



September 2022

MARKET OUTLOOK

by Edwin Blomsma

GENERAL

Around the globe, milk production figures are showing negative to no growth. New Zealand has reported substantially lower production in July (-5.5%), but as July is a low production month the effect in absolute volumes is limited. However, if the trend continues in September and October, total output will be impacted significantly. An even larger trend is noticeable in Australia, where June production figures were down by 9.2%.

Total output from EU milk production was down by 0.7% in June, but in recent weeks milk production figures have shown an improvement over the equivalent 2021 figures. This is partly because milk production was deteriorating in H2 of 2021, but also because there has been some more milk available in EU member states such as Ireland, the Netherlands, Germany and Poland. This is despite the record dry summer of 2022.

As a reference point, Germany has been showing modest growth figures of 0.3% up to 0.5% in recent weeks. France, on the other hand, seems to be impacted more the by the dry weather, and milk production is still down by -2.9%.

Finally, US milk production figures were up by 0.2% in July. On the back of more milk and a stronger USD (vs EUR), we believe that the US will take market share away from the EU for products such as SMP.



SKIMMED MILK POWDER

During recent weeks, prices for EU SMP have changed direction almost every 48 hours. This indicates how nervous the market is and that both buyers and sellers lack a clear conviction about where it is heading. In August, we saw the EEX SMP price falling to EUR 3275/mt, after which it rose back to EUR 3850/mt, and dropped back to EUR 3550/mt, followed by a new increase to its current levels of EUR 3650–EUR 3700/mt.

What is causing the market to be so volatile?

We observe that small “sparks” of news change the market direction on the EEX. The market reacts bullishly to news of Russia announcing a cut to its gas supply or the Algerian government publishing a new tender. However, after the news has settled down, sellers still observe that stocks of EU SMP for September are visible and that general demand for Q4 is slow (bearish signals).

At Bdairy, we see global demand for SMP as slow for Q4. Especially in South East Asia we are still receiving reports that demand is behind and stocks are present. Chinese buyers have been out of the market for quite some time, although we are receiving signals that they might be back as stocks (mostly for whey) are starting to shrink.

EU end users report that they are mostly covered for Q4 and are looking more to cover their needs for Q1 2023. Furthermore, we expect Middle East customers to be more active to cover their supply needs for Ramadan. However, the lack of available funds in countries such as Egypt still makes business difficult.

In the coming weeks, we expect the market to remain nervous as there are too many unknown variables (such as the energy crises, decreasing global milk production and Chinese demand).

Bdairy Market Outlook: Short-term swings in the coming weeks

BUTTER

The EU butter market has been very stable over recent weeks.

Within the EU, we define four major production regions (Ireland, Western EU, France and Eastern EU). As milk production is still poor in France, the difference between French



butter and that originating elsewhere remains significant. The Atla quotation posts a premium of EUR 700/mt compared with Dutch or German butter. This makes it difficult for sellers to use the EEX as a hedging tool for their butter out of Ireland or Germany. For this reason, we are seeing that the EEX for September and October is trading at a premium compared with the physical market.

The physical market for Western EU butter has been relatively stable, with trading between EUR 7050/mt and EUR 6900/mt. Butter continues to be available for the months of September and October, and some stocks are even reported. Simultaneously, producers are hesitant about offering for longer periods such as Q1. The big unknowns, such as energy prices and available volumes, are often used as arguments.

In July and at the start of August, the most competitive prices were to be found in Poland, but this has changed in the last two weeks. Higher cream prices and seasonal decreasing milk volumes have caused Polish sellers to match the price of Irish butter (EUR 6850/mt). At the start of September, we notice that more Irish butter is becoming available. Milk production is slightly improving and therefore a greater volume is available for prompt collection. As demand is slow for September/October, it is highly likely that goods will need to be kept in stock for November, when milk production will have reached its lowest point.

Outside the EU, NZ milkfat prices are recovering. The latest GDT (6th September) showed a sharp correction on AMF pricing (+13.9%). However, even with the upward correction, the gap between NZ milkfat and US/EU milkfat remains significant. It is therefore still likely that NZ AMF will rise further.

Bdairy Market Outlook: Stable for EU butter

