

Bdairy Talks.



September 2024

The Bdairy Market Outlook is now called Bdairy Talks! In addition to our detailed report, we've also launched a podcast where we discuss the latest market insights and trends. Stay informed and tune in to Bdairy Talks for in-depth analysis of everything happening in the dairy market.

In August, market activity in the powders segment increased significantly, along with fats and creams, as many market participants returned early from their summer break. This led to a scramble to cover shorts, driving some prices to record highs.

Within the EU, milk collections have started to decline, the EU showed a 0.9% increase year-over-year. Weekly collections in Germany (2%) and the U (0.6%) are down, while France is also experiencing a slowdown. A notable shift occurred in Ireland, where collections have now reduced to just -5.3% year-over-year.

In Oceania, favorable weather conditions have resulted in record-high milk collections, with an 8.4% increase compared to the same month in 2023, and a 4.26% increase year-to-date. Sellers in this region have been less active recently, having already secured many forward sales during late July and early August for Q4. Australian milk collections are also promising, up 4.3% year-over-year, suggesting that Australian manufacturers will be active in the global market this year.

In the USA, milk collections remain down by -0.4% YoY, a slight decline from the -0.3% YoY reported last month. This downward trend is expected to continue through the remainder of the season. However, it's worth noting that collections are still 0.8% ahead of the five-year average.

The latest Global Dairy Trade (GDT) event saw a modest decrease of -0.4%, reversing the trend of the previous auction, which had recorded an increase. Butter, Lactose, and WMP were the weaker components, falling by -0.9%, -8.9%, and -2.5% respectively. However, AMF (+0.7%), BMP (+8.4%), cheddar (+0.9%), mozzarella (+7%), and SMP (+4.5%) showed strength. While the overall results were in line with expectations, the increases in SMP and Butter prices were less than anticipated.



Globally, demand remains robust across all commodities, with many industries still looking to secure supply. We expect this strong demand to persist for the remainder of the year. Freight rates, however, have experienced some downward pressure, which is surprising given the current geopolitical developments and shipping diversions around the Cape of Good Hope. Buyers are advised to avoid relying on just-in-time transit times. Another facet affecting the Dairy market is the Blue Tongue Virus (BTV) which has caused significant concerns across Europe, particularly affecting livestock health and consequently impacting milk collections. The virus, which primarily affects sheep but can also infect cattle, spreads through biting midges and has seen an uptick in cases this year, especially in regions like France, Germany, the Netherlands, and Belgium

The outbreak has led to restrictions on animal movement to control the spread, which in turn has disrupted dairy operations. Farmers have reported a decrease in milk yields due to the stress on cattle infected with or exposed to the virus. In affected regions, milk collections have dropped, exacerbating supply issues already present in the European dairy market. The EUR/USD exchange rate has fluctuated over the past month, primarily due to contrasting monetary policies between the Fed and the ECB. In late August and early September, the euro reached a 13-month high against the USD, driven by growing expectations of upcoming rate cuts by the Fed.



SMP

SMP The global Skim Milk Powder (SMP) market is showing strong bullish momentum as prices firm in Europe to €2,550/MT EXW to €2,600/MT for CODEX, prompt shipment or collection. This increase is driven by robust demand, particularly in Southeast Asia and North Africa, where buying activity remains high. Limited availability of discounted or old stock is further tightening supply.

In Europe, the high demand for fresh products, namely Ice Creams and White Cheeses, is pushing SMC (Skimmed Milk Concentrate) prices to around €2,400 – €2,500/MT, implying that powder prices need to stabilize around €2,750 – €2,850/MT EXW for production to be viable. Improved Butter valorization should lend itself to more SMC products and thusly SMP, but the firmness in liquids markets and demand for fresh produce makes producing SMP unviable, so prices must increase.

The USA is experiencing a resurgence in SMP production, reaching the highest June levels since 2019. However, overall NFDM/SMP production remains 12.5% below the five-year average. Despite this, the USA is now more competitive in the global market, with prices lower than those in the EU, Australia, and New Zealand when comparing CIF levels to South East Asia. Oceanian SMP offers are currently around \$2,930/MT CIF South East Asia, but the USA's lower prices make it a more attractive option for buyers.

Overall, the SMP market is now at a turning point, with demand outpacing supply globally. This is evidenced by an improved market outlook in regions like Mexico and South America. With the market floor seemingly reached, we expect continued price strengthening in the near term.

Bdairy outlook: Bullish



BUTTER

BUTTER The fat market continues to show robust strength, with butter prices now reaching around €7,800/MT EXW in BE, DE, and NL. Prices have been on an upward trajectory since the last update, driven by tightening supply across the European Union.

In Ireland, butter production remains significantly lower, down 5.8% year-over-year, adding pressure to the already constrained EU market. German butter production has also dropped, recording the lowest June output in the past two years at 37,548 MT, compared to 39,297 MT last year. Similarly, France's June butter production has hit a two-year low, with only 30,010 MT produced versus 32,090 MT in the previous year. In Poland, June's butter production levels have fallen back to those last seen in 2022, totaling 19,390 MT.

