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MARKET OUTLOOK

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GENERAL

Global dairy commodity prices have started to correct sharply during the last few weeks. Buyers are postponing making decisions about purchasing as they are being confronted with higher stock levels due to lower internal demand. Simultaneously, milk collections in the Northern hemisphere are starting to improve.

SKIMMED MILK POWDER

Skimmed milk powder prices have corrected on all major continents over the last few weeks. There are several reasons for this:

- Lower demand in South East Asia and Africa as a result of food inflation, hence buyers have unusually high local stock levels.
- Higher stocks of SMP in the for both producers and major traders.
- Improved milk collections in the US (+1.6% in September vs 21) and Europe (+ 0.5 % in September 22 vs 21).
- Reduced levels of buying from China, due to higher local milk production and Covid measures.
- Buyers who are postponing making decisions about purchasing until 2023.

We mentioned stock levels of EU SMP in our October report. However, these stock levels became more pressing as milk collections started to improve in September and October. Furthermore, demand for alternative products (such as cheese) started to disappear,



resulting in producers allocating more milk into powders. Currently, prices in the EU have fallen to EUR 3000/mt FCA and more downward pressure is expected.

Outside the EU, US and NZ SMP prices are following a similar pattern. However, US SMP prices are not dropping to the same extent (currently around 1.40 per pound), as local US and Mexican demand is strong. For this reason EU SMP has once again become the most competitive SMP on the world market.

Among all these bearish signs, New Zealand reports that they have made one of the worst starts to their season in a decade. Since the start of the season, milk collection has been down 4%, and it was down 3.2% during the month of September. Forecasts for October show that it is expected to be similar to September.

The lower output of NZ milk is not having an effect on the market, as the Chinese buyers have still not returned.

At Bdairy our outlook remains bearish, due to the lack of demand and the increased milk production in the Northern hemisphere. It is likely that we will see a further dip over the next few weeks. The GDT of the first of November might be seen as an indication, with SMP prices down by 8.5%.

Bdairy Market Outlook: Bearish

BUTTER

EU butter prices decreased from EUR 6800/mt FCA to EUR 5900/mt within 3 weeks of trading. The lower demand for fresh cream throughout Europe, in combination with increased volumes out of Ireland, has caused EU butter prices to fall.

Although stocks were still perceived to be at an average level, this belief quickly changed when milk collection started to improve and sellers were not keen to stock significant amounts of butter at historical high market prices. Also, increased interest rates and storage costs would prevent sellers from wishing to stock large volumes.

Demand from the European food industry has been slow. Many sellers expected buyers to return to the market after the holiday season, but buyers remained quiet during the months of September and October. One of the reasons for this is the lower demand from retail for both butter and products that contains butter (e.g. bakery items). Eu citizens are feeling the high inflation rates and therefore their disposable income is under pressure.



Looking forward, we believe that demand will remain under pressure in the coming months. Also, the elevated milk collections in France, Germany and the UK (+1.3 % YoY) will not help to lower butter production.

Therefore our outlook remains bearish and we believe that a further increase in butter prices to EUR 5000/mt FCA would be possible.

Outside the EU we see a relatively stable market. The most competitive offers are available out of South America (USD 5200/mt FOB) and New Zealand (USD 5000/mt FOB).

Bdairy Market Outlook: Bearish

