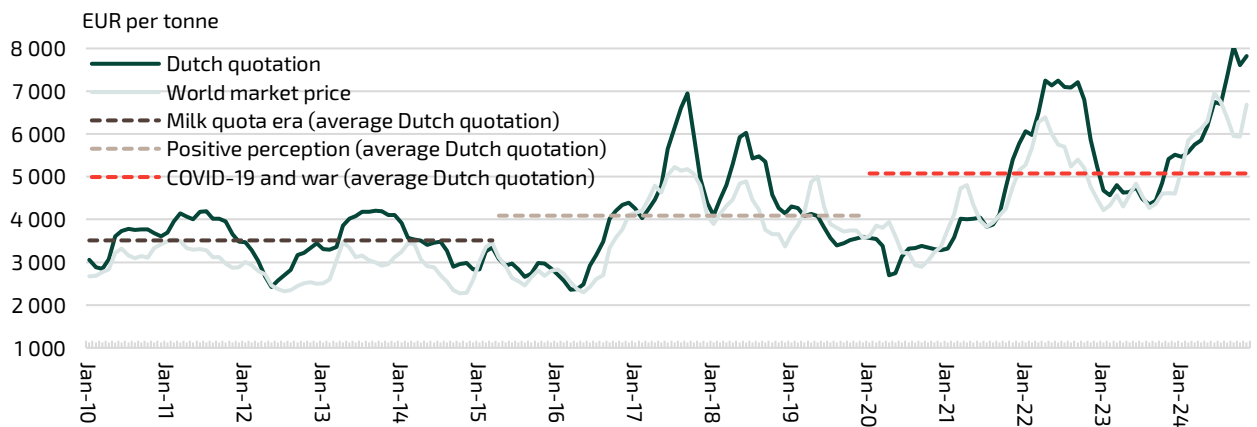


Cheese wins the fat battle over butter

The talk of the town on the dairy market in recent months has been the trend in milk fat prices, particularly the remarkable increase in butter and cream prices to record levels of more than 8,000 euro per tonne and 10,000 euro per tonne respectively. While these are EU prices, the global tightness in milk fat pushes butter, AMF and other milk fat derivatives to historically high price levels basically everywhere.

Since the end of the milk quota era in the EU (31st March 2015), butter prices have evolved in ways no one could have ever anticipated. This trend was supported by a more positive perception of butter, driven by all kinds of cooking programs on television and social media, leading to a steady rise in butter consumption. Since 2020, instability in the world because of the COVID-19 virus, the war in Ukraine and the conflict in the Middle East led to huge price fluctuations. However, this instability did not result in lower EU consumption. The average price since the turmoil broke out increased at a higher pace than ever before. Especially the development in 2024 was a surprise. This Insight will try to shed some light in the dark of what's driving these unprecedented price developments.

Figure 1. Market price development butter until November 2024



Source: USDA, ZuivelNL, Dairyntel analysis

Driver 1: Increasing per capita consumption irrespective of butter price levels

Table 1 clearly indicates that temporary price peaks in 2017, 2022 and 2024 may temporarily slow consumption growth on an annual basis. However, the usual price drop in subsequent years allows consumption to pick up again. Despite these fluctuations, butter consumption appears remarkably resilient and on balance consumption is on the rise since 2015.

Table 1. Consumption of butter and butteroil in the EU
In butter equivalents (1,000 tonnes)

