



Dairy Market Outlook

The world continues to be short of fat and long on skim. And this conundrum will continue as the push to make more butter will spin off more skim milk. Therefore, my outlook for NFDMS/SMP is for flat prices and only a modest recovery through 2018. Like butter, the main story continues to be Europe – in this case, the massive stockpile of SMP in the EU intervention program. In May, the Commission sold a small amount in the mid-\$0.90's. Market prices quickly retreated from \$1.00 and have fallen back to the low \$0.90's with near convergence of EU, NZ, and US prices. The Commission finds itself in a box – it needs to sell the SMP, but it's directive is to not destabilize the market. If it sells more, it will likely push prices lower... they are already near the intervention level. If they hold on, it will continue to overhang the market and delay any price recovery. While the average age of the product is now well over 1 year, and it's use in human applications is waning, it will still have to come back into the market at some point. Another question – if EU milk supplies start to increase, will the Commission open up the intervention program once again? If that happens, the mountain only gets bigger.

Outside of Europe, US production has been near flat and exports have been strong. However, stocks jumped in May and June, implying weak domestic demand. This is likely due to end-users working off stocks as prices rallied. In New Zealand, the GDT SMP price has fallen as buyers look ahead to more milk and milk powder with the start of the upcoming season. My forecast is for US prices to slowly move higher through the balance of the year, although the current market is sluggish. For 2018, the forecast is for continued gains, albeit modest, with prices hitting \$1.10 by Q4. Yes, that seems like a long way from where we are today, but if Chinese demand remains strong, prices could easily be this high or higher. In addition, at some point, the EU SMP stockpile will get whittled down, so it will be less bearish than it is today.

Dry whey prices continue to move lower with signals pointing to further declines. It appeared prices may level off in the mid-\$0.40's, but the European price and US Dairy Market News prices have fallen to the low \$0.40's. In the US, there is reportedly some switching of production back into dry whey from higher protein products. My forecast is for dry whey prices to stabilize in the low \$0.40's before taking another leg lower in 2018, falling to the upper \$0.30's. If Chinese demand wanes again, this could happen yet this year. Lower lactose prices are also bearish for dry whey prices.

Mike McCully is the founder and president of The McCully Group, LLC, a consulting firm specializing in supply chain and risk management strategies for dairy and food companies as well as a member of the ADPI Center of Excellence. The information above is an excerpt from the latest dairy market outlook report from The McCully Group. For information on the full report and price forecasts, please contact Mike McCully at mike@themccullygroup.com or 312-646-0361.

Contributor:

Mike McCully

The McCully Group, LLC,

Phone: 312-646-0361

mike@themccullygroup.com

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