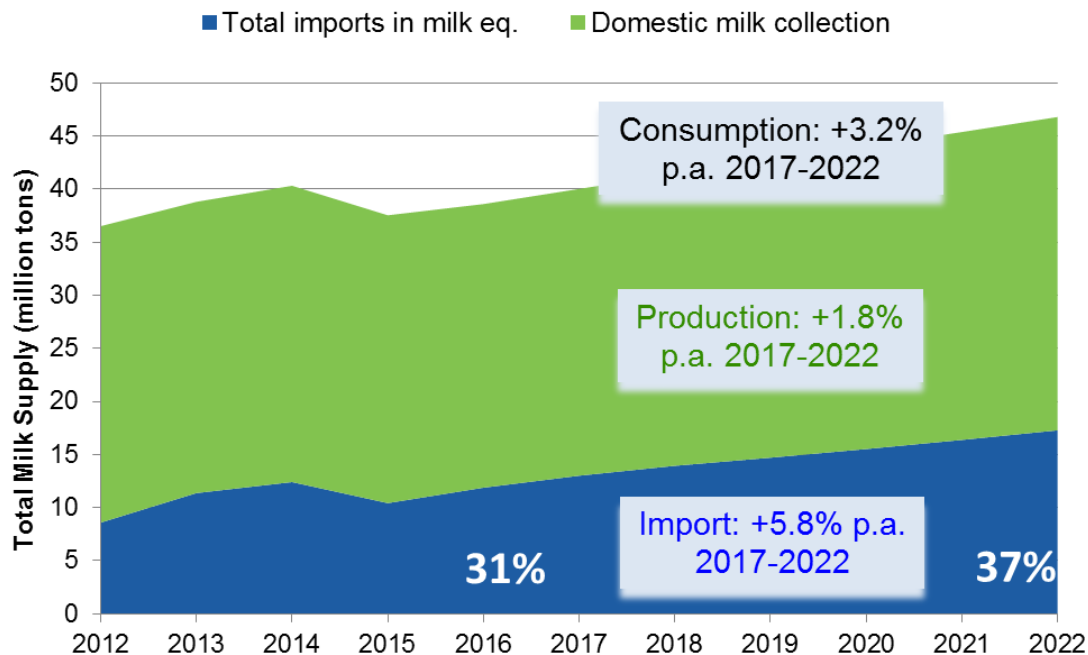


Source: Gira based on NBS, IDF and interviews

Estimation of total milk supply

Imports are going to take a still larger share

Estimation of Import and Production in Milk Eq., 2012-2022f

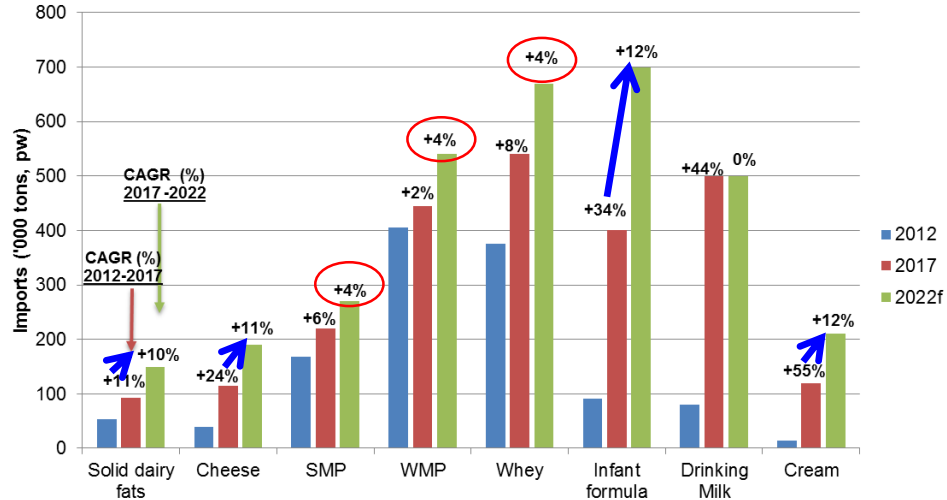


Source: Gira estimations based on Chinese dairy statistics, trade press and interviews.

