

# The current situation and potential consequences for the rest of the year

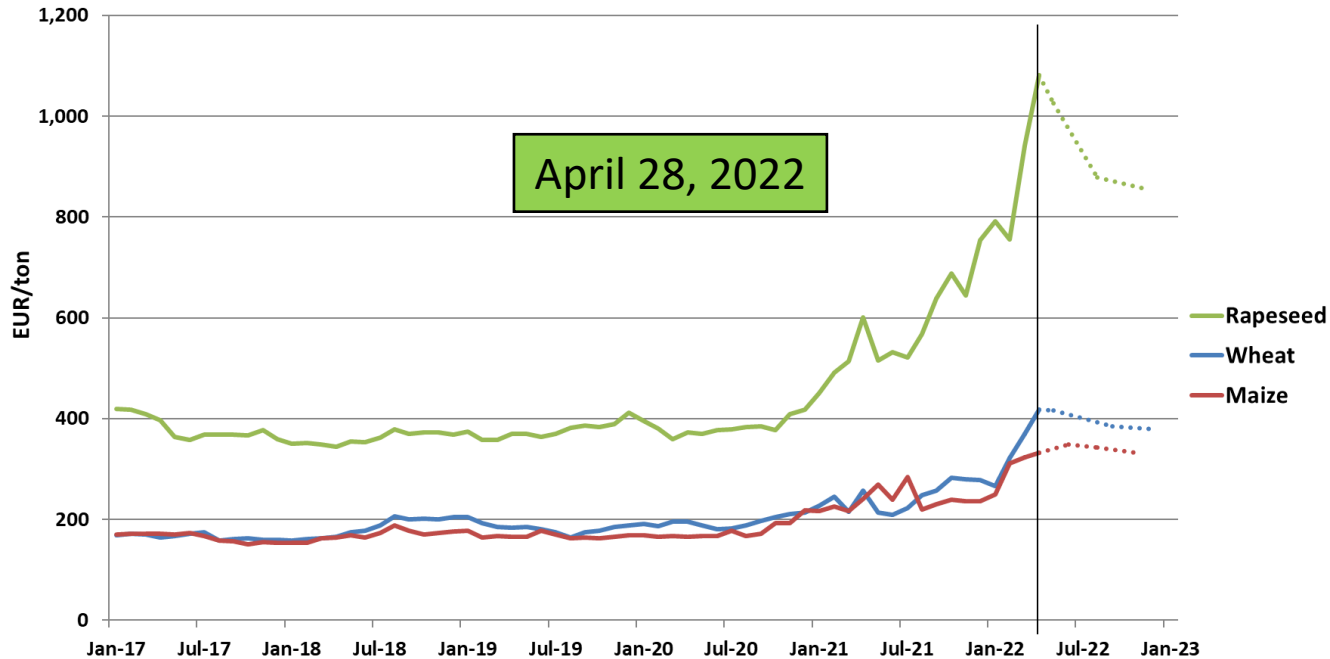
23rd of May 2022

Christophe Lafougere, CEO Gira

# Introduction

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## Maize, Wheat, Rapeseed Prices (and futures as of 28th of April 2022)

