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## KEY MESSAGES

### Reduced milk solids

constraining milk processing

**-0.5%**

EU milk collection in 2022

**-7%**

EU exports drop driven by losses in milk powders (in milk equivalent)

### Stable domestic use

despite rising prices

## MILK AND DAIRY PRODUCTS

### HIGHLIGHTS

Hot and dry weather over the summer worsened grass availability and quality, in addition to lower yields of main crops used for feed. Many farmers already used part of their winter feed in summer, leading to lower yield growth (0.4%) as well as further herd reduction (-0.9%). The milk content (both fat and protein) could be impacted also negatively, thus worsening the milk processing outlook even more. Among all dairy products, only EU cream production could grow, absorbing a large part of the fat availability. Anticipation of even higher processing costs of drying milk powders could likely cover for some current shortages for butter, but the production is expected to drop. EU cheese production could again become a preferred option, driven by a high price, while both exports and domestic use remain stable. The competitiveness of EU milk powders is suffering from prevailing high prices, hampering exports and therefore preventing production growth despite a positive growth of whey and SMP domestic use.

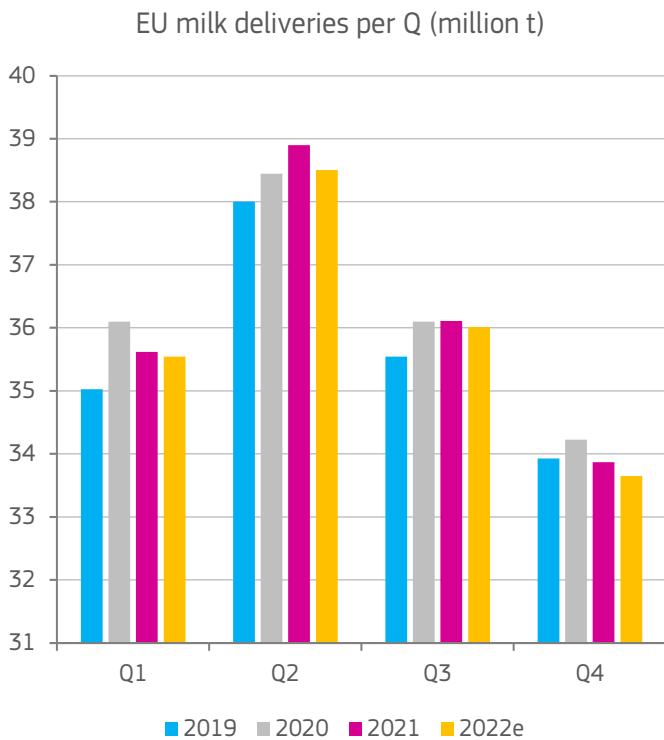
In 2023, the start of the year could remain challenging for farmers when coping with high input costs, and a likely weaker demand. Assuming normal weather conditions, it is expected that the yield growth could be slightly higher (0.6%) and could compensate for further dairy herd reduction (-0.8%). As a result, EU milk collection could drop modestly by 0.2%.

# MILK

## 2022 EU MILK COLLECTION GROWTH NEGATIVE

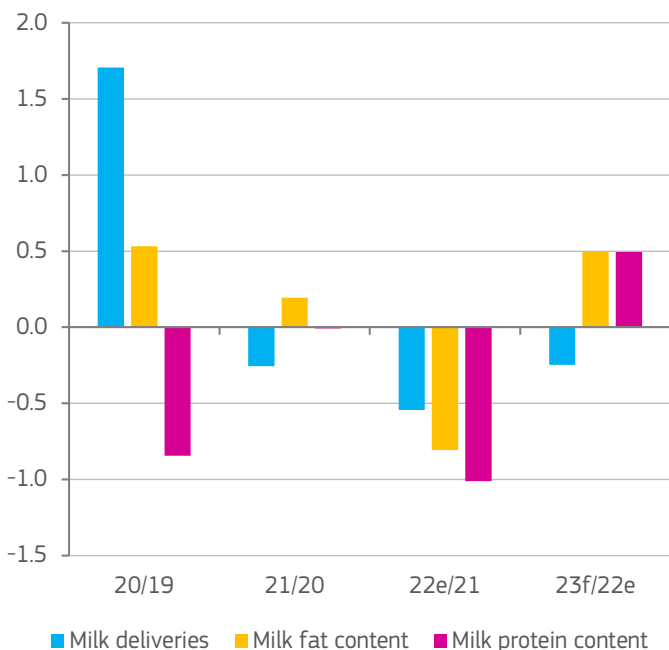
Over the summer, hot and dry weather contributed to a lower biomass formation, resulting both in lower grass availability and quality. Among the biggest EU producing regions, FR, DE, Benelux and Southern Europe were impacted the most while the situation remained relatively positive in PL, IE and DK. In addition to hampered grass quality, feed crops were also impacted negatively. On some occasions, farmers already used feed to be stored for winter months, to sustain certain production levels. Also, farmers opted for anticipated slaughterings or shortening of lactation to adjust to future feed availability. Therefore, it is likely that cows' slaughterings further grow in addition to Jan-Jun developments (+23% in ES, 20% in IE, 13% IT, 5% PL).

