

# Market Outlook

## General

Milk production continues to be strong in both the US and New Zealand, while EU production continues to lag behind. With the herd size increasing in the US (+145,000 cows in the last 12 months, with a total herd of 9.505 million), it is expected that the US will maintain its dominant position in the export markets for the time being. Also, in recent months NZ data has shown that there has been a remarkably strong end to the season (Mar +8.7%, Apr +11.6%, May +9.4%) and it is expected that the start of the new milk season will show a similar trend. Milk prices for EU farmers continue to improve, but this is not yet reflected back in strong milk growth. The period from January to April still showed a negative milk growth of 0.68%.

## Skimmed milk powder

In recent weeks, EU SMP stocks have increased, due to the lack of demand from end users for prompt/Q3 collection. End users report that they are covered for Q3 and are looking to cover their needs for either Q4 and/or Q1. As a consequence, EU SMP prices have decreased for prompt collection (EUR 2450/mt–EUR 2500/mt FCA) and a slight price premium is noticeable for Q4 and Q1. For several weeks demand has been slow and this has resulted in a price drop of approx. EUR 100/mt. Several EU producers were looking to move stock for prompt deliveries. The decrease in market price is still relatively small, as many players have a positive outlook on the future SMP market. Therefore, sellers prefer to stock powder vs selling at a discount for Q3 collection. This outlook can be supported by the fact that EU SMP production was down in the first 4 months of the year (-6.5%) and that skimmed milk concentrate is still trading at higher levels (equivalent of EUR 2350/mt).

On the world market, a bearish trend is also becoming more visible. At the latest GDT event (6 July), NZ SMP decreased by approx. 7%, narrowing the gap between NZ SMP (average price USD 3175/mt FOB) and EU SMP.

**Bdairy Outlook: bearish**

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## Butter

European butter production in Jan–April 2021 (731.530mt) decreased by 15.000mt in comparison to the same period last year. This was compensated for by lower export volumes (minus 18.000mt) for the same period, causing the market to remain relatively stable.

As European milk production saw a seasonal increase in May and June 2021 and export demand continues to be absent, we expect EU butter stocks to have increased during Q2. Furthermore, retail demand for butter has been lacking and the demand in food service has been mainly for fresh product.

Although there is still little cream coming from the UK, the high cream prices we have seen in the first half of the year tend to be under pressure (last week EU cream traded at EUR 4750–4850/mt EXW for prompt delivery). However, current EU cream levels are still too high for processors to churn butter. The latest EU butter prices for Q3 are trading at EUR 3800/mt EXW in NL/BE/DE and for Q4 and Q1 at EUR 3850/mt EXW in NL/BE/DE. Hence, either cream prices have to decrease or butter prices will need to increase.

Looking at the supply side, we clearly see an appetite to sell in western Europe and no competitive offers from eastern and southern Europe. On the demand side, there are very few needs for Q3 and curiosity for Q4, Q1 and Q2 has not yet resulted in a lot of purchasing, mainly because buyers remain hesitant to close contracts.

Outside of Europe, sellers in Oceania report lower price levels (which is also reflected in the GDT of 6 July) and cheaper alternatives from South America are still available. Buyers in both North Africa and the Middle East report healthy stock levels and are in no hurry to cover any additional needs.

**Bdairy Outlook: weak/stable on lower levels**

## SWP

Whey powder prices rallied on the back of increased Chinese demand. Chinese buyers have (temporarily) retreated from the market and therefore SWP became more widely available. At Bdairy, we have seen EU food prices decreasing, with approx. EUR 50/mt to EUR 1070/mt EXW. Also, a slight bearish trend is noticeable in the EU feed market.

**Bdairy Outlook: slightly bearish**