INTERNATIONAL DAIRY MARKET NEWS - EUROPE

Information gathered July 24 - August 4, 2023

Prices are U.S. $/MT, F.O.B. port. Information gathered for this report is from trades, offers to sell, and secondary data. This bi-weekly report may not always contain the same products and/or regions. Future reports may be included or withdrawn depending on availability of information. MT = metric ton = 2,204.6 pounds.

WESTERN OVERVIEW

Western European milk outputs continue to decline weekly along seasonal patterns. Industry contacts indicate that weather has greatly impacted regional milk production. In parts of northern Europe, cooler temps and rain have promoted pasture growth and allowed parts of the region to maintain year over year milk output growth. However, dry conditions and heat have had the opposite effect in southern parts of the continent. Record-breaking temperatures in July have decreased cow comfort and stymied milk production. A few weather forecasts are predicting more of the same for the month of August.

Dairy industry sources suggest economic conditions in dairy markets have deteriorated so far in 2023. Farmers are seeing lower pay prices for their milk, while feed and energy costs have not come down at the same rate. And while dairy cow cull rates are up, contacts say the number of replacement heifers have been able to quickly refill the milk pipeline. For processors, the market looks equally grim. Although milk pay prices have fallen steadily since peaking in December 2022, dairy processors have had to sell dairy commodities at lower prices as well. While EU milk deliveries grew through the first half of the year, inflation pressures and a sluggish economy weakened dairy market demand for dairy commodities. Without growth in market demand, processors expect dairy markets to remain under pressure through the second half of the year due to inflation, higher interest rates, and lower consumer purchasing power.

EASTERN EUROPE

Milk production in Eastern Europe has continued to be strong when compared to previous years. Countries like Poland, the Czech Republic, and Romania have all experienced year over year growth for the first five months of the year. Even in war-torn Ukraine, 2023 year-to-date milk production levels are close to the same as those of 2022.

With the collapse of the UN-brokered Black Sea grain deal, Ukraine is seeking alternatives to ship grain for food and animal feed markets. Leaders from Ukraine and Croatia are exploring the possibility of using Croatian ports on the Danube River and Adriatic Sea to export Ukrainian grain. However, Russian drone attacks earlier in the week have damaged Ukrainian grain infrastructure along the Danube River. The attacks are among the first to target Ukraine's inland waterways and overland grain shipment routes and may greatly impact the country's ability to ship grain needed for food and animal feed worldwide.

Ukrainian leaders are calling for the EU to end the restrictions imposed by Bulgaria, Hungary, Poland, Romania, and Slovakia that ban the domestic sales of Ukrainian grain and other agricultural products within those countries. The ban is set to expire on September 15th, but several countries have indicated they will continue the ban even if the EU does not agree on an extension. The ban would still allow Ukrainian goods to pass through the neighboring countries for export into world markets. A leading dairy group within Ukraine has stated that it would not support mirror measures, actions by the Ukrainian government that would impose similar tariffs on goods from the five neighboring countries being imported into Ukraine.

BUTTER/BUTTEROIL

European butter prices are steady to lower. Industry contacts say that with the summer holidays underway, demand is light, and market activity is slow. Retail shoppers are finding packaged butter prices to be slightly lower than previous months. While this has created some upswing in retail demand, overall consumer demand is seasonally lower and varies from region to region, depending on the stage of summer holidays. Bulk butter interest has grown for Q4 and early 2024 deliveries. However, with increased energy and warehousing costs, buyers are still hesitant to make many forward buys. Butter production is steady to lower. Seasonal decreases in milk and cream volumes and stronger cream prices are steering some cream loads away from the churns. European butteroil prices moved higher this week. Some market participants suggest tighter milk fat supplies may be playing into the price increase.

Western Europe, 82% Butterfat, Free on Board - Port Butter
Price Range - $/MT: 4,700 - 5,375

Western Europe, 99% Butterfat, Free on Board - Port Butteroil
Price Range - $/MT: 6,350 - 6,650

SKIM MILK POWDER

European skim milk powder (SMP) prices moved lower. The market tone for SMP is quiet. Near-term business is largely concluded and only the order fulfillment remains. Processors are hesitant to jump at some Q4 bids because they view the prices from buyers as too low, while buyers see the price offers from the manufacturers as too high. At this point, there is no urgency from either side to act quickly on making the deal. Production is steady to lower, but with subdued summer holiday demand, industry sources suggest SMP inventories are in relatively good balance. Some contacts say the lower-priced loads are getting cleared out of the market.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; $/MT: 2,375 - 2,700

WHEY

Prices for European whey are lower. In some cases, the price movements come more from changes in the exchange rate between the euro and U.S. dollar than in market dynamics. In some of the EU countries, dry whey prices have stabilized over the last few weeks. Dry whey production is steady to lower as whey concentrate is becoming less available and more expensive. Dry whey inventories are available to meet immediate needs, but demand is light.

