



## May 2022 **MARKET OUTLOOK**

by Edwin Blomsma

### **GENERAL**

European milk production data shows two different trends. In the east (Poland, the Baltic states) milk intake is above that of last year, showing growth of more than 4% in February. In the west, one sees the opposite situation, with negative growth figures in Germany (-1.34%), France (-1.35%) and the Netherlands (-2.15%). Overall, EU milk production is up 0.3% in January and February 2022 vs 2021.

From these opposite trends, one could conclude that not all EU farmers are limiting production due to elevated costs (these are estimated to be EUR 10 per 100 kg, an increase compared to the last 2 years). However, it is not only the costs that are important. If one compares the farm gate milk prices within the EU, there is a significant difference. French farmers are receiving one of the lowest milk prices in Europe (EUR 40 per 100 kg), whereas an Irish farmer is getting approx. EUR 48/100 kg. Margins for French farmers are more compromised compared to those of the Irish.

Having spoken to French and German producers, we do not foresee improved milk figures during the second half of 2022. Furthermore, the lower protein (3.46% vs 3.52% in 2021) and fat levels (4.17% vs 4.25% in 2021) in the milk are contributing to the lower availability of milk powders, butter and cheese.

### **SKIMMED MILK POWDER**

Over the last few weeks, EU SMP has become more widely available and skimmed milk concentrate prices are gradually decreasing. However, as SMP stocks at producers are still low, there is no pressure for sales. For this reason, there is also a mismatch between the EEX future market and the physical market. It seems that market participants are



speculating on lower SMP prices in H2, as last year's EEX prices for Q4 dropped to EUR 3650/mt, before recovering back to EUR 3800/mt. In the actual physical market, we see the market price at EUR 3900/mt.

At Bdairy, we believe that the market price for SMP could gradually decrease. A lower price is necessary for the EU to compete on the world market with US SMP. The difference in price between the continents has narrowed (mainly due to the strengthening of USD vs the EUR), but it is still there. For those who are not familiar with the general SMP statistics, the EU produces between 1400k mt and 1500k mt of SMP, of which more than 50% is exported outside the EU. Therefore, the EU needs to export and will have to adjust its prices to the international market levels.

On the demand side, requirements from China are minimal due to the Chinese COVID measures that are in place. This could also explain the lower prices that were concluded for most products on the last GDT tender on 3 May.

Furthermore, we have started to notice more resistance from our customers. More end users are reporting that they are covered until Q3 and their forecasts are showing lower consumption needs. This could be the first effects of the higher prices, which are being pushed back to the final end consumer.

### **Bdairy Market Outlook: Stable to bearish**

## **BUTTER**

After Easter many players expected EU cream prices to soften and consequently expected lower prices for EU butter. However, as of today, market prices are still trading at historical high levels (EU butter at around EUR 7100/mt FCA) and although cream prices have softened a bit (EUR 8200/mt–EUR 8500/mt based on 100% fat), it is only marginal.

The availability of butter shows a similar trend to the EU milk production figures. Polish butter is becoming more widely available, whereas German and French butter stocks are non-existent and premiums are being paid.

On the EEX future exchange, there is still a backwardation. This means that prices for Q3 and Q4 are trading at a slightly lower level than spot (Q2) prices. However, as the availability of cream and butter remains tight, even though the peak season has started, many players wonder what the availability will be during the period September–November. Could prices rise further? For this reason, we see that most of the demand from industrial end users is for H2 2022.

For many (including us at Bdairy), it is hard to have a concrete outlook on the coming three months. The main driver determining the market direction will be the total demand from end consumers and industrial end users. The new butter prices of EUR 7/kg will be passed



on to the end consumer. What will be the result of this? Will consumers choose other non-dairy substitutes or will they continue to buy? At Bdairy, we expect that butter will have a certain degree of price elasticity. Industrials will examine all of their options to limit their usage of butter and price sensitive consumers will buy less butter.

### Bdairy Market Outlook: Stable and searching for direction

