ASEAN Dairy Demand Shines amid Depressed Milk Prices

The current dairy market dynamics across the ASEAN region provide some positive news (along with a little negative) for dairy exporters. A severely depressed global commodity market has challenged exporters (and subsequently milk suppliers) for the past two years. And while a recovery is within sight, it’s unlikely to be a meaningful recovery until 2017.

Potential in developing countries

However, recent broadcasts from South-East Asian dairy companies are a good reminder of dairy demand’s long-term potential in many developing economies. The major dairy listed stocks in South-East Asia have recently reported improved profitability and good sales growth (in volume terms) across most dairy categories. This reaffirms that these dairy markets will offer sustained growth and trade opportunities for exporters, given their limited ability to grow their own milk supply.

Nevertheless, these markets are not immune to global conditions. Dairy demand has been growing in recent years, albeit at a reduced rate. This is not surprising, given the price-sensitive nature of South-East Asian dairy consumers. Higher dairy prices in 2013 and 2014 were passed through to consumers. And consumers reacted.

But relief has arrived. Local companies such as Vinamilk (Vietnam), Indofood (Indonesia), and Fraser and Neave (Malaysia) have seen a significant improvement in their already healthy profit margins. The main driver has been lower costs of goods sold (COGS) – imported milk powder being the major component.

The battle for consumer spend

The battle for consumer spend is leading to lower retail prices and the ramping-up of marketing and trade spend, with reports of double-digit growth in some markets and in some categories across the dairy case. Many are expecting this trend to continue for the medium term, and it will be supported by growing populations, rising incomes, and consumer demand for healthier lifestyles and food products.

Many ASEAN dairy buyers have taken the opportunity of low prices and sluggish Chinese buying to accumulate inventories. In fact, some companies are now reporting full cover for import requirements for all of 2016.

This frantic buying has kept dairy trade flow in South-East Asia strong. However, South-East Asian thirst for dairy commodities has not—and will not—be enough to rebalance an oversupplied global market.
Global impact on ASEAN economies

Conditions across the global economic environment present downside risk or headwinds to this scenario. The outlook for the ASEAN economies is reasonable. But a faltering Chinese economy, low oil prices and depreciating currencies will impact some ASEAN economies more than others. For example, a slowdown in China and reduced demand for commodities will impact Indonesia and Malaysia the most. Nevertheless, income growth will continue to underpin growth in dairy demand. This is further supported by this period of lower retail prices, which can only be a good thing when it comes to reenergising consumer purchases.

A common theme in most dairy markets is the continuation of fierce competition at the retail shelf, both from local and imported brands. South-East Asia is no different, and the European quota removal has seen additional milk supply shipped into these markets.

Looking forward, competition downstream will remain fierce across this dynamic dairy region. Many local dairy companies are ramping up marketing and trade spend, along with investing in new product development (NPD) in retaliation. Elevated NPD from dominant local companies will mean import brands will need to potentially spend more in order to keep up.