Prices for: Western Europe, All First Sales, Free on Board - Port, Conventional, and Edible Dry Whey
Price Range - Non-Hygroscopic; $/MT: 575 - 925

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WHOLE MILK POWDER

European whole milk powder (WMP) prices moved lower this week. While much of the industry is quiet during the European holiday season, some industry sources suggest that WMP market activity has become quieter than in previous weeks. Transactions are mostly directed toward fulfilling current contractual obligations. Inventories are generally available to fill buyer requests, but new inquiries are limited. Seasonal declines in milk output have also slowed WMP production.

Prices for: Europe, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder

Price Range - 26% Butterfat; $/MT:	3,675 - 3,950

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OCEANIA DAIRY MARKET OVERVIEW

NEW ZEALAND: In New Zealand, reports show June 2023 milk production declined 0.4 percent on a milk solids basis and declined 1.8 percent on a tonnage basis. The country's total dairy export volumes for June 2023 grew 22 percent year-over-year, while increasing 10 percent year-to-date. The year-over-year export volumes for specific dairy commodities show whole milk powder (WMP) grew 24 percent; skim milk powder (SMP) was up 69 percent; butter increased 6 percent; and cheese improved 49 percent. Meanwhile, dairy market sources compared 2022-2023 year to date numbers for New Zealand's top three export destinations, which included China, Australia, and U.S., respectively. Additionally, the dairy products category of total annual goods traded, which included milk powder, butter, and cheese, saw upticks in New Zealand exports to China totaling $123 million, $24 million to Australia, and $22 million to the U.S.

Meanwhile, uncertainty looms over New Zealand's primary export, whole milk powder (WMP) and the country's primary trade partner, China. According to market sources, deteriorating demand impacts the trade volumes of New Zealand exporters with imports to China said to have dropped 30 percent since the beginning of the year. The snowball effect is etched on the Global Dairy Trade's (GDT) whole milk powder price, as market sources report that prices have slid 4.5% this year and are 17% below the same time last year and in so doing impacts the current New Zealand farm gate milk price, which is expected to trend lower with the arrival of the approaching spring flush. While New Zealand market representatives note that China's current demand is volatile to the dairy industry and expected to extend through most of the year, the long-term outlook may not be as unwelcoming.

AUSTRALIA: In Australia, with the decreases in milk production, dairy industry representatives note that competition is increasingly impacting its dairy industry in multiple facets, as the domestic competition for milk in Australia tends to support the dairy supply chain in general. Farmers are seeing steady high farmgate milk prices. As well, high dairy prices also provide for higher margins for processors, although reducing Australia export market share. Market representatives suggest that the competition to secure milk will continue to be strong in 2023-24, as prices parallel the country's milk pool.

During this winter period, the demand for hay continues to increase due to widespread pasture damage, in some regions of the country. Hay prices are exceptionally high, but reported as relatively steady for now. To lessen the demand, there are sufficient feed options in the southern region of the country. Southern suppliers are sending hay loads to the North. Also, feed grain continues to fill gaps where hay quality is variable. Many farmers in the southern region are said to be somewhat confident that current pasture growth will support dairy farming in the short-term.

BUTTER/BUTTEROIL

Oceania butter prices are lower at the top and bottom of the price range, resulting from recent GDT 337 auction results, where the butter index withdrew 0.7 percent. Demand continues to lag. Seasonally lower milk production limits butter making, as most manufacturers maintain rather light to moderate churning schedules. Much of the butter production in Australia is focused on domestic markets as butter remains profitable. Oceania butter inventories are adequate for committed customers' needs.

Oceania, 82% Butterfat, Free on Board - Port Butter
Price Range - $/MT: 4,650 - 4,775

SKIM MILK POWDER

Oceania skim milk powder (SMP) prices are steady to lower at the ends of the pricing range, following a 1.4 percent decline in the price index at GDT event 337. North Asia increased their SMP purchases, well above volumes purchased by other buyers. Demand continues to be light. Supplies are adequate for meeting committed customer needs. Production schedules, in this winter period, are centered around the level of available milk supply. Market representatives are hesitant to state where the SMP market is headed, as it currently maintains a bearish tone.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; $/MT: 2,425 - 2,550

CHEESE

Cheddar cheese prices in Oceania are steady to lower this week, aligning with GDT event 337 cheddar price index, which fell 1.4 percent. North Asia led buyers in volumes purchased. New sales activity is quite low as sources point to weakened interest. While most current shipments were contracted previously, there are limits on volumes that are available to buyers not already contracted. Production is limited to the seasonal milk supply. The market undertone emits some uncertainty.