Hot and dry weather created a considerable stress for cows, leading to a lower fertility rate, as well as lower productivity. Thus, the yield growth is expected to remain below 2021 (0.4%), and the dairy herd reduction could be the same as anticipated previously. While some production recovered in July, the downward trend is likely to stay, and therefore Q3 and Q4 milk production could remain negative (-0.3% and -0.6% respectively), resulting in an annual EU milk collection decline of 0.5%. Some growth is likely to occur in PL (+2%) and DK (+0.5%), while IT and NL could sustain the production level of 2021. However, this would not compensate for production losses in FR and DE, and to a lower extent in IE.



Source: DG Agriculture and Rural Development, based on MS notifications.

## Annual change of EU milk deliveries, milk fat and milk protein content (%)



Source: DG Agriculture and Rural Development based on Eurostat.

## NO EU MILK PRODUCTION RECOVERY IN 2023

Feed quality and availability and the heat body stress impacted negatively also milk fat and protein content. In Jan-Jul, they recorded even stronger drops than the production (-1.2% in both cases, while EU milk deliveries dropped by 0.5%). This implies a lower availability of milk solids for processing, and thus contributing to an already worsened dairy production outlook.

With the further expected decline of EU milk deliveries, milk fat and protein availability will continue declining, even more if certain nutrients are not provided due to the lack of their availability or not being in a satisfactory amount in the feed. Therefore, it is expected that milk fat content could drop by 0.8% while milk protein content even more (1%).

In 2023, especially the start of the year could remain challenging for many farmers when providing feed and coping with high input costs, in addition to potentially weaker consumer demand following rising food inflation. However, assuming normal weather conditions, it is expected that the yield growth could be slightly higher (+0.6%). This could to some extent compensate for further dairy herd reduction (-0.8%) which seems to be a pattern now, following structural changes in some EU countries. As a result, EU milk collection could drop by 0.2% next year.



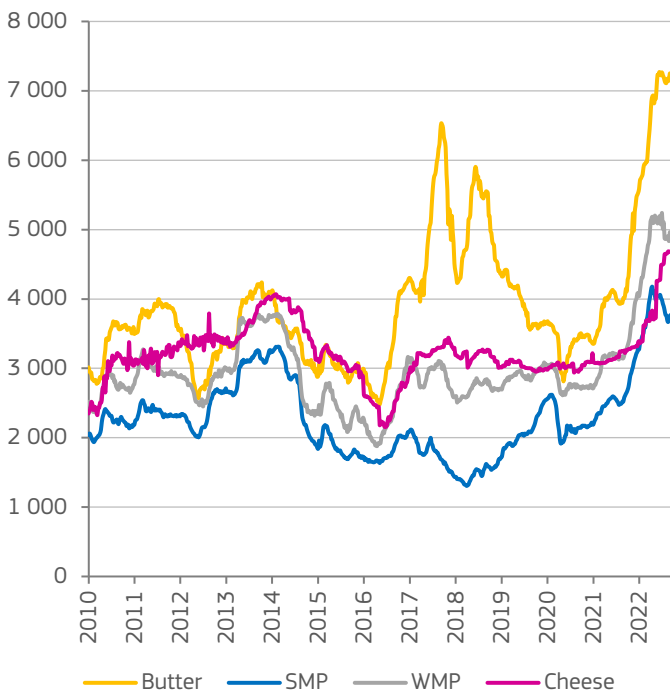
# MILK

## EU CHEESE PRICES ON RISE

Rising input costs, tight EU and global milk supply continue supporting raw milk and dairy prices while global dairy demand remains weaker (especially driven by lower demand of China). In case of the EU, raw milk prices have been above EUR 50/100kg since July. In August, they were 43% above previous years' levels. However, the situation differs per EU countries, and this could also shape their milk production development in upcoming months, considering the level to which producer price increases could compensate for an increase in input prices. For example, in DE the raw milk price follows the similar trend as in the EU overall while in FR, the price in August is only 20% above the same month last year.