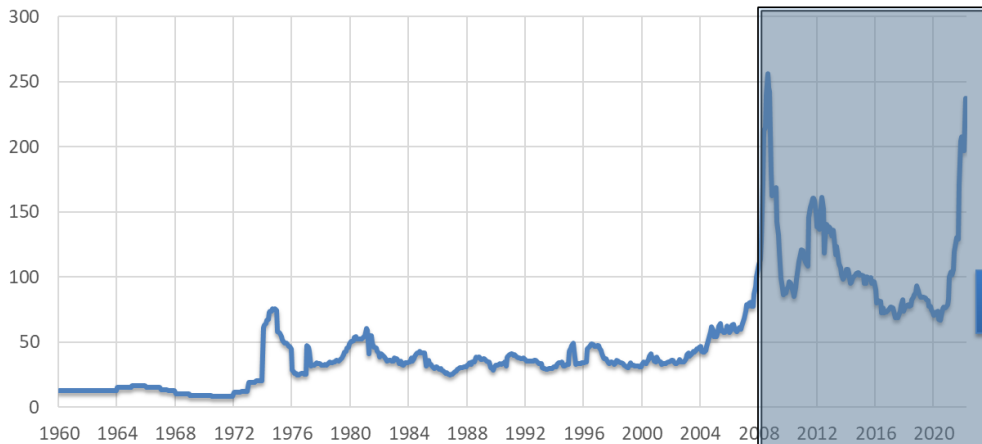


Source: Gira based on Euronext

# So also Fertilizer prices goes up

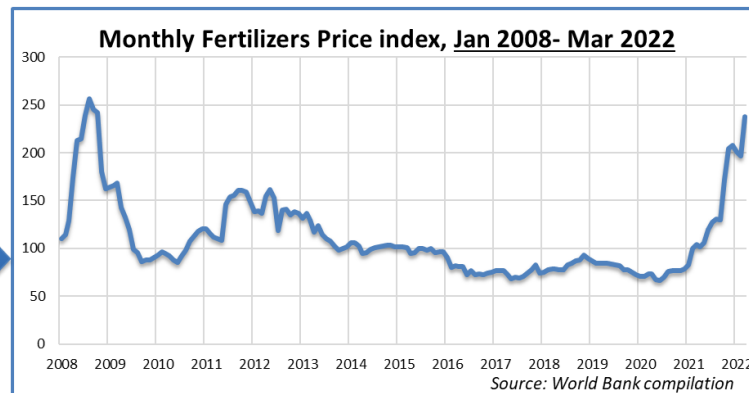
*A strong rise comparable to 2008*

Monthly Fertilizers Price index, 1960 - 2022 (World Bank)



Source: World Bank compilation

Monthly Fertilizers Price index, Jan 2008- Mar 2022



Source: World Bank compilation

# Direct impact of the war on dairy markets

*Should not have a large impact on world supply & demand*

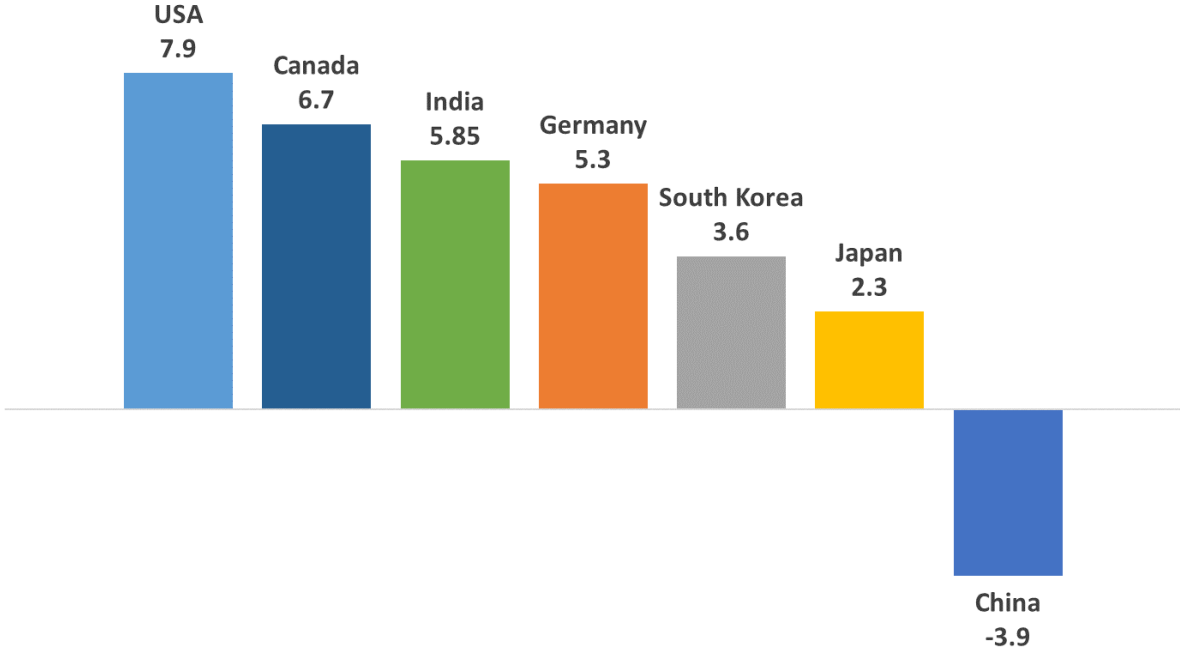
## ➤ Volumes of dairy products which will have to find rooms elsewhere