Dairy products imports

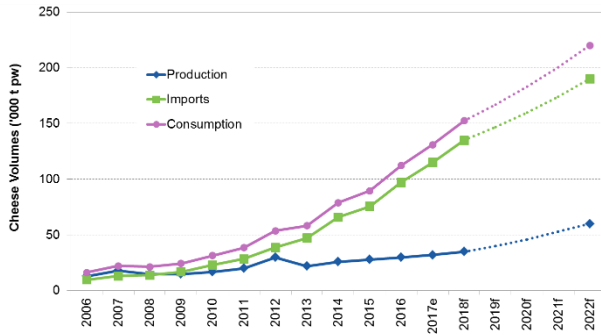
The fastest-growing segments are: IF, cream, cheese, butter

Chinese Imports of Dairy Products, 2012-2022f



Source: Gira Dairy Club

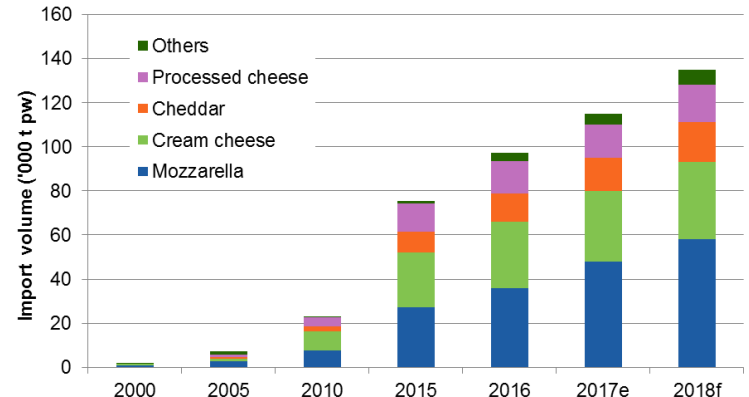
Cheese Balance, 2006-2022f



Source: Gira based on Trademap and interviews

- Cheese used in **foodservice** (pizza, burger, pasta, bakery stores, beverage shops) \approx **75%**
- Table cheeses for retail sale and HSH cheeses for processed cheese production \approx **25%**
 - Dominated by **mozzarella & cream cheese**
- **Forecast 2017:** +18%; 2018: +17% - continuous growth

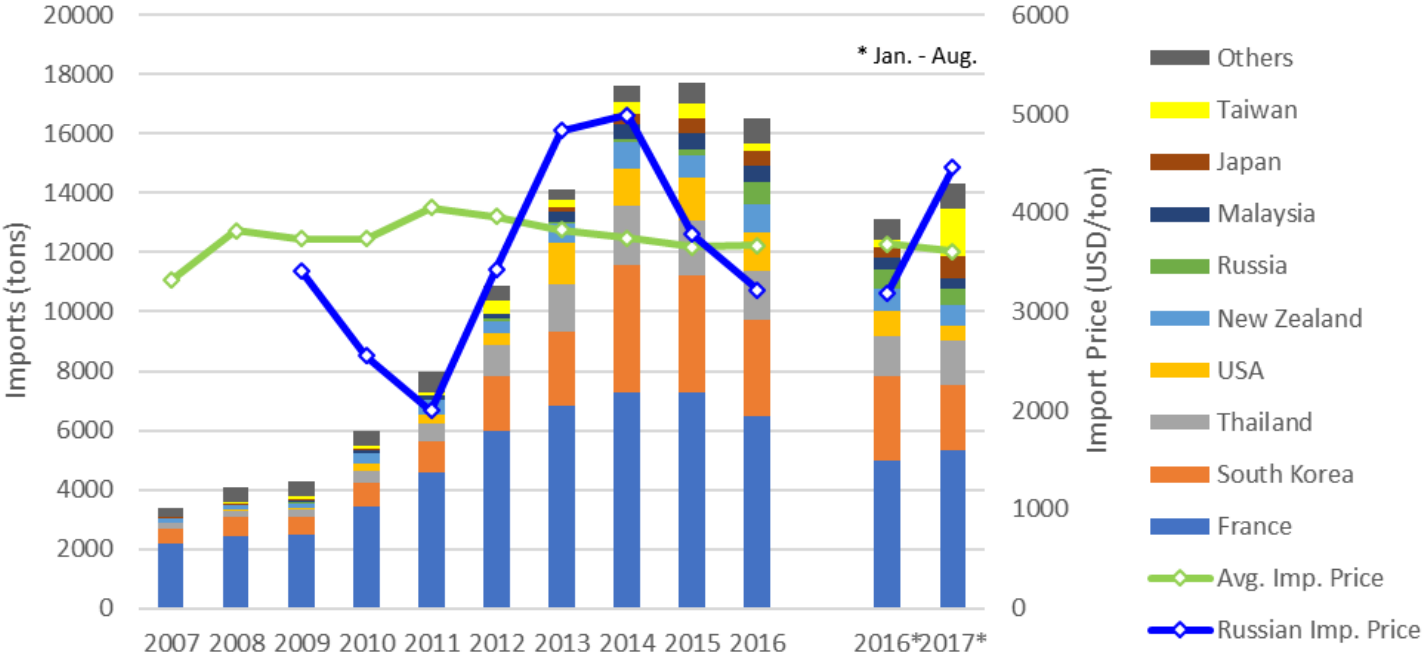
Estimation of Cheese Imports by Category



