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MARKET OUTLOOK

by Edwin Blomsma

GENERAL

If one compares YoY milk intake figures, it can be seen that EU and US milk production figures are improving. However, most critics argue that farmers are not (yet) increasing their milk output, but that the figures look better because milk output was beginning to drop at the start of H2 2021. For instance, Germany (+0.1%) and the UK (+0.4%) were showing modest growth figures at the end of July and France was almost on par (-0.2%). Also, milk production in the US started to increase in June (+0.3%) and July is also expected to show positive numbers.

From a demand perspective, recent weeks have been poor. Demand from China is still lacking, as lower valued stocks are still present within the country. This is a result of higher local production and lower than expected demand. Recent COVID lockdowns could explain the lower demand.

As the Chinese are not in the market, and other regions are also not actively buying, New Zealand's dairy commodity prices are under pressure. The prices reported in recent GDT's show a strong negative price trend (-5%). NZ milk production will ramp up in September, but is not expected to show significant growth figures compared to the 21/22 season.

In the greater Asian region, the demand for dairy commodities has also slowed down. High food inflation numbers put pressure on people's spending power and this results in lower demand. Demand is expected to recover slightly as COVID measures ease, as this is likely to increase levels of dairy consumption outside the home and lead to a recovery in the tourism industry.



The trend for lower demand caused by inflation is also clearly visible in African markets.

In some cases, high prices for imported goods also result in a lack of available currencies and, therefore, the ability to pay. For instance, in Egypt, a lack of available USD is causing demand to be slow.

SKIMMED MILK POWDER

EU, US and global market prices for SMP are under pressure. In the last 3 weeks, both the EEX and CME have shown daily price declines. Currently EEX SMP is trading at EUR 3320/mt for Q4 and CME at 1.40–1.45 per pound. EEX has therefore decreased by EUR 300/mt in just 2 weeks. Both future exchanges have set the trend over the last few weeks. When speaking to EU producers, they say that they are not decreasing their price offers to the same extent and that a gap remains between the physical and paper market. It seems that traders/speculators are mostly foreseeing (further) price decreases as it is perceived that global demand will be slow for the remainder of the year.

Producers have another perspective, as they report that they are worried about the EU gas situation. A lack of Russian gas could play a major role by the end of 2022. This is especially true in Germany and Italy, as they are highly dependent on Russian gas. There are some concerns for the supply security of German powders, with producers unwilling to sell further forward. Furthermore, EU stocks of SMP are still perceived to be low in most countries and, therefore, the immediate need to sell at lower levels is not (yet) there.

At Bdairy, we expect that demand from the export markets will remain poor for the next few weeks. EU buyers are covered for Q3, although some still require volumes for Q4. However, when coming back from their holidays, one could imagine that they will postpone their buying decisions, given the current market trend.

Bdairy Market Outlook: Bearish

BUTTER

As reported, there is pressure on protein prices, but this trend is different for fat products, such as EU cheese and EU butter. Over the last few weeks, the demand for butter has returned and prices are gradually heading back towards EUR 7000/mt FCA. Cream prices are still reported to be between EUR 8200 and EUR 8500/mt and a huge drop is not yet



expected. EU manufacturers have volumes of butter available for August collection, but are not reacting to lower bids and are foreseeing some further price increases.

At Bdairy, our market outlook is less clear. As global milkfat prices are under pressure (NZ AMF was concluded at USD 5550/mt FOB at the latest GDT), the EU milkfat market becomes an Island by itself. Even with high import duties, it becomes commercially viable to import non-EU AMF and butter. Clearly, food inflation has not yet had the same impact within the EU as it has outside the EU, but we expect that total retail and industrial demand will eventually reduce. This is an expectation that is shared by others, as Q1 futures are trading with a EUR 300/mt discount compared to Q4.

If we look at the demand for the coming months, we expect EU industrial buyers to be covered for Q3, but there still seems to some availability for Q4. Demand could therefore return by the end of August, when buyers return from their summer holidays.

Bdairy Market Outlook: Stable

