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MARKET OUTLOOK

by Laurent Syryn

GENERAL

Seasonally, there is more milk available in both the EU and the US, but it is still not meeting expectations and therefore prices remain at historically high levels.

SKIMMED MILK POWDER

In May, we saw greater availability of skimmed milk, skimmed milk concentrate and, therefore, also SMP. This was to be expected, considering the peak milk production in the western part of the EU. However, unlike previous years, there still seemed to be sufficient drying capacity at several factories and, therefore, skimmed milk concentrate did not “dip” as low as it normally would during May. The lowest level we heard about was EUR 2600/mt in France.

Looking at the 2022 milk season, it is highly likely that the peak milk production week will be delayed in both Germany and Ireland, which could give a different perspective to the negative growth figures we have been seeing for several weeks.

In May, prices started to ease slightly as greater volumes became available and end users were reported to be covered for the upcoming months. It has therefore come as a surprise that markets have started to strengthen again during the last 10 days. EEX recovered from EUR 3800/mt back to EUR 4000/mt.

At Bdairy, we are a bit puzzled by the recent increase in prices, as demand from end users is still slow(er) compared to previous months. We are also receiving news from different clients about reduced forecasted volumes, which does not explain the current rally.

The most logical explanation is that clients do not believe that the supply of milk will improve within this calendar year. Elevated feed prices, the war in Ukraine, negative growth figures in the EU, NZ and the US (April production minus 0.9%) and lower SMP



production in the EU (minus 4.5% in Q1) all mean that it is difficult to see a bearish trend from a supply perspective.

From a demand perspective, we still predict lower demand in H2 of this year as elevated prices will be passed on to the end consumer. The main question is, when will this be reflected back in the pricing?

Bdairy Market Outlook: Stable

BUTTER

Similar to SMP, butter prices have rallied during the last 10 days, reaching levels of EUR 7250/mt for German/Dutch butter and EUR 7150/mt for Irish butter.

Based on our intel, we expected greater volumes of Irish butter to become available. However, available volumes are still limited and below expectations. It could be that producers are withholding offers until the butter has been physically produced.

In Germany, NL and France, free volumes of liquid cream are still limited, as these three countries are all seeing negative growth figures. Therefore, cream prices are maintaining a high level of EUR 8400/mt, an unusually high level for the month of May.

Some relief comes from the east, where Polish milk production is growing and, therefore, there are also greater volumes of industrial butter available. On average, Polish butter is trading at a discount of EUR 150/mt compared to German butter.

We are hearing rumours about lower demand from retail for packed butter. Based on the retail figures from Germany, demand is more or less back to pre-corona levels (2019). But again, lower demand from retail is not resulting in lower prices.

Similar to SMP, one has to be patient and wait for a reaction from the consumer side. Food inflation would normally result in lower demand. Or will EU consumers decide that butter is a basic necessity that can't be substituted? At Bdairy, we do not believe this to be the case.

Bdairy Market Outlook: Stable