Source: Gira based on trade interviews.

Chinese imports of Ice cream: +13% p.a. (16'500 t 2016)

Russia: from 24 tons to 753 tons in 2016, accounting for 4.6% of the import market 2016



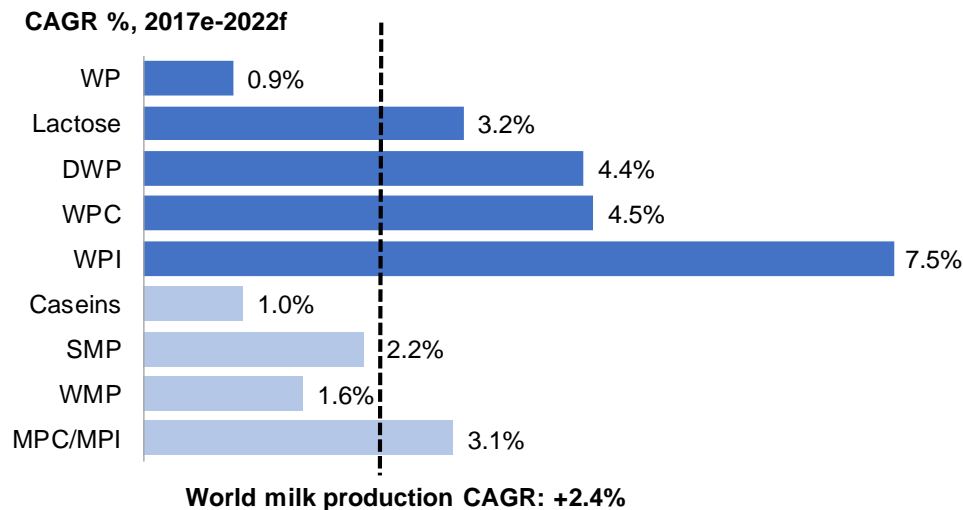
Source: Gira based on Trademap

Technical dairy ingredients

Growth in dairy ingredients consumption

The highest concentrated powders will show the highest growth

Expected growth of dairy ingredients

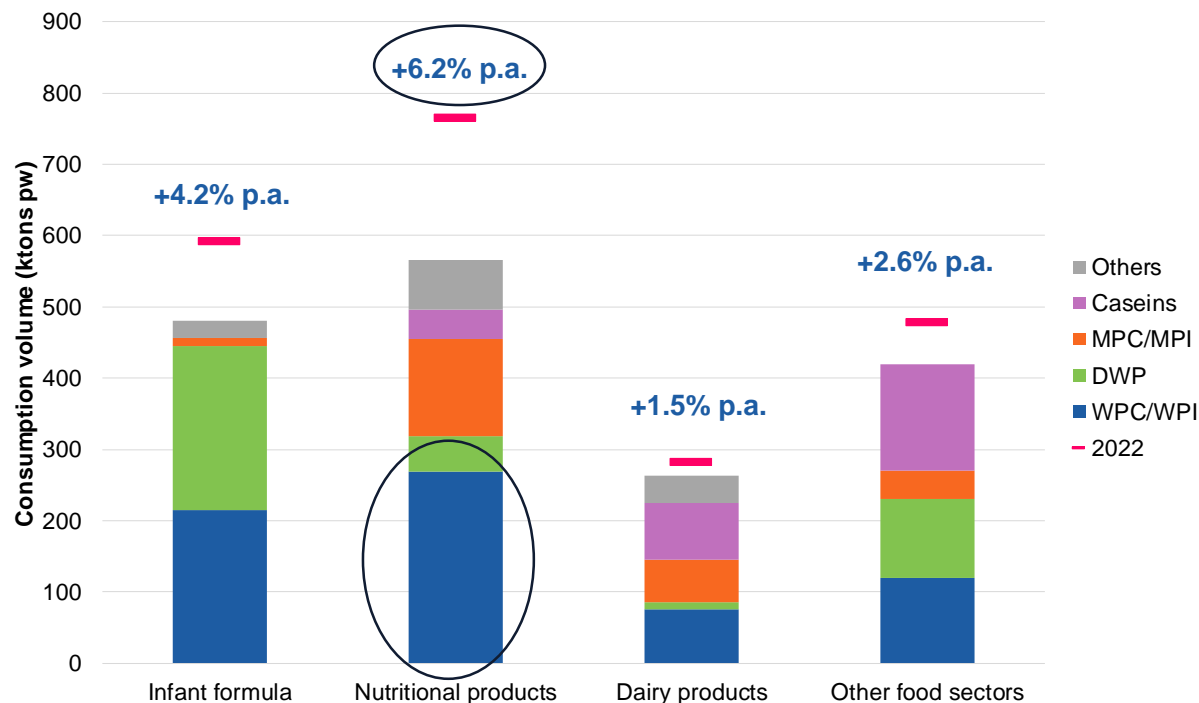


Several dairy ingredients' markets are projected to grow faster than world milk production

Expected weighted average volume growth of +1.5% p.a. between 2017 and 2022

- Without SMP/WMP: +2.1% p.a.
- Without SMP/WMP/WP: +3.3% p.a.

Global technical milk proteins powders consumption by end-user segments, in 2017e and 2022f (ktons pw)



Source: Gira based on ADPI, articles and interviews

Conclusions

We are in a period of instability given the significant commodity price range.



- **SMP stocks are the reason causing the price spread**, and the high butter price can be almost solely traced back to the presence of EU SMP intervention stocks.
- Difficult to envisage any market balance without a **decrease across all commodity prices**.
 - Larger drop in butter (but will remain high), with much smaller decreases in cheese and WMP.
 - SMP likely to continue to decrease specially after the EU decision
- **Dairy fats will continue to be better valorised than milk proteins in the future**
 - Demand will continue to grow and not just in China
- **Supply is expected to continue to grow**, with a **potential downside risk** coming from EU farmers with current high milk prices, driving supply higher, and potentially disrupting the current balance of S&D.