- Total volumes of dairy products exported from the EU:
  - 48'000 tons of cheese (net exports from EU to Ukraine), mainly from Poland
  - 11'000 tons net exports of liquid milk from the EU (mainly Poland) to Ukraine
  - 5'700 tons of Caseins exported from the EU to Russia (equivalent of 17'000 tons of SMP)
  - Around 3'000 tons of SMP used to produce chocolate exported from the EU to Russia
- Total volumes coming from other origins:
  - 40'000 tons of SDF (NZ, AR and UY) exported to Russia

## ➤ Volumes of dairy products which will be missing on world market

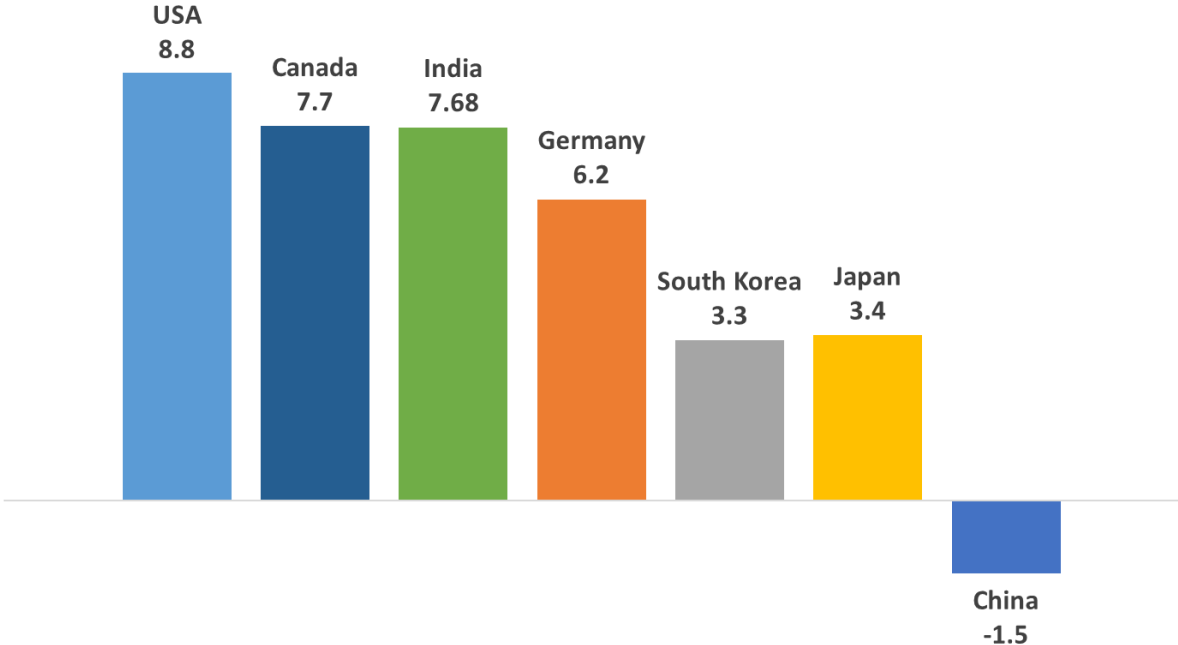
- Volumes from Ukraine:
  - 25'000 tons of dry whey (mainly to China)
  - 2 to 3'000 tons of SMP (China, Malaysia)
  - 5'000 tons of WMP (mainly to MENA)