Prices for: Oceania Cheese, Cheddar, 39% Maximum Moisture, Free on Board - Port,
Price Range - $/MT: 3,800 - 4,200

WHOLE MILK POWDER

Oceania whole milk powder (WMP) market prices adjusted lower at both ends of the price range as results of GDT event 337 led to an 8.0 percent drop in the WMP price index. Weak Chinese demand continues to show up in the WMP price. Buyers in general are purchasing only what is needed in the near term. Production volumes are mostly steady along seasonal lines. According to some sources, manufacturers' inventories are building. Export demand is mixed. The market undertone is weak.

Prices for: Oceania, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; $/MT: 2,775 - 3,200

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Exchange rates for selected foreign currencies: July 31, 2023

.0037 Argentina Peso	.0122 India Rupee
.6717 Australian Dollar	.0070 Japan yen
.2116 Brazil Real	.0597 Mexican Peso
.7581 Canadian Dollar	.6209 New Zealand Dollar
.0012 Chile Peso	.2497 Poland Zloty
1.0999 Euro	.0265 Uruguay Peso

Conversion example: To compare the value of 1 US Dollar to Mexican Pesos: (1/.0597) = 16.7504 Mexican Pesos. Source: "Wall Street Journal"

Secondary Sourced Information:

GLOBAL DAIRY TRADE

At GDT event 337 on August 1, 2023, the butter all contracts price, $4,680 decreased 0.7 percent. The September contract, $4730, declined 3.5 percent.

August 1, 2023, the SMP all contracts price, $2,454, decreased 1.4 percent. The September contract, $2425, declined 0.5 percent.

August 1, 2023, the cheddar all contracts price, $3,910, decreased 1.4 percent. The September contract, $3,800, is unchanged.

August 1, 2023, the WMP all contracts price, $2,864, decreased 8.0 percent. The September contract, $2,912, declined 14.2 percent.

INTERNATIONAL DAIRY MARKET NEWS - SOUTH AMERICA

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SOUTH AMERICA OVERVIEW

Winter temperatures in key dairy producing regions of the South American continent have been noted as warmer than seasonally average, but mild in general. Contacts in Uruguay have had expectations shift in regards to milk production. They say temperatures in the 60s and 70s during the day, and cooler nights, have been beneficial to cow comfort. Reports suggest Argentina's milk output remains in limbo status, as farmers there continue to work through the drought-effects, namely feed/grain limitations. Reports also suggest milk prices in the region have steadied. Brazil's milk output expectations are unchanging, as they have been somewhat bullish for a number of months, despite variances from region to region. Chilean and Colombian milk output continues to waver, due to freezing weather and/or other logistical impediments, according to reports.

Despite recent increases in milk output from Brazil, importers in the country are still actively bringing in dairy commodities from their continental neighbors. Year-over-year reports suggest continued interest in dairy commodities, namely powders, from Uruguay and Brazil. Global pressure continues to put pricing pressure on dairy commodities in the region. Algerian interests remain intact. Southeast Asian demand remains somewhat tepid, according to contacts in the region.

SKIM MILK POWDER

Prices continue to edge lower on skim milk powder (SMP) markets in the South American region. Global availability growth, regionally increasing milk supplies (in some notable areas), and what contacts note as tepid demand are all putting pressure on SMP and other dairy commodity markets in the region. Despite hearty interest for milkfats in Brazil for the first half of the year, SMP pipelines are not as active. Export figures for SMP year to date during 2023, from Argentina and Uruguay, continue to lag, particularly when compared to robust 2022 activity. General improvements in Brazil's own milk output, and processing capacities, are expected to keep some pressure on SMP markets in the region near-term.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Skim Milk Powder
Price Range - 1.25% Butterfat; $/MT: 3,000 - 3,200

WHOLE MILK POWDER

Prices of whole milk powder (WMP) in the South American region decreased on the bottom of the range. Brazilian buying interests remain intact, but some traders in the region say that near-term expectations are that sales will slow. Brazil's own increasing milk production is one factor in this expectation. Global price pressure, note the GDT report below, has given importers outside of the region more options. Additionally, for WMP loads moving off the continent, traders say prices shift lower due to freight differentials. WMP market tones, in general, are quiet to slightly unstable at this point in the year. Milk availability for drying is expected to grow in areas of the continent, but some processors have noted a shift in production to other commodities in light of quieter demand.

Prices for: South America, All First Sales, Free on Board - Port, Conventional, and Edible Whole Milk Powder
Price Range - 26% Butterfat; $/MT: 3,400 - 3,800

Secondary Sourced Information:

At GDT Event 337, on August 1, skim milk powder prices across all contracts averaged $2,454 per metric ton, down 1.4 percent from the previous GDT event.

August 1, whole milk powder prices across all contracts averaged $2,864 per metric ton, down 8.0 percent from the previous GDT event.