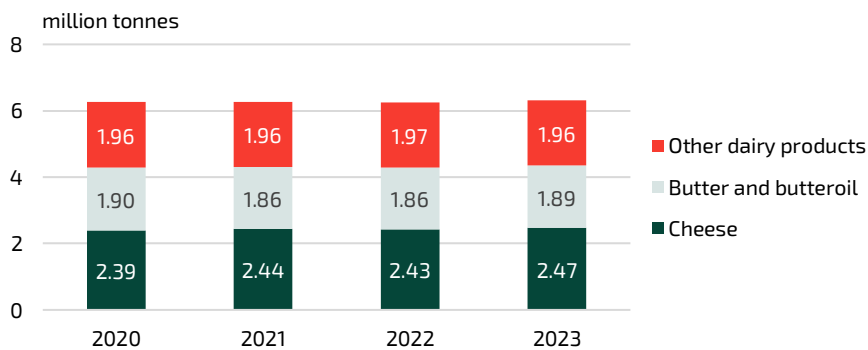
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Production	2,053	2,114	2,098	2,142	2,162	2,195	2,186	2,169	2,196
Exports (-/-)	271	305	259	250	305	319	268	257	292
Imports (+/+)	55	57	57	75	78	52	50	74	58
Tota end consumption	1,837	1,866	1,896	1,968	1,935	1,928	1,969	1,986	1,963
Per capita consumption	4.1	4.2	4.3	4.4	4.3	4.3	4.4	4.4	4.4

Source: Eurostat, World Dairy Situation Report 2024, Dairyntel analysis

Driver 2: Less milk fat available for EU butter production

EU milk deliveries have fairly remained stable in recent years. It is no wonder that the availability of milk fat largely followed a similar pattern, despite genetic developments aimed at increasing content levels in cow's milk. In 2023, 6.32 million tonnes of milk fat (all types of milk) were processed in EU dairy production. During the period 2020-2023 more milk fat went into cheese production (+3% in 2023 compared to 2020). Slightly less milk fat was used for butter and butteroil production, though 2023 saw some recovery.

Figure 2. Milk fat usage in the EU



Source: Eurostat, Dairyntel analysis

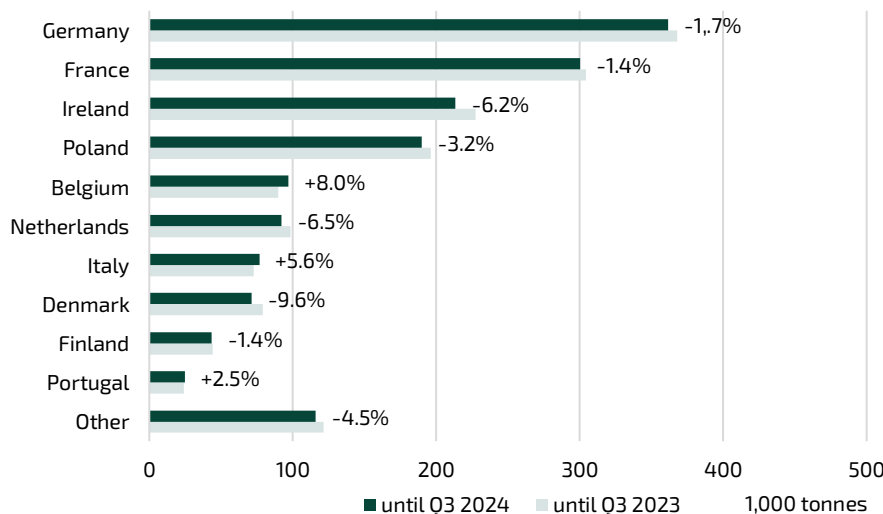
The year 2024 has been no different from previous years, with almost no increase in EU milk deliveries and consequently milk fat availability. Up until September, milk deliveries were up by 0.6% (corrected for the leap year effect: +0.3%) and the amount of milk fat increased by 0.3% (corrected for the leap year effect: -0.1%). During the summer period milk deliveries stagnated in Europe, mainly due to the blue tongue virus in the western part (Belgium, Germany and the Netherlands).

With an almost constant milk fat supply, it is interesting to observe how milk fat usage has evolved so far in 2024. The trend of channelling more milk fat into cheese production has continued. EU cheese production increased by 2.6% in the first three quarters of 2024, absorbing more milk fat than the increase in available milk fat during that period. This implies that less milk fat was available for producing other products, such as butter and butteroil, as reflected in the 2.4% decrease up to September (-39.1 thousand tonnes).