## Food inflation, Annual growth rate (%), Feb 2022



Source: Gira based on National Statistics

## Food inflation, Annual growth rate (%), March 2022



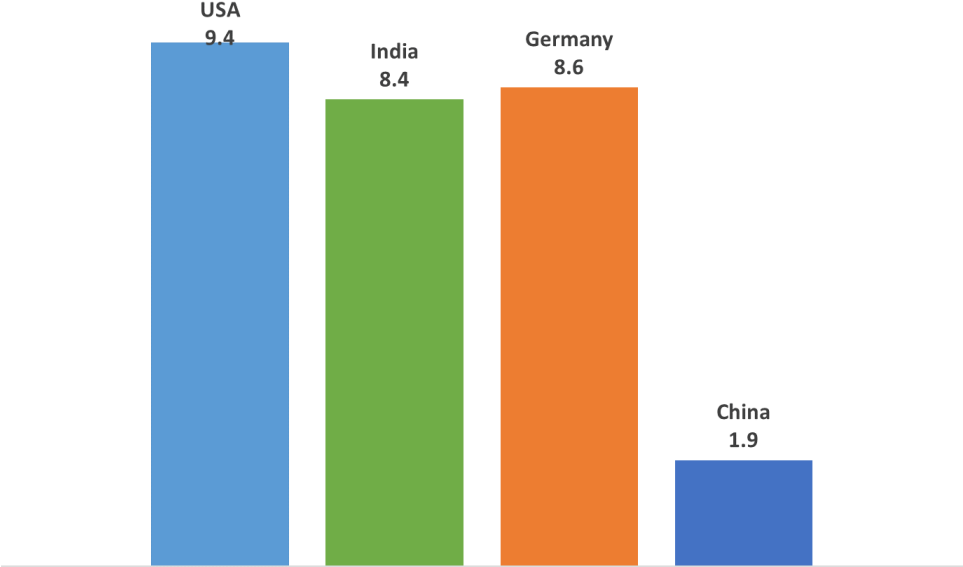
Source: Gira based on National Statistics