Since the end of June, EU prices for SMP and WMP have been slowly declining but remain at a very high level, and above the level of prices of our main competitors, despite a relative advantage gained from the current euro-dollar exchange rate. High EU SMP and butter prices are expected to contribute to high EU raw milk prices. Cheese prices have increased since mid-June (by mid-September), ranging from 5% (Edam) to 10% (Emmental), and reaching more than 30% price increase since the beginning of the year. EU butter prices remain relatively stable. Only the EU price of whey powders is declining, impacted by a weaker export demand.

EU weekly dairy prices (EUR/t)



Source: DG Agriculture and Rural Development based on MS notifications.

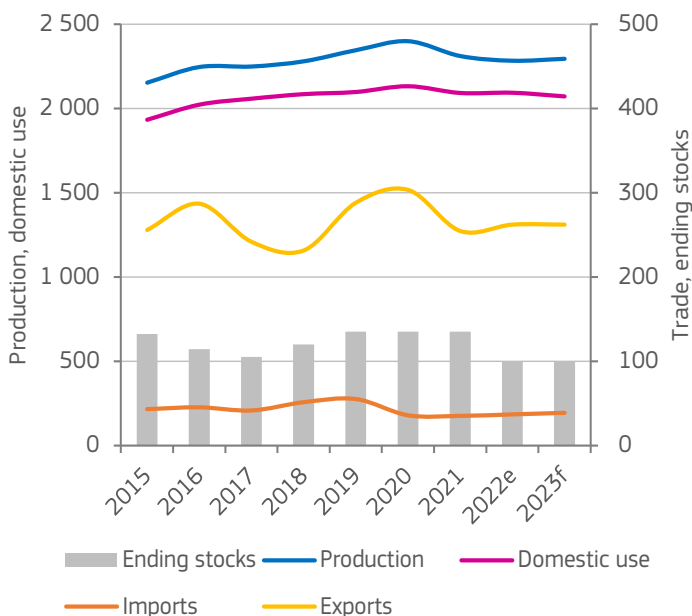
# DAIRY PRODUCTS

## LOWER AVAILABILITY OF BUTTER IN THE EU

The price competitiveness of EU dairy products, the cost structure of different milk processing options and reduced milk fat and protein availability shape production trends observed in dairy products. In Jan-Jul, EU cream processing grew (+1%) despite reduced fat availability, while EU cheese and butter production dropped (-1% and -2% respectively). Given the negative trend in exports, it is likely that most of the cream ended up in the domestic market. This pattern in milk fat processing likely created some tensions, especially in the butter market. Some more milk fat might be used in butter-SMP processing to cover for a butter lower supply despite continuous increasing of processing costs. Nevertheless, EU butter production could drop by around 1%, while the exports could grow (+3%). Domestic use could remain stable, also due to still high prices of vegetable oils which are preventing their substitution for butter.

In 2023, a slight increase of EU butter production could be expected (+0.5%) which could keep 2022 export volumes. If prices of vegetable oils go down with improved global situation, some drop in EU butter use could be expected as butter prices might not react as quickly.

EU butter balance sheet (1 000 t)



Source: DG Agriculture and Rural Development, based on Eurostat.



# DAIRY PRODUCTS

## STABLE CHEESE AND FDP EXPORTS IN 2022

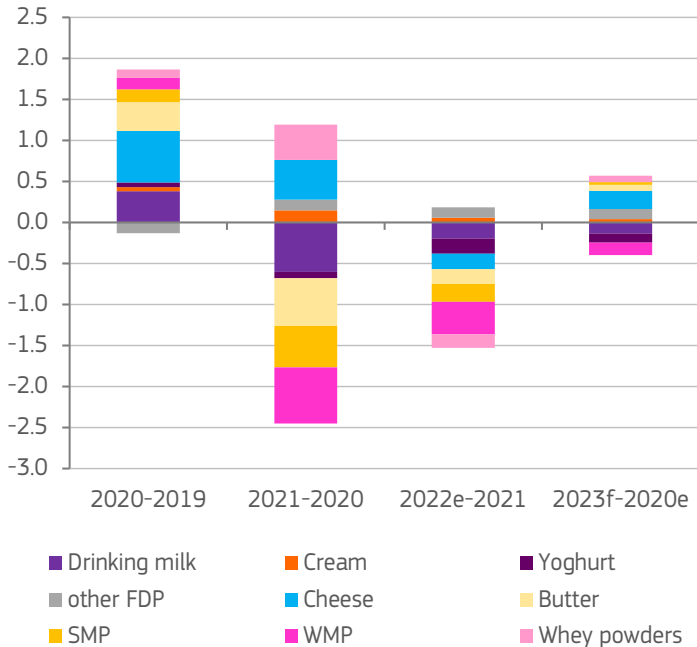
Because more milk could be channelled to butter and SMP production in upcoming months, EU cheese production might be weaker before it restarts the growth towards the end of the year, supported by high prices. As a result, EU cheese production growth could be slightly negative in 2022 (-0.5%), with stable exports and domestic use which could to some extent react to rising food inflation.

In 2023, EU cheese production could grow by around 0.6% which would support some slight recovery of exports (0.4%), while EU use may remain stable.

Among traditional dairy products, drinking milk is likely to continue its declining production trend in 2022 (-1%), but even a stronger decline could be expected in yoghurts (-2.5%). In both cases, the external demand is weak, and combined with lower cream shipments, EU FDP exports could remain stable at -best. Therefore, the reduced production would be translated to a lower EU consumption (-0.7%), returning to pre-COVID declining trends.

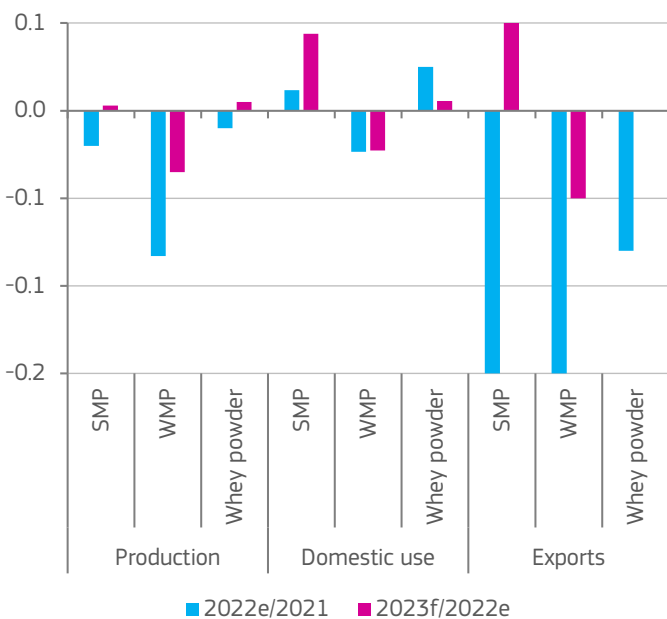
Next year, EU FDP production and consumption trends are likely to remain the same, with some recovery expected in EU exports. This could be supported by some recovery of Chinese demand, especially in foodservice.

Annual change of production of selected dairy products in the EU (million t of milk equivalent)



Source: DG Agriculture and Rural Development, based on Eurostat.

Annual change of EU production, domestic use and exports of milk powders (million t of milk equivalent)



Source: DG Agriculture and Rural Development, based on Eurostat.

## LOWER EU MILK POWDER EXPORTS

Despite an initial expectation for whey powders to grow, the weaker external demand is likely to lead to a lower production in 2022 (-1%) while the cheaper price compared to other milk powders could support the domestic use growth (+2.5%). High energy cost of drying towers contributes to rising prices of SMP and WMP and this could to some extent translate into some production decline in 2022 (-2% and -8% respectively). In both cases, EU exports could drop (-15% for both) due to low EU competitiveness. At the same time, lower WMP demand from China leads to products' mix change in New Zealand (more milk into butter and SMP), and so creates further constraints for EU exports. In case of SMP, domestic use could grow slightly, and as the exports might remain weak, stocks might increase (+60 000 t). As WMP domestic processing (into confectionery for exports in particular) remains weak, a decline of around 2 % is expected.

In 2023, some slight recovery of EU whey and SMP production is expected. In case of the former, the growth (0.5%) could support the further increasing domestic use (0.6%) while exports are likely to remain stable. The growth of SMP production could provide availability for higher exports (+5%) and increasing domestic use (+4%), assuming some price relaxation. EU WMP market could remain negatively impacted overall by a lower competitiveness.