- **Demand is expected to continue to be relatively robust** in the short to mid-term, with continued demand in the major developed markets of the EU and US, and stronger growth particularly in SE Asia and China. Japan and Korea are also expected to continue with the current growth trajectory.
- China will continue to be the major global importer, albeit with a continuation of the trend **away from powder commodity imports towards more value added products.**
 - Food service is the name of the game
- **Russian milk collection will continue to grow.** Imports should be reduced in the future
- Increasing importance of **e-Commerce** and not just in China

Key questions for the future of dairy in Russia

What will be the place of Russia on the world dairy market?



- **Will the growth of Russian milk production accelerate?** Milk *collection* will increase significantly
 - Much will depend on what support the Russian government will provide to the sector
- **How will Russian consumption develop?** The current recovery is weak; the link with the oil/gas price remains decisive
- **Will the additional commercial milk production cover the rise in domestic demand?** it could ... with a consequent impact on Russian imports and even exports
 - What impact will trade relations with Belarus, NZ and new trade partners have on this?
- **And finally, will Russia actually become a significant exporter? And, if so, when?**
 - What could be the future of relations with China: will Russia export to China &/or will China invest in Russia?
 - Will Belarus will able to “replace” Russia as its main client. Will it be "obliged" to become a significant exporter to China, or even to the EU?



Спасибо за внимание