

In February, the dairy market experienced significant turbulence, primarily driven by fluctuations in fat prices. Within the EU, the outlook for milk production presents a mixed scenario. Notably, Germany anticipates a positive YoY growth of +1.1%, while France expects a more modest increase of +0.1%. Sentiment in Eastern Europe is also showing signs of improvement.

In Europe, the weighted average farm gate price for raw milk has declined to 45.95 EUR/100KG, compared to 53.34 EUR/100KG in January 2023. Despite this decrease, the price remains attractive for farmers, particularly considering the favourable cost of feed. Consequently, positive milk collections are still anticipated for 2024. Although Ireland has faced delays in collections, the situation is gradually improving, with some butter producers, previously hindered by milk supply shortages, now catching up on contracts.

In Oceania, milk collections lag behind by 0.6% YoY, while demand in this export region remains stagnant. The EU and the USA are fiercely price competitive, dampening expectations for a significant increase in milk collections.

In the USA, collections are down by 1.1%, with a continued decline in herd numbers (-0.5% YoY as of December). Consequently, no significant rise in milk collections is expected.

Global demand appears to have improved, with the conflict in the Red Sea now exerting less influence on prices, although it is having more of an effect on lead times. In Europe, demand remains relatively stable across all dairy products.

We maintain our optimism regarding forward milk collections and hope for improved price convergence with demand. However, caution is advised with regard to taking a wait-and-see approach, as recent market volatility, particularly in the butter segment, has shown the risks associated with such strategies.

# SMP

by Justin Gooshouwer



**SMP** Throughout February, the SMP market demonstrated a noteworthy degree of stability. Beginning the month at 2,468 EUR/MT, quotations saw a modest increase to 2,522 EUR/MT by month's end, representing a mere 2% uptick. Correspondingly, offers within the physical market followed suit. This upward trajectory persisted despite a decline in buyers from the Middle East, who were observing Ramadan.

In Europe, the procurement price of fresh product for immediate shipment ranged between 2,450 EUR/MT and 2,500 EUR/MT, marking a notable increase from January's range of 2,350 EUR/MT to 2,400 EUR/MT. This surge in price can be attributed to two pivotal factors that are affecting SMP of EU origin.

Firstly, EU SMP has reclaimed its competitive edge in the Asian market after a considerable hiatus, marking a significant shift in dynamics. Secondly, the scarcity of EU stock has further contributed to the price hike. Producers and traders maintained limited inventories throughout 2023, resulting in a noticeable shortage of older physical products available for sale.

Looking ahead to 2024, expectations include robust SMP production volumes in the EU, primarily fuelled by the favourable pricing of skimmed milk concentrate, which has dropped as low as 1,900 EUR/MT in Northern France. However, despite the resurgence of European competitiveness in the Asian market, this trend is predominantly seasonal. Moreover, Asia's supply from New Zealand is anticipated to suffice through Q2, potentially constraining demand from that region.

The latest GDT mirrored this trend, with the recent auction closing at -5.2% for SMP. What is important to note is that product of Oceanian origin is again competitive, which is evident in New Zealand's front month closing at 2,635 USD/MT FCA New Zealand vs the EU at 2,685 USD/MT FCA Belgium.

In summary, while the SMP market outlook remains slightly bearish due to low demand, it's imperative to exercise caution. As they say: the best cure for low prices is low prices.

**Bdairy outlook: Slightly bearish**





# BUTTER

by Umberto Vella

**BUTTER** February marked another period of volatility in the fat market. Cream prices surged to 6,900 EUR/MT, while butter prices peaked at 6,350 EUR/MT N/B/D. This rebound was primarily fuelled by a resurgence in demand, as end users rushed to cover their Q1 positions and also showed interest in Q2 contracts.

However, challenges persisted in Ireland, where slow milk intake delayed butter contracts, leading to increased reliance on butter from other sources, such as Poland and the NBD countries. This shortage caught many hedgers off guard, causing a sharp increase in futures market prices to 6,200 EUR/MT for immediate delivery.

The market witnessed a tense standoff between sellers aiming for prices above 6,000 EUR/MT + FCA and buyers hesitating to pay over 5,700 EUR/MT FCA. Despite this, the market floor has risen compared to the previous month, driven by improving demand. However, the limited number of forward sales by Irish producers suggests that more butter may become available soon.

Polish sweet cream prices hit a low of 5,550 EUR/MT during February, indicating limited forward selling and robust supply. Additionally, the export market showed interest in EU butter, particularly as it became cheaper than Oceanian butter when delivered to Asia. This external demand helped to support EU butter prices amidst any domestic demand fluctuations.

