

Fat filled powder market is expected to recover

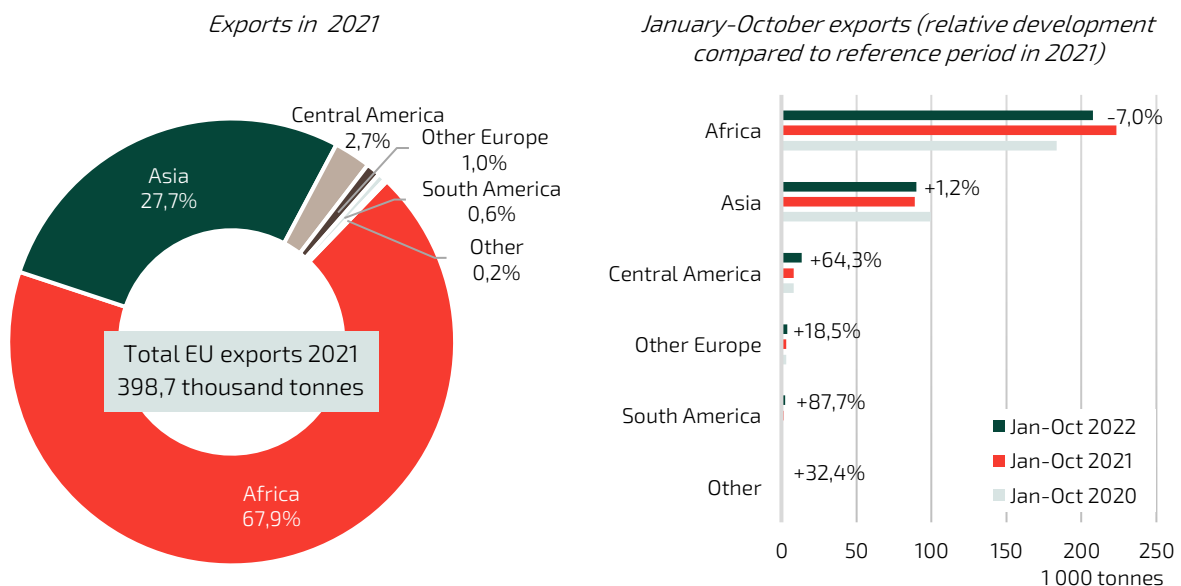
After some 18 months of month over month increases in EU exports of fat filled milk powder (FFMP) to Africa, volumes started to decline after June 2022. Fat filled milk powder is mostly sold to price sensitive markets and in the second half of this year buyer resistance because of the record high price levels grew. How will FFMP trade develop in 2023?

FFMP is a cheap alternative for non-skimmed or whole milk powder (WMP), containing vegetable fats like palm oil instead of milk fat. The EU started monitoring trade of this product group since 2020. This allows us to draw some interesting conclusions on volume growth, origins and destinations in this growing category.

Africa is by far the most important region of destination

EU exports of FFMP to countries outside the EU were close to 400 thousand tonnes in 2021. Of this volume, almost 68% went to Africa (figure 1). This is no surprise, as this continent has many consumers with low purchasing power, especially in the Sub-Saharan African countries. The main markets in Africa in 2021 were Nigeria (75 thousand tonnes), Senegal (66 thousand tonnes), Ivory Coast (21 thousand tonnes) and Egypt (14 thousand tonnes). In 2021, 6 EU exporting countries were responsible for almost all traded volume to Africa. Suppliers from Ireland and the Netherlands have been prominent in the African market for some while. In recent years, there has also been growing interest from other EU exporting countries. Especially Germany, France and Poland recorded remarkable increases. On the other hand, it is interesting to see that exports from Denmark and Sweden (Arla) to Africa significantly decreased.

Figure 1. EU FFMP exports, by region of destination (excluding EU intra trade)¹



¹ HS code 19019095: Food preparations in powder form, consisting of a blend of skimmed milk and/or whey and vegetable fats/oils, with a content of fats/oils <=30% by weight
Source: Dairyntel trade database

