

Markets are in a holiday mood, with thin volumes traded across all futures exchanges, and seasonal patterns signal that we are now in the weakest months of the year. However, an uptrend in prices normally occurs from September onwards going into Q1 of the new year. The drop in feed prices throughout the last few months have helped farm margins, which were also in decline. However, recent weather and geopolitical events have brought volatility and uncertainty in the Ags complex, putting an additional question mark on future price behaviour and adding a risk factor that hasn't been priced in already.

Data reported German milk production +2.1% YoY, putting the cumulative milk collection at 16.58 million tons, which is +2.6% YoY. Also, Polish milk production was 1.11 million tons in June, up 1.5% YoY. On the other hand, Irish milk collection was reported at 1.08 million tons, down 0.9% YoY and down 1.4% versus the three-year average.

On the global front, Chinese cumulative dairy imports as of June are down 6.5% vs last year, yet this figure is improving (-10.5% as of May and -15% as of April), as most product categories posted a double digit increase on the year for the third consecutive month in a row.

The first month of the NZ season started with a slight decline in milk solids production, with June being down 0.4% YoY, whereas milk equivalent exports were up 26.8% YoY in the same month. There has been a herd size reduction in NZ, however, milk production is expected to be +0.5% increased yield per cow.

Fonterra revised the farm gate milk price from NZ\$7.25–NZ\$8.75 per kgMS, with a midpoint of NZ\$8.00, to a range of NZ\$6.25–NZ\$7.75, with the midpoint price falling to NZ\$7.00.





FCMP

by Umberto Vella

EU FULL CREAM MILK POWDER July was a bearish month for Full Cream Milk Powder in the EU. After almost one month's delay compared to the fat related products, such as butter and cream, the weekly FCMP quotation dropped by 1 cent to 3,473 EUR/MT MoM, signalling this decline.

However, we've seen cash trades in the region of 3,350–3,390 EUR/MT FCA Belgium.

On the supply side, we've seen the following drops in the production figures of FCMP:

- **Germany:** -1.6% YTD & -0.2% MoM
- **France:** -0.3% YTD & -1.4% MoM
- **Netherlands:** -14.4% YTD & -2.8% MoM.

Evidently FCMP production is below the levels seen in previous years, largely due to continuing poor valorisation and reduced demand for chocolate in Europe.

Although supply continues to drop, prices remain bearish, due to weak demand fundamentals. End user expectations remain bearish due to good stock levels; we are receiving bids of around 3,350–3,375 EUR/MT FCA for prompt shipment, showing that end users have a bearish sentiment on the market. However, buying activity is still low, and we do think that demand recovery will take some time. We therefore don't expect prices to increase.

Bdairy outlook: Bearish





BUTTER

by Laurent Syryn

BUTTER The downward trend for cream continued until week 29, when spot cream traded at 4800 EXW NL/BE/DE for week 30 delivery.

During week 30, cream was trading back at levels above 5000 FCA. This impacted the spot butter trade; Irish summer butter went up from 4150 DAP NL to 4350 DAP NL.

Thereafter, butter kept trading at stable levels for all periods up until today. NBD FF is trading at 4350 FCA for Aug/Sept, 4450–4550 for Q4 and 4550–4650 for Q2. Also, futures are trading at stable levels.

With buyers and sellers on holiday at this time of the year, we foresee the same stable market up until week 34.

Traditionally buyers and sellers will then have come back from their holidays and they will make up their budgets and the action will start again.

We realise that a lot of these buyers are not yet fully covered for Q4 onwards. So, we anticipate a bullish market by the end of August.

On the other hand, because of the lower milk intake expected in Q4, sellers have been reluctant to do deals on Q4.

Bdairy outlook: Stable





SWP

by Aaron Ledingham

SWEET WHEY POWDER July continued to be a bearish month for Whey. EU stocks remain high, with no lack of sellers. US Whey stocks are +5% Month over Month and +15% Year over Year, as cheese continues to valorise well, which leads to good Whey production. US Cheese production is +0.4% Month over Month, although it is slowing slightly versus previous months. EU Cheese production also remains high, due to good levels of demand, although we await updated figures.

