



March 2023 **MARKET OUTLOOK**

by Edwin Blomsma

GENERAL

The dairy market can be quite unpredictable and challenging. After a year in which most end users were confronted with elevated prices, it was tempting to delay further purchase decisions in a falling market. All of the fundamental signals showed a bearish trend: more milk production in the EU (+0.8% in Jan 23) and the US (+1.3% in Jan 23), weak global demand due to food inflation, a lack of Chinese buyers in the market due to the pandemic, and so forth.

As many were trying to outperform the market, a change of sentiment caused markets to rally and prices soon headed in the opposite direction. As a consequence, buyers and end users started to cover their needs, as they feared a further price rally. From our perspective, the price movements in February were one of the most unexpected in years. In March, the panic buying has ceased and, fundamentally, the signals remain the same. However, the risk appetite of many buyers has been reduced and, consequently, we are continuing to see an extremely nervous market. Buyers outside the EU are mostly covering their short-term needs and EU buyers are cautious that prices might rally again in Q3 when, seasonally, less milk will be available.

SKIMMED MILK POWDER

In recent weeks, prices have once again started to ease, due to increased liquid milk availability on the EU spot market. Skimmed milk concentrate prices have decreased to EUR 1600/mt FCA in France, which makes it commercially interesting for dry skimmed milk powder. Several Algerian tenders have taken place in recent weeks (e.g. ONIL), but this



did not cause the market to rise. Availability for Q2 seems to be good and Germany, in particular, is still reporting elevated milk collections (+3.6% in January 23).

The EEX futures indices show relatively stable prices of between EUR 2550/mt and EUR 2670/mt for Q2 and Q3. These are trading at a considerable premium compared to the physical market, where prices are traded between EUR 2400/mt and EUR 2525/mt. French and German price quotations continue to trail behind the market, which could partly explain the difference.

In the first 2 months, demand from the Middle East has been strong, but it is now easing as they are preparing for Ramadan, which begins in March. South East Asian and African demand continues to be weak, as our clients report that their forecasted volumes are significantly down. The same can be said for China, where higher local milk production is also used as an argument.

Outside the EU there will be more competition, as prices for USA SMP are declining. For several months, good internal demand, along with demand from Mexico, made USA SMP uncompetitive compared to EU and NZ SMP. However, in recent weeks prices have started to drop again (SMP MH at 1.20 per pound).

Our outlook is that milk production will continue to remain strong in Q2, as farmers are still receiving a historical high farm gate milk price. In the EU, the average milk price is around EUR 50 cents per litre. Therefore, with more milk being seasonally available in the northern hemisphere and demand in major importing regions still low, our short-term outlook is bearish.

Dairy Market Outlook: Short-term bearish

BUTTER

In a similar way to SMP, butter prices increased rapidly during the month of February and German butter peaked at price levels of EUR 5000/mt FCA. The sudden increase was the result of too many buyers and traders previously postponing their purchases. When the sentiment started to change, all of them came to the market at the same time.

Over the last few weeks we have seen the EU butter market reacting nervously to changes in liquid cream availability. Increased cream availability immediately leads to lower offers out of Poland and puts pressure on the market. Currently, cream prices are trading at EUR 5200/mt (based on 100% fat) and are expected to remain stable to firm, due to increased demand for fresh products for the Easter festivities.

Polish and Irish butter continue to trade at a considerable discount compared to other western EU butter. The differential is between EUR 200/mt and EUR 300/mt (current price EUR 4550/mt FCA). With such differences, the need to widen their supply base only becomes clearer for most industrial clients.



As the peak milk production season approaches, it is very likely that increased volumes of Irish butter will become available. Some pre-season sales have been made by most producers, but as Irish milk collections are somewhat behind (minus 1-2%), there is some reluctance to offer large volumes.

Outside of the EU, we see that more customers are enquiring about EU butter. Trades to the Middle East, Turkey and even Oceania are being executed, which implies that EU butter is once again competitive on the world market.

At Bdairy, we foresee a slightly bearish market into Q2; this is on the back of elevated milk intake figures in the EU. In our view, most EU buyers have covered their needs for the short term and are mostly looking at H2 2023 to cover (part) of their needs. The general consensus is that milk intake could deteriorate in H2 as the farm gate price will continue to decline, and therefore prices could rise again in H2.

Bdairy Market Outlook: Slightly bearish in the short term.