The largest decline was seen in Ireland, where a sharp reduction in milk deliveries (-4.1%) led to a significant drop in butter production (-14.1 thousand tonnes). This decline was also reflected in the reduction of Irish butter exports (including intra trade) during the first half of 2024. However, Ireland exported more butter in Q3. Surprisingly, Poland also produced less butter and butteroil (-6.3 thousand tonnes), despite a strong increase in milk deliveries (+4.0%) during the first three quarters of 2024. The Polish milk processing industry clearly prioritized cheese production over butter. Cheese production in Poland increased by 5.6% (+41.3 thousand tonnes) up to September.

Other major butter and butteroil producing countries in the EU, such as Germany (-6.2 thousand tonnes), France (-4.3 thousand tonnes), the Netherlands (-6.4 thousand tonnes) and Denmark (-7.6 thousand tonnes), also reported declining volumes. The exception was Belgium, which recorded a remarkable 8% increase.

Figure 3. Production of butter and butteroil in the EU
Mutation compared to same period in the previous year

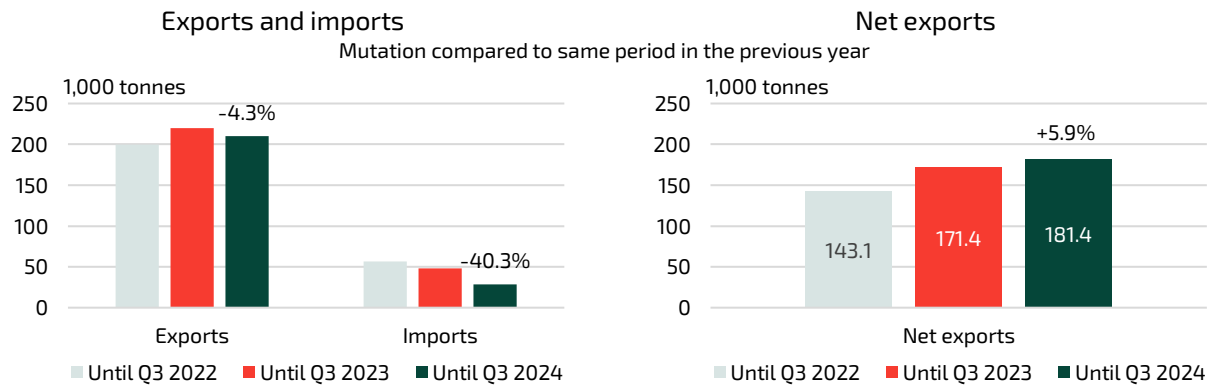


Source: Eurostat, Dairyntel analysis

Driver 3: Significant drop in EU imports

The tight supply balance on the EU market is also evident, when trade with third countries is included in the analysis. Up until September 2024, the EU exported 210 thousand tonnes of butter and butteroil (expressed in butter equivalents) outside the EU, a decrease of 4.3% compared to the same period of last year. This decline makes sense, considering the reduction in EU production. To maintain approximately the same level of consumption, imports are required to increase. However, the opposite occurred. Imports of butter and butteroil from outside the EU fell sharply (-40%) in the first three quarters of 2024, reaching a total of almost 29 thousand tonnes (expressed in butter equivalents). In particular, imports from the UK, New Zealand and Ukraine declined. Due to this significant drop in imports the EU's net exports increased by 5.9% up until September 2024. However, unlike in 2023, this increase was not supported by higher production.

Figure 4. EU trade of butter and butteroil (excluding EU intra trade)



Source: Eurostat, Dairyntel analysis

Same pattern in other countries

The high butter prices are not just a European phenomenon. In the United States and other major export markets, prices are also at very high levels. That similar lack of milk fat availability is one of the causes of the reduced EU imports highlighted in the previous paragraph. The tight US market conditions are primarily due to exceptionally strong demand. The USDA recently announced that US butter consumption reached an all-time high in 2023. Unlike the EU, US butter production in 2024 (+5.7% through October) has risen sharply, due to a remarkable increase in content levels in milk while milk production itself is largely stagnant. Butter and butter oil imports also increased significantly through September (+31%). This extra butter supply seems to easily find its way on the US market.