Cash prices were influenced by weak market fundamentals. Dutch Feed Whey dropped 12% to 520 EUR/MT and German feed Whey dropped 2% Month over Month to 830 EUR/MT FCA. However, Polish Whey firmed slightly, increasing by 1.5% Month over Month to 796 EUR/MT, on account of good internal demand and the convergence with Western EU Whey prices. Prices for prompt are trading much lower (approx. 650–780 EUR/MT) due to good levels of supply and a lack of prompt demand because of good end user coverage. The market is therefore calculating a large carry.

Globally, US Whey remains more competitive into most destinations, such as Asia and China, and EU Whey is now lacking export business, which puts bearish pressure on EU values. Prices globally have reached recent historical lows, but low prices tend to cure low prices. At current levels, buyers are becoming more active, with big tenders observed in Asia during this past week. This has likely stemmed the free fall in Whey prices, but the supply is certainly available to meet this demand.

However, it's hard to envisage prices going much lower from here. Valorisation is now favouring other products, and cheese stocks are very good, so it's hard to imagine that the production of Cheese and Whey will remain at these levels. This causes us to believe that prices should remain neutral from here. However, stock is plentiful, demand is still weak versus the trend and production is still seasonally high globally.

Bdairy outlook: Bearish





SMP

by Justin Gooshouwer

SKIMMED MILK POWDER The downwards sentiment for SMP continued, as plenty of availability and weak demand weighed on prices. Traders sold SMP/NDM for Q3/Q4 at levels of €2100/€2300 FCA from Europe & the United States.

ONIL stepped in to the market, which would usually drive prices higher. However, on the supply side there was good excess volume to meet this demand, with little impact on trader/manufacturer stocks. Rumours suggest that ONIL booked less volume vs market expectation. For SMP of European/American origin, approx. 10K to 15K was booked for Q4 arrival versus a market expectation of 20–25KMT.

In the most recent GDT, SMP dropped -1.4% vs the last event, giving further bearish sentiment to the worldwide SMP prices. EU SMP slightly increased by 1%, against all expectations. Outside the EU and the US, we saw more competition from NZ SMP as NZ prices for SMP dropped by 8.7% for Q3/Q4.

Global SMP demand remains weak. Q3 seems to be covered and end users are buying 'hand to mouth' for their remaining volumes for Q4. June milk production in the EU-27 +UK and the US remain strong, up 0.8% and 0.2% respectively.

SMP stocks are largely in the hands of traders, as manufacturers sold their stocks in Q1/Q2. Stock level forecasts shows that, in June 23, the YoY EU SMP & US NFD/SMP stock levels decreased by 21% and 4%. However, stocks last year were at near record levels due to prices being at an all-time high.

Although Chinese imports for SMP increased by 20.3% in June YoY, it is still processing local stocks and remains largely absent from the global market compared to pre-Covid times. Therefore, our conclusion is that, in general, demand for foreign products will continue to stay slow for August.

Bdairy outlook: Bearish





BMP

by Joris de Baas

BUTTERMILK POWDER Last GDT event in which BMP was traded, we saw a huge increase in prices of 10%.

At the first glance, this seems like the market is bullish, but we believe this result is not representative for the market.

Oceanian BMP UHT traded higher, but EU BMP did not reach the reservation price and was not even sold.

Outside of the GDT, USA origin BMP is traded below \$2000 CFR on the global market, whereas demand for EU BMP is weak as well.

We notice that EU producers are keen to sell BMP on the front or for Q4. Main pressure seems to come from Ireland, in which a lot of butter is churned in the flush. Furthermore, the producers with the biggest pressure are in the USA which therefore is also a price leader in the current market.

Bdairy outlook: Slightly bearish