Bdairy

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MARKET OUTLOOK

by Laurent Syryn

GENERAL

The three main exporting regions are each evolving differently in terms of milk supply. The US is continuing to show a surplus, with the most recent USDA data, reported in November '22, showing milk collections up by 1.4% compared with November '21.
NZ milk collection showed deficits of between 3% and 6% in the last few months, but in December this deficit shrank to – 0.2%.
In Europe, Germany, The Netherlands and Belgium are still showing an increase of 2%; while in France milk collection is down by 3%.

With the exception of France, European milk prices have seen their peak.
Spot milk prices are down to 34–39 ct and with current valorisation prices will grow to 40–45 ct.

SKIMMED MILK POWDER

Milk stream valorisation models indicate that producers and cooperatives will prefer to allocate their raw milk to the SMP/butter flux. This has been caused by the higher levels of European milk intake leading to an augmentation of SMP production. Bigger volumes were offered at lower prices for spot by producers (as well as by trade) and up until a week ago this created a discrepancy between the spot market and the EEX/offers from producers in the longer term.
At the end of 2022, EEX Q1/Q2 traded sideways at around the 2800 level. In the past 7 days EEX has kept on trading downwards and today it is about 2600 for Q1/Q2.
A big decrease on GDT for proteins on 4 January increased the bearish sentiment.
Currently, producers must still adapt to these levels; the physical EU product is offered at

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2650–2700 for Q1. We do think producers will undoubtedly follow, in the knowledge that SMC is traded at between 1800–1900 FCA.
We could say that the demand from within Europe is limited. On the other hand, we know that quite a lot of demand is still out there for Q2 onwards. Buyers are sitting back and waiting to see whether prices will fall further.
The little demand we see for SMP comes from export, more specifically from North Africa and the Middle East. Ramadan starts on 22 March.
For SEA, demand is low. Sourcing for this product comes from the EU and NZ, who are more competitive than the US for NFDM. US NFDM is trading at between USD 2825/mt and USD 2950/mt FOB. NZ SMP is trading at between USD 2850/mt and USD 2925/mt FOB.
In addition to these indicators, we must keep in mind that inflation is still causing a decline in consumer demand.

When China loosened their zero Covid policy a few weeks ago, the market expected to see exports to China finally increasing. However, this loosening has led to extreme numbers of Covid infections across China.
There are currently no extra exports to China at all. The expectations are that this will remain the case during Q1. However, from Q2 China may possibly start importing more.

Higher levels of milk production along with augmented SMP production, weak demand and good stocks will lead to lower prices.

Bdairy Market Outlook: Bearish

BUTTER

In our last market outlook on 16/12, we mentioned a European butter price of 5000–5100 FCA.
During the last two weeks of December this price remained stable, as the European fat market was very inactive. We noticed low levels of activity on butter futures in the week between Christmas and New Year's eve. Obviously, a lot of people were on holiday during this end of the year period.
The market started moving downwards from the beginning of week 1; we saw that the first offers from Poland, which were around 4800 FCA, started putting pressure on the European butter market.
This week, offers for Polish lactic started coming in at 4500 FCA; the European butter market followed immediately with NL/DE/BE butter trading at around 4550 FCA for the Q2 period. Butter dropped over € 500/mt in the first 12 days of January.
We can conclude that many producers allocated the milk surplus to the SMP/butter stream.

With EU cream prices trading at a relatively stable level of between 5100–5500 FCA in the last month, butter and cream have almost 'touched' in terms of valorisation in recent days. We could say that (Polish) cream prices need to drop further in order to reduce butter prices in the coming weeks. With the current surplus milk intake in Europe, combined with the fact that cream prices historically/seasonally go down in Q1, we can expect this to happen in the coming month.
But even if cream prices do not drop, we are expecting Irish producers to return to the market by the end of January, with their first offers for butter in a month. Even with a stable cream price, as the Irish mainly churn cream into butter, these butter offers will be competitive on the European market.
It is important to bear in mind that Ireland and Poland respectively represent 13% and 11% of European industrial butter production.

The demand side of our network tells us that quite a few businesses still need some coverage for February/March and even more for Q2 onwards. This open demand does not fully apply to the repackers and retail butter producers. They report sales of butter in European supermarkets dropping by 20% over the last few months.

For the first time in 12 months, European butter stocks show a YoY monthly surplus instead of a deficit.

At Bdairy, we see the offer side, combined with normal butter stocks, overcompensating for the open demand.

Bdairy Market Outlook: Bearish

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