

Market Outlook

General

Milk production in the US remains strong. Between January and July 2021, the USA produced 2.3% more milk compared to the same period last year. This is in line with the growth numbers we saw last month (+2.4%). From a seasonal point of view, the USA is now heading towards their low season, resulting in less milk to process. The same is true for Europe, especially in Germany, where milk production is going down and, in addition to this, lower levels of fat and protein are being reported in the milk. Compared to the same period last year, the milk delivered to European dairies was down by 0.1% between January–June 2021. Taking a closer look at the main producing countries, it can be concluded that the deficit in Germany is growing, while in France the gap is narrowing. Despite a higher milk price, European farmers don't have a great enough incentive to produce milk. One frequently heard reason for this is the higher feed costs.

In Oceania, the outlook still appears to be positive for a good start to the new production season. This is due to a combination of healthy milk prices and the fact that the grass is growing well.

Skimmed milk powder

In August, the average level of the Dutch/German and French quotations increased from EUR 2457 to EUR 2530/mt FCA. Last week the offers on the physical market were between EUR 2550 and EUR 2650/mt FCA for Q4. In general, producers are comfortable and don't have a lot of product to sell. In addition to this, the market is clean, meaning that there is hardly any older product around.

We are seeing a similar picture in New Zealand and the USA, where producers pretend to be comfortable and base their offers on CME and NZX, indexes that are only moving up. This week's GDT (+7.3%) is not going to change the firmness of the market and will give producers the confidence to start asking for higher prices again.

From a demand point of view, it looks like China and South East Asia are pretty well covered. We haven't seen a lot of demand from this part of the world for several weeks now. Apparently, end users are keeping higher stock levels in order to protect themselves against setbacks due to logistics issues. In addition to this, the new COVID Delta variant makes it very difficult to predict future needs. In the last couple of weeks most of the demand was coming from the Middle East and North Africa, which traditionally are markets that do not buy too far ahead. In Europe, most end users are well covered until the end of the year and some end users have already covered some of their needs for H1 2022. At today's prices we don't expect to see a lot of extra buying interest in Europe. Overall, it can be said that the demand is fairly modest, but in this market we apparently don't need a lot of demand in order to see higher prices.

We expect that the SMP will remain tight in the short term. Milk production in Europe and the USA is going down due to seasonality and there are always buyers looking to make purchases. However, as we look ahead into the new year we are being a bit more conservative, as we can't find many reasons why SMP prices should keep on trading at today's historically high levels. However, we can see that end users are taking relatively high prices for SMP into account for 2022, as we see that there will be a good level of buying interest if prices move towards EUR 2400/mt FCA.

Bdairy Outlook: Short Term: Firm

Market Outlook

Butter

In August, cream was the main driver for the European butter market and cream prices increased from EUR 4800 to EUR 5400/mt FCA last week. Also, it seems that the cream market is trading even higher (EUR 5600–5650/mt FCA) this week. At these levels, producers are not interested in churning the cream into butter. This ensures that there is not a great deal of fresh butter being offered and means that the price gap between fresh and frozen butter has increased. Another result of this is that producers are going to use their frozen butter stocks a bit earlier than expected. If this continues, it means that we will see lower stock levels. On the other hand, the European market is still lacking demand from end users. Repackers are reporting slow demand from retail customers, while other end users (bakeries, for instance) are mainly buying hand to mouth as today's prices don't add up. This week, fresh EU butter is trading at levels around EUR 4100/mt FCA for October and approx. EUR 50/mt higher for Q4. For next year we are predicting more selling interest at even lower levels, but buyers are likely to be difficult to find.

This week GDT also showed some higher prices and, in addition to this, CME shows a firmer tendency. In the last couple of weeks the demand from outside Europe has improved. Some business was booked, mainly with end users who needed the butter urgently.

We expect that cream is going to be the main driver in the short term and there is a fair chance that the cream market will remain tight for another few weeks due to the lower levels of milk production. However, this tendency can easily change as soon as cream prices start to go down. If this happens, we expect that more offers will come back on the market and it will be clear how much butter will be available in the market. For every extra week that the cream market remains tight, frozen butter volumes are decreasing, and the eventual price correction on butter will be smaller.

**Bdairy Outlook: Short Term: Stable To Firm
Long Term: Price Correction To Be Expected**

SWP

After a price decrease in July, SWP prices started to increase again in August. The lowest levels we saw in July were just above EUR 900/mt FCA. Today, SWP is being offered at levels between EUR 950–1020/mt FCA. The price increase was mainly caused by good demand from the European feed market (Q4), in combination with some demand from exports (also Q4). It seems that the EU feed buyers are ok for now and that they are waiting for SWP prices to go down again. The demand from exports still exists and this will be enough to keep prices stable for now.

Our view on the longer term is a bit more bearish. Cheese prices have increased and more whey will be available. In addition to this, we are not going to see the same demand from China as last year and this will probably have some impact.

Bdairy Outlook: Short Term: Stable, Long Term: Bearish