Additionally, many EU buyers remain uncovered, starting with cream, then butter, and finally Anhydrous Milk Fat (AMF). Cream prices have surged to record highs, reaching up to €10,000 /MT DAP in the Netherlands, largely driven by the onset of a late summer period.

The competition for milk continues to intensify, with fats competing directly with cheese for milk valorization. Cheese prices are rallying just as strongly as butter, further exacerbating the competition for milk and contributing to the upward momentum in the fat market. This trend is expected to persist, keeping the market under pressure in the coming months.

We expect a continuation of this trend for Q4, but caution must be thrown to the wind, as high prices often resolve high prices.

Bdairy outlook: Bullish



BMP

BUTTERMILK POWDER The Buttermilk Powder (BMP) market continues to maintain elevated prices globally, though the price spread with Skim Milk Powder (SMP) has narrowed due to a recent rally in SMP prices. Currently, BMP prices in Europe hover around €2,550 /MT EXW for prompt shipment, with the spread narrowing to approximately €50-75/MT, depending on the brand.

There remains a shortage of well-known BMP brands in Europe, with availability mostly limited to lesser-known brands. Additionally, BMP volumes from the USA have noticeably dried up, further tightening supply.

The market has seen considerable activity recently, with several global tenders completed as large buyers secure their needs for Q4. However, demand for BMP is starting to wane, as buyers increasingly favor SMP due to the price discount it offers relative to BMP.

Looking ahead, if butter continues to perform well in the market, we anticipate an increase in BMP availability as more milk is diverted into butter production, which in turn could bring more BMP to market and potentially ease current price pressures, however, with the strong performance in Cream currently, it is unlikely we will see a swell in butter production.

Bdairy outlook: Bullish



FCMP

FULL CREAM MILK POWDER WMP The Whole Milk Powder (WMP) market remains extremely firm, driven by robust demand from the chocolate sector and limited production, particularly with Ireland's reduced output. In the European Union, WMP prices have risen to around €4,300/MT, marking a 5% increase since the last update.

Export demand continues to be strong, especially in Africa and Southeast Asia, with many buyers still securing their Q4 requirements. Meanwhile, Chinese Full Cream Milk Powder (FCMP) remains discounted, below the levels of 3,000 USD/MT still, but there has been limited uptake, as buyers are hesitant to switch to this product.

Looking ahead, demand for WMP is expected to continue outpacing supply. However, at current high price levels, some buyers are being encouraged to produce FCMP, which may signal that the market is nearing its peak. As a result, while prices remain strong, there could be some stabilization if more FCMP enters the market.

Bdairy outlook: **Slightly Bullish**



SWP

SWEET WHEY POWDER SWP prices continue to rally, as strong demand is witnessed in China and South East Asia, which is keeping the market well supported. End users have been covering Q4 shipments, but at levels much higher than budgeted.

Demand for high protein WPC80/WPI remains, diverting concentrate from SWP. Prices for WPC/WPI are nearing historical highs, and show no sign of slowing, with many buyers looking for new sources.

In Europe, food SWP prices now range from 950 EUR/MT EXW EU to 1,100 EUR/MT EXW EU brand dependant. Notably, Irish and Polish offers are extremely thin, and highly priced, with both regions usually large Whey suppliers.

Feed demand remains strong, with buyers willing now to pay +900 EUR/MT DAP NL, a significant increase versus recent months of low demand and high supply.

Concentrate prices are now elevated above 500 EUR/MT EXW, with some partners even hearing levels of 600 EUR/MT EXW trading, meaning powder prices must remain firm.

USA availability is thin, with the EU still the most competitive globally despite the rally. USA products in South East Asia are trading above 1,300 USD/MT CIF South East Asia versus EU products which are trading at 1,250 USD/MT CIF South East Asia.

We maintain a firm outlook on SWP until we see the WPC/WPI markets cool. Current SWP prices should allow increased concentrate to be available for SWP, but the outlook is limited.

Bdairy outlook: Bullish



LACTOSE

LACTOSE Lactose prices, which were the strongest performer in the previous Global Dairy Trade (GDT) auction, have taken a significant hit in the most recent GDT, experiencing an -8.9% drop compared to the 16% gain seen earlier. This decline is largely attributed to slightly reduced demand from China and Southeast Asia, though demand from India has returned slightly have a quiet few weeks.

In the U.S., lactose production continues to be constrained as manufacturers prioritize butter production over cheese, leading to less whey being processed into lactose. Despite this, U.S. prices are around \$810/MT EXW, making U.S. products more competitive in Southeast Asia compared to previous months, when EU lactose was the primary choice for the region. In the EU, prices remain elevated, above €850/MT EXW, with few discounts and limited availability.

Feedstock replenishment is occurring, leading to reduced buying from this sector. However, with strong whey protein concentrate (WPC) and whey protein isolate (WPI) streams taking much of the whey concentrate, volumes of lactose should continue to come to market.

Overall, while the market is currently adjusting to shifts in regional demand and production strategies, the competitive positioning of U.S. lactose in Southeast Asia and the ongoing demand from India suggest that the market may find some balance in the near term, even as prices and availability fluctuate.

Bdairy outlook: Bullish