



July 2022 MARKET OUTLOOK

by Clément Neige

GENERAL

It seems as if the global dairy market has come to a standstill. Globally, milk production figures are still showing negative growth and producers are therefore under no pressure to move their volumes on the world market. At the same time, buyers are holding back from making purchases as they report having sufficient stocks for the coming months. The main question is, who can wait the longest, buyers or sellers?

SKIMMED MILK POWDER

Traditionally, skimmed milk powder is the least popular product produced by the manufacturers. For this reason, SMP volumes decrease significantly when milk intake figures are negative. We see this reflected in the production figures (EU SMP production minus -1.4%).

During the last few weeks, New Zealand has posted negative numbers (- 6.5% in May). Also, US (- 0.6% in May) and EU milk intake figures are not recovering (- 0.6%), even though farm gate milk prices continue to increase. This provides enough reasons for a bullish outlook on SMP, one could argue.

However, when looking at the current market trend, it is not bullish. Major SMP buyers (especially on the world market) are stepping out of the market. Sales for final products are slowing down, as increased prices for dairy (along with those for other raw materials and energy) are passed on to the final end consumer. As wages are not increasing at the same pace, the result is lower demand. Several end users report having to lower revised



forecasts for factories in Asia and Africa. Within the EU, this trend is not yet clearly visible, as dairy is considered to be a basic product and therefore has a lower price elasticity. But considering that the EU traditionally exports 40% to 50% of its total volumes, it will have to adjust its pricing to the global market level.

Global SMP prices are still ranging between USD 4300/mt and USD 4000/mt CIF main port. Such price levels are interesting for markets that traditionally are not able to compete with the US and the EU. For this reason, more SMP volumes are becoming available from Turkey, Belarus, Ukraine, Iran, Japan, India and others.

At Bdairy, our outlook is bearish, as we believe that the customers will postpone their purchases for several weeks. As prices have decreased by more than USD 100/mt in recent days, on both the EEX and CME, this will not incentivise buyers to step into the market. Does this mean that the SMP market will drop significantly? The answer to this is no, as we believe that a gradual decrease is more likely. Most producers feel no pressure to move volumes as they see that milk intake figures are low and prefer to keep SMP stocks for October, when milk intake will be at its lowest point.

Bdairy Market Outlook: Slightly bearish

BUTTER

In a similar way to SMP, EU butter prices are gradually decreasing. Producers are selling some of their stocks, but will not significantly lower their prices as the long-term outlook for milk intake is still pessimistic. German, Irish and Dutch butter is currently being offered at around EUR 7000/mt FCA and this is gradually decreasing week by week. Another reason for producers not to rush into sales is because of the high EU cream prices. In Germany, cream has been traded at EUR 8700/mt, although this week prices softened to EUR 8500/mt.

Within the EU, the availability of Polish butter remains good and it is generally traded at a discount of EUR 100/mt or EUR 200/mt compared to German butter. One reason for this could be the relatively good milk intake figures in Poland (+2.4 % YoY). However, there is still only limited availability of Irish butter, as milk intake is still 2–3% behind expectations. Irish producers report that they are behind with production and are therefore not willing to offer any volumes.

Outside the EU, there is more pressure on butter and milkfat pricing. The GDT results, dated 5 July, show a continued negative price trend. With the strengthening of the USD against the EUR and the lower NZ AMF pricing, it would even be worthwhile importing NZ AMF with the full levy of EUR 2300/mt. Does this mean that import figures will grow in the



second half of 2022? At Bdairy, we see this as a likely scenario.

On the demand side, buyers report that they are mostly covered for the upcoming months, but there remains buying interest for Q4 providing that prices are in line with buyers' expectations.

Our outlook for butter is slightly bearish, as we believe that demand will only come back after the summer period (end of August, early September). The higher butter prices could eventually lead to lower demand, however, we do not yet have any clear signs from our industrial clients. Some report lower sales, while others are still in full production.

Bdairy Market Outlook: Slightly bearish