# Food inflation in April

*Watch out the effect on markets*



## Food inflation, Annual growth rate (%), April 2022



Source: Gira based on National Statistics

# Chinese economic situation

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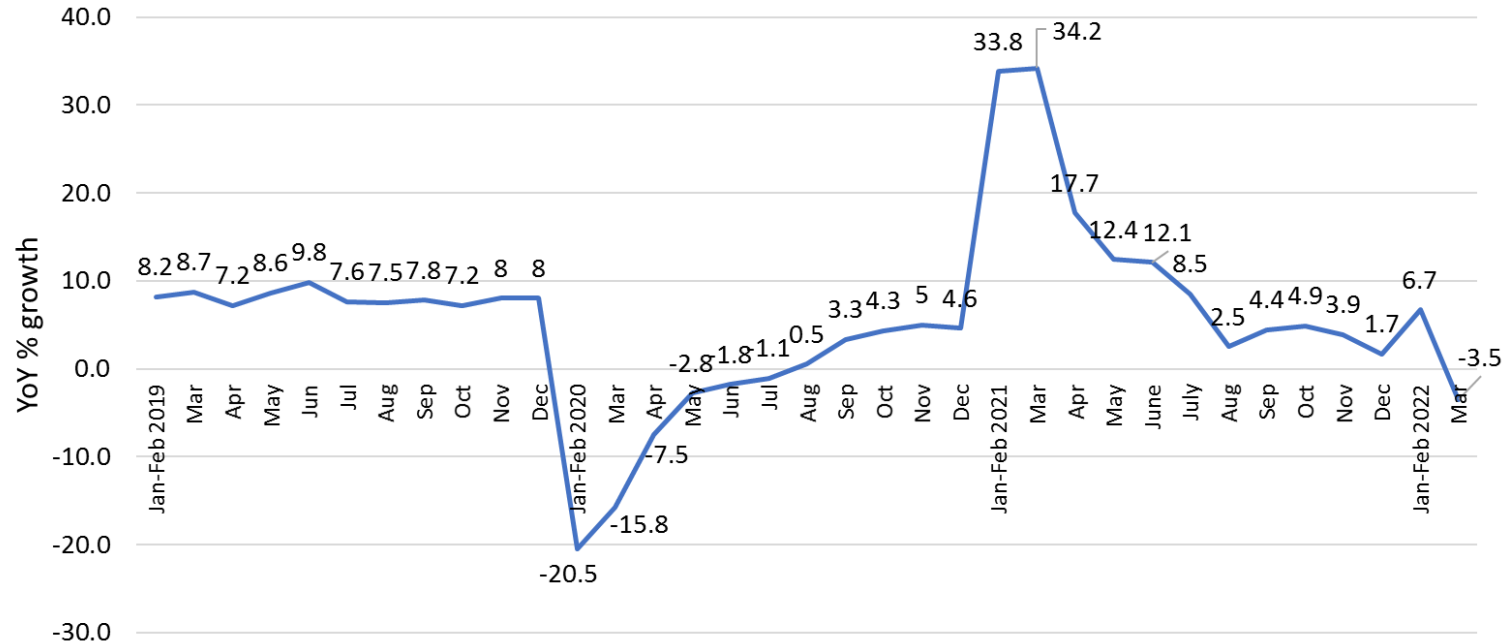
## Omicron is changin the situation

# Retail sales growth plunging again

Stabilizing consumption in the 2<sup>nd</sup> quarter will be a challenge



## Monthly National Retail Sales Growth, Jan. 2019 – Mar. 2022



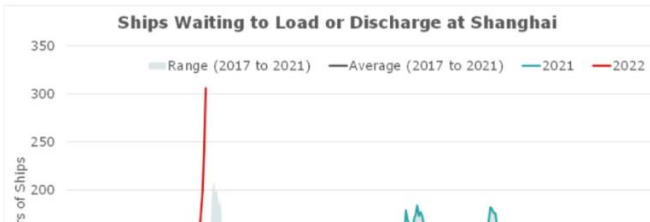
Source: Gira based on NBS of China

# Paralysed logistics

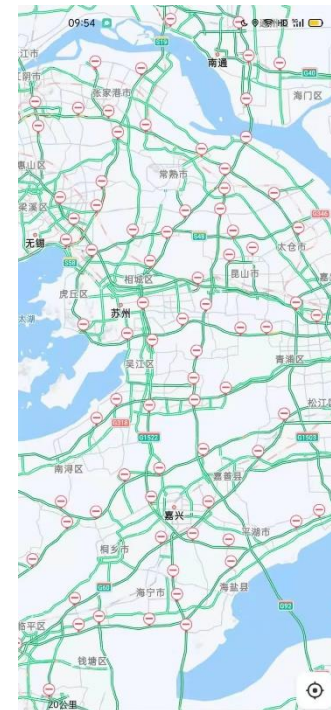
*Rising transport costs, disrupted supply chain*



Trucks wait to pass through on a highway leading from Shanghai.



**506 ships that were stuck outside China's port represent 27.7% of all ships waiting outside ports around the world**



More than 10 provinces and cities have closed part of their highway network

# The economy was already slowing before the Omicron wave

## *E-commerce's growth pace slows down*



- Alibaba reported its slowest-ever revenue growth for 4Q21, as its core commerce business in China grew only 7% amid an economic slowdown.



