

Market Outlook

On behalf of the whole Bdairy team, we would like to wish you a happy, healthy New Year!

The dairy market was stable in December, with a good balance between demand and supply. As is traditional at the end of the year, there were some producers who wanted to clean their warehouses, which created short-term opportunities inside Europe. The main challenge was with logistics, as trucks were not easy to find and sea freight also increased during the month.

Skimmed milk powder

During December, SMP of US origin remained the most price competitive in the world. The main drivers for this were the level of milk production (Nov almost 3% up YoY) and the exchange rate (the USD weakened by 2.5% against the EUR). Throughout December, NFDN on the CME traded at slightly lower levels, but corrected itself again towards the end of the month. On the world market SMP traded at similar levels as in November, which was between USD 2700–USD 2800/mt CFR. In general, most European SMP producers are comfortable. Inventory levels are low and new offers of SMP are freshly produced. As of now milk production in Europe will only increase and it needs to find a way on to the world market. Unlike the US and Europe, New Zealand milk production seems to be lower than expected. After a strong start to the season, the Northern Island of New Zealand is now reporting some heavier droughts than expected, which is already resulting in less milk for November, see table:

New Zealand Milk Production - '000 kg Milksolids

Month	Year				
	2016	2017	2018	2019	2020
January	208,036	209,690	194,128	209,036	211,377
February	171,624	171,172	165,225	165,025	167,874
March	162,357	178,463	174,572	161,433	161,619
April	134,607	143,763	148,177	136,728	135,699
May	82,798	84,037	88,812	87,839	91,147
June	13,013	15,672	17,565	19,917	20,321
July	19,923	21,496	22,470	23,539	24,795
August	113,130	111,385	116,478	119,066	124,643
September	210,113	207,418	219,511	220,982	224,952
October	247,431	254,558	271,080	266,907	267,666
November	234,770	242,644	248,156	249,135	242,303
December	225,501	215,089	228,238	228,700	
TOTAL	1,823,305	1,855,385	1,894,411	1,888,308	1,672,395

Note (1): kg Milksolids is the sum of the total milk protein and fat.

Note (2): This data is for Milk solids collected for processing.

Source: Dcanz.com

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At Bdairy, we expect that the demand will be strong enough to keep the SMP prices firm. The US recently announced the fifth round of the Families Food Box programme and it is expected that a reasonable percentage of milk will be absorbed by this programme. The US has also been exporting significantly more (+25% YoY), while exports out of the EU have been slow in 2020 (-14% YoY). Therefore, Bdairy is of the opinion that prices from the US will increase and that the gap between the US and the EU will soon be narrowed as a result of this. Also, our outlook for the long term is bullish, as most end users still need to buy for Q2 onwards, more people will get their vaccinations, meaning that there is light at the end of the tunnel, and there are no large amounts of stocks being held. The previous GDT results were already showing this.

Bdairy Outlook: bullish

Butter

Despite some bearish expectations in the market, cream prices inside Europe did not go down as much as people expected during December. Towards the end of the year it is normally possible to find some well-priced volumes for toll manufacturing, but this year the availability was limited. The demand from retail remained strong and most of the cream volumes for this period had already been contracted at an earlier stage. The limited availability of cream resulted in more demand for butter as people were looking for alternative ways to cover their shortages of fat. During December, butter traded at levels between EUR 3200 and EUR 3300/mt FCA Europe. End users in Europe were not very active during December, except for those end users who deliver their products to retail. They were looking for some volumes for prompt delivery. Surprisingly, the LIDL and ALDI retail price in Germany settled at EUR 3280 for January, which is approx. 15% lower than the previous month. Today, butter in Europe trades between EUR 3250–EUR 3350/mt FCA for Q1.

On the world market we see a firm market in New Zealand, with butter prices moving from almost USD 4000 (1 December 2020) to USD 4500 in the last GDT. In December, the most competitive offers were coming from South America, at levels just below USD 4000/mt FOB, but availability is limited and won't be enough to feed the world market. In addition, the transportation time was relatively long, which resulted in some more demand for European butter coming from butter importers outside Europe.

At Bdairy, we expect the butter market to remain stable in the short term as we believe that end users took a conservative approach when compiling their forecast and importers outside Europe will keep looking for butter for prompt shipment. In the long term, a lot depends on the demand from retail. If this demand remains firm and Europe remains competitive on the world market, we don't see a lot of downward potential. However, if this is not the case, and indeed if the SMP market remains firm, then the availability of butter will increase and this may lead to some pressure on prices.

Bdairy Outlook: stable