Looking ahead, caution is advised in the butter market, as volatility may persist into March due to ongoing supply and demand dynamics.

**Bdairy outlook: Slightly bearish**



# BMP

by Joris de Baas



**BUTTERMILK POWDER** Throughout February there has been a noticeable narrowing in the spread between BMP and SMP, indicating a convergence in pricing dynamics. Currently, BMP is trading within the range of 2,300 to 2,350 EUR/MT FCA Europe.

One of the primary drivers behind BMP pricing has been the constrained supply of butter, leading to a reduction in butter milk availability. Notably, Ireland experienced supply constraints due to slow milk collections, further exacerbating the situation.

Despite this, demand in the export market has remained relatively subdued as end users carefully evaluate the BMP and SMP spread. This cautious approach has contributed to a quieter market atmosphere.

Looking ahead, there is an expectation of an increased butter supply entering the market, which will subsequently lead to higher BMP production levels. As a result of these anticipated market dynamics, we maintain a bearish outlook on the BMP market.

**Bdairy outlook: Slightly bearish**





# LACTOSE

by Joris de Baas

**LACTOSE** The EU lactose market experienced an uptick in prices, which can be attributed to a reduction in whey protein concentrate production and improved value for whey permeate powder. Despite this positive trend, the market remains fragile due to subdued levels of export demand, particularly from Southeast Asia, where reports suggest a continuation in the declining feed market in China and Vietnam.

Moreover, there are concerns about inventory build-ups in the export market, with both end users and traders hesitant to take positions on lactose at current price levels compared to 2023. EU lactose prices have been fluctuating between 620–700 EUR/MT FCA, depending on quality, while USA lactose is trading at 680–720 USD/MT FCA. Although EU prices are competitive, encouraging demand in the export market continues to pose challenges.

Additionally, there has been an accumulation of stock, with some still holding inventories from summer 2023 production. Despite the EU lactose market's competitiveness on the global stage, achieving sustained demand growth remains a significant hurdle.

**Bdairy outlook: Slightly bearish**



# SWP

by Justin Gooshouwer



**SWEET WHEY POWDER** The SWP market is witnessing a mixed landscape with several notable trends. Whey concentrate prices saw a significant drop to 450 EUR/MT, before stabilising at around 500 EUR/MT. In Poland, a strong supply of SWP led to a reduction in prices from 870 EUR/MT FCA to 800 EUR/MT FCA by month-end.

Looking ahead, Southern Europe is gearing up for the cheese season, with expectations of robust volumes. However, forward contracts remain limited among suppliers, adding an element of uncertainty to the market.

Conversely, the USA experienced a downturn with CME cash dropping from 1,105 USD/MT to 915 USD/MT earlier in the month. This decline stemmed from improved milk collections and reduced export competitiveness.

Despite these challenges, cheese valorisation remains positive, driving increased whey concentrate production and lowering SWP prices. However, the WPC market faces headwinds due to high prices and subdued export demand, particularly in India, where reports indicate stock build-ups.

Furthermore, weakness in the EU feed market and export feed market diminishes the appeal of whey products, and as it is likely that butter/SMP will valorise better in the coming months, perhaps we should expect less concentrate in the market, which will lead to uncertainty on the forward curve.

**Bdairy outlook: Slightly bearish**







# FCMP

by Umberto Vella

**FULL CREAM MILK POWDER** The full cream milk powder (FCMP) market experienced a decline in February, propelled by favourable valorisation compared to skimmed milk powder (SMP) and butter. This drop was further exacerbated by subdued demand, influenced by major players in the EU market maintaining healthy inventories.

Of particular note is China's absence from the market, as the largest FCMP importer shifts its focus towards exporting rather than importing from New Zealand. This shift has contributed to a -2.8% decrease in FCMP prices at the recent Global Dairy Trade (GDT) event, primarily driven by Oceanian product struggling to find buyers.

In Europe, prices for FCMP ranged from 3,600 to 3,650 EUR/MT FCA Western EU for prompt collection, highlighting a significant price spread compared to Oceanian product, which was trading at 3,220 USD/MT or 2,970 EUR/MT.

Additionally, there have been few export tenders from North Africa and limited demand in the Middle East, further dampening market activity.

Looking ahead, the FCMP market is expected to continue facing challenges due to low demand, despite good valorisation at current levels. As a result, stock accumulation is anticipated as market participants navigate through these dynamics.

**Bdairy outlook: Slightly bearish**