- JD.com posted a quarterly loss (4Q21) as its operational costs surged, and reported its weakest revenue growth (net revenue +23% yoy) in 6 quarters



TOGETHER, MORE savings, MORE fun

- Pinduoduo, which last year dethroned Alibaba as China's largest e-commerce platform by number of active buyers, reported just a 2.6% revenue growth in 4Q21

- Alibaba and Tencent were preparing to cut tens of thousands of jobs combined. Alibaba could cut more than 15% of its total workforce this year, or about 39,000 workers, while Tencent might shed between 10% and 15% of its staff in some key units.
- JD.com (JD) is also planning to lay off between 10% and 15% of its workforce at its group-buying Jingxi unit.

# Expected impact for 2022?

## *What about long term impact?*

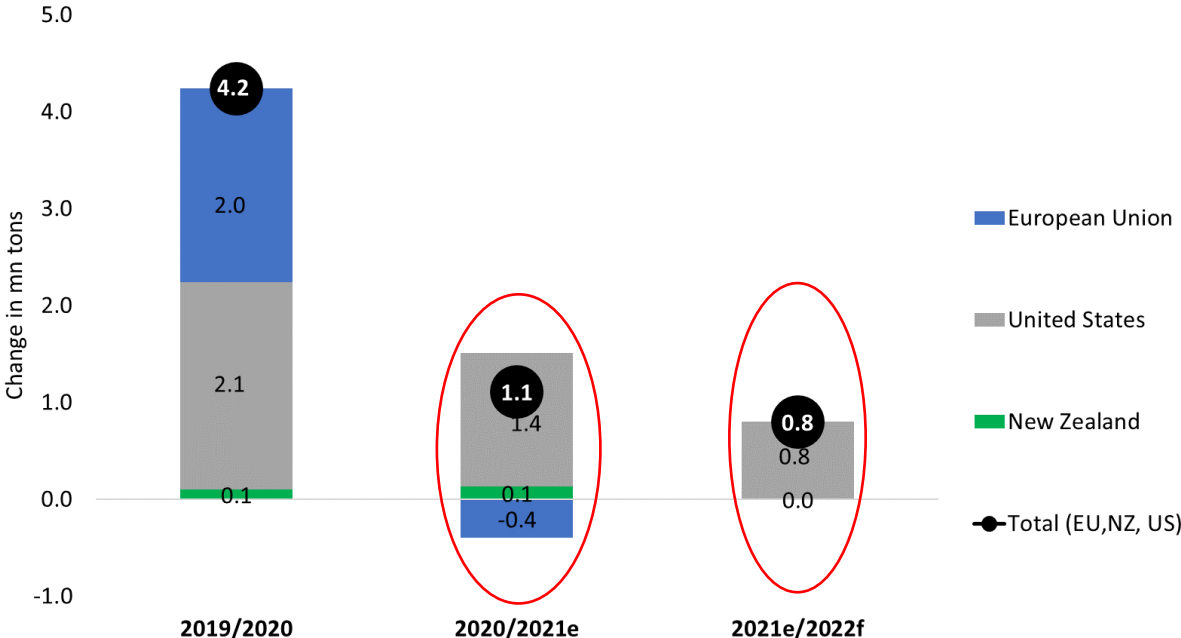
- 2022 CN economy will be greatly impacted
  - Huge costs of Zero Covid policy facing Omicron
  - For the moment, little hope that the country may relax its zero-tolerance approach
  - When will Covid cases be reduced to zero ?...Will government change its strategy?
  - By then,
    - Drop of manufacturing activities, drop of services, rise of costs...
    - Lower exports
    - Unemployment, income loss, lower consumption
    - Risk of social and political instability
  
- Long term impact
  - Will China be further cut from the rest of the world? And for how long?
  - Retreat of foreign companies?