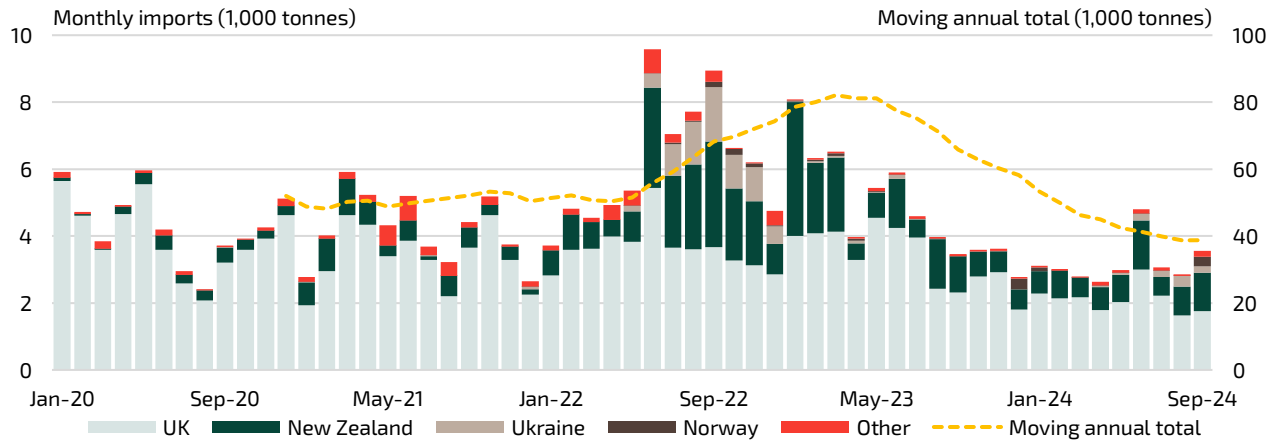
Russia recently made headlines as skyrocketing butter prices have led to an increase in thefts in supermarkets, requiring the product to be secured behind locked displays. To address shortages, the Russian government is seeking to boost butter imports from countries like Turkey and the United Arab Emirates, where trade relations remain intact. The decline in butter imports from Latin America has exacerbated the situation, plummeting from 25,000 tons in 2014 to just 2,800 tons this year, influenced by Western sanctions and logistical challenges.

Will New Zealand increase its presence on the EU market?

On the 1st of May 2024, the FTA (free trade agreement) between the EU and New Zealand entered into force, introducing more favourable conditions for importing butter and butteroil in the EU. Given the current high butter prices, this development could present an opportunity for New Zealand exporters to increase butter sales in the EU market. Let's not forget that NZ has for a long time been quite familiar with butter exports to the EU following its import quota that was granted for the years that the UK was part of the EU. However, up until September, there has been no evidence to suggest that NZ has the EU high on its list of priority butter destinations. The EU does import butteroil from New Zealand, but this volume remained almost unchanged compared to last year. No significant quantities of butter were imported. It remains to be seen whether large quantities have been or will be shipped to the EU. New Zealand's exports of butter and butteroil dropped significantly

(-12%) in the first three quarters of 2024. Additionally, transporting butter over very long distances is not cost-effective, with New Zealand exporters preferring to focus on growth markets closer to home, such as in Asia, Oceania, and North and Central America.

Figure 5. EU imports of butter and butteroil, by origin on a monthly basis
In butter equivalents



Source: Eurostat, Dairyntel analysis

Recent drop in prices could be temporarily

The EU butter market is currently correcting, with butter prices dropping sharply. The seasonal low point in milk production has now passed, and milk volumes are increasing again. Fresh cream prices are also expected to decline significantly in December. This is not uncommon once Christmas purchases are completed, and the focus of buyers shifts to the coming year. However, we do believe that based on some of the fundamental developments highlighted in this insights the shortage of available fat will likely prove to be a structural issue. This makes it likely that price levels will remain elevated next year, and possibly beyond that.

If you are interested in our in-depth market insights or data underlying this analysis, please feel free to [contact us](#).