## The 2022 situation

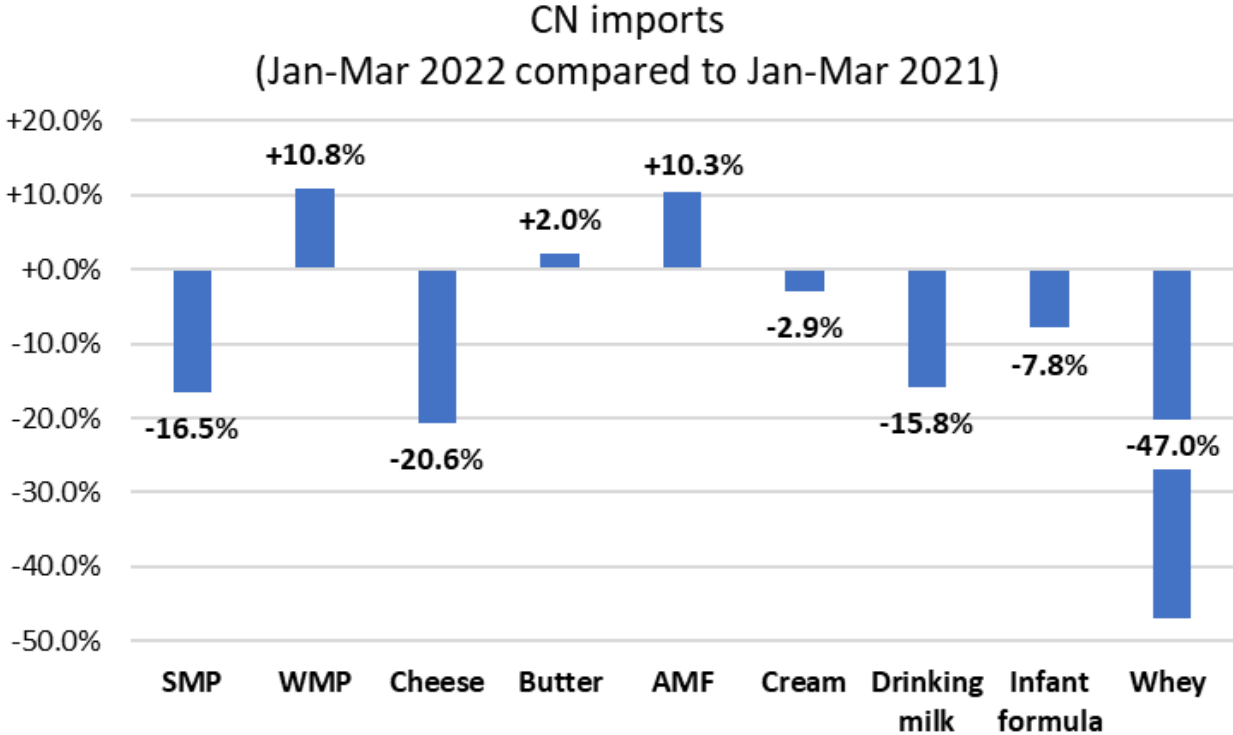
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# Milk collection EU28 – US and NZ: less milk

*2021 and 2022 should be used as a proxy for the future*



Source: Gira



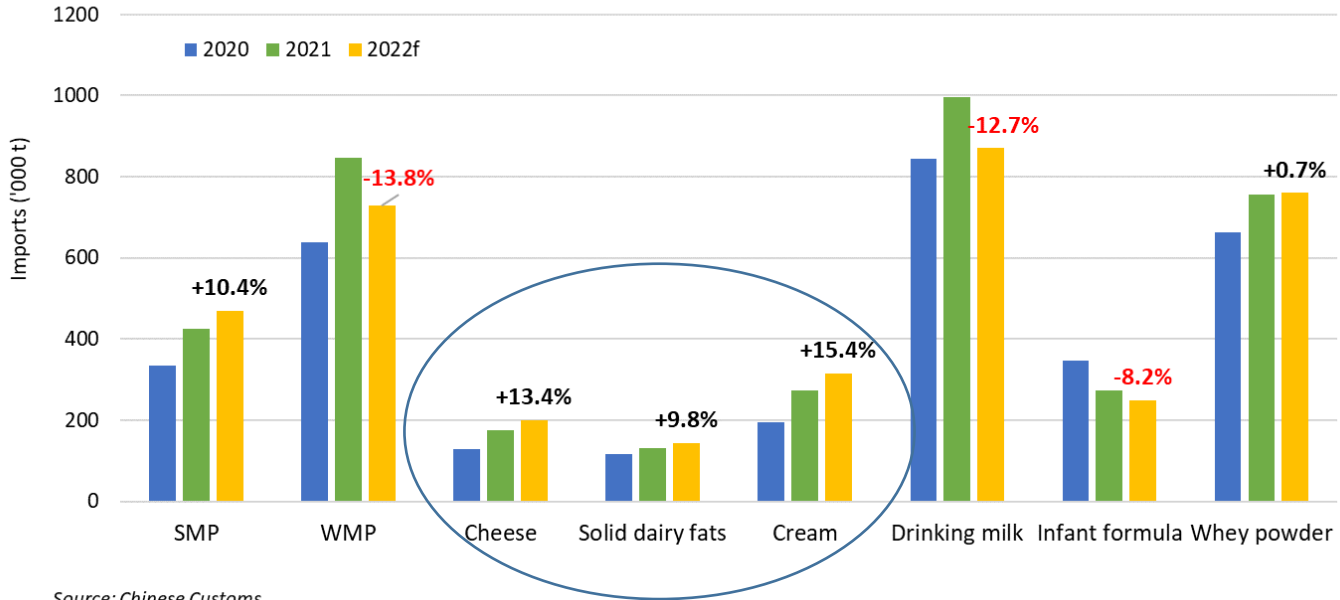
Source: Gira compilations

# Chinese Dairy Imports Forecast in 2022

WMP, drinking milk and IF may see decrease



For the period April to June 2022, import volumes of major dairy commodities are expected to be lower than the level of imports during the same period of 2021.



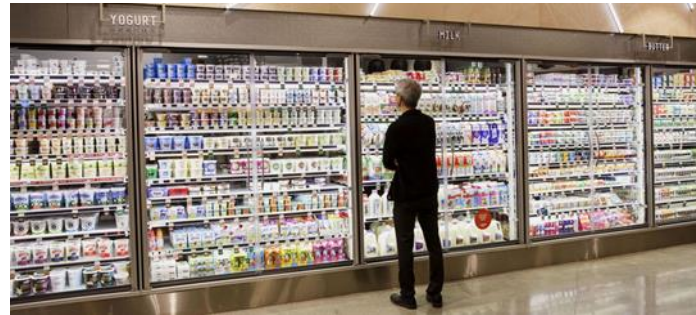
Source: Chinese Customs

## Why commodity prices should continue to stay high in H2

- Not enough growth of milk collection (constraints on farms) in the EU and the US not to speak about NZ
  - High feed price/tight margins
  - Labor shortage
  - Energy costs
  - Less cows and difficulties to find heifers
  - Less and less farms
  - Animal welfare/sustainability
  - Older farmers and little replacement
- World demand for dairy products is still growing
  - Both internal (EU and US) but also imports
  - Still imports gaps for country like Algeria
- Trade disruptions will continue in 2022 (worse than 2020?)
- China is back on the second half of the year
  - Could provoke a rise in price

## Why commodity prices could go down in H2

- Chinese demand will continue to be weak (until June?)
  - Covid free policy not helping the recovery of the economy
  - High stocks level (WMP at least)
  - High level of local milk production
- Too high import prices: Import demand will start to suffer in the less affluent part of the world
  - Potential drop in consumption
- Price signal start to reach the consumer (EU/US)
  - What will be their reactions? Any price elasticity?



Should you require more information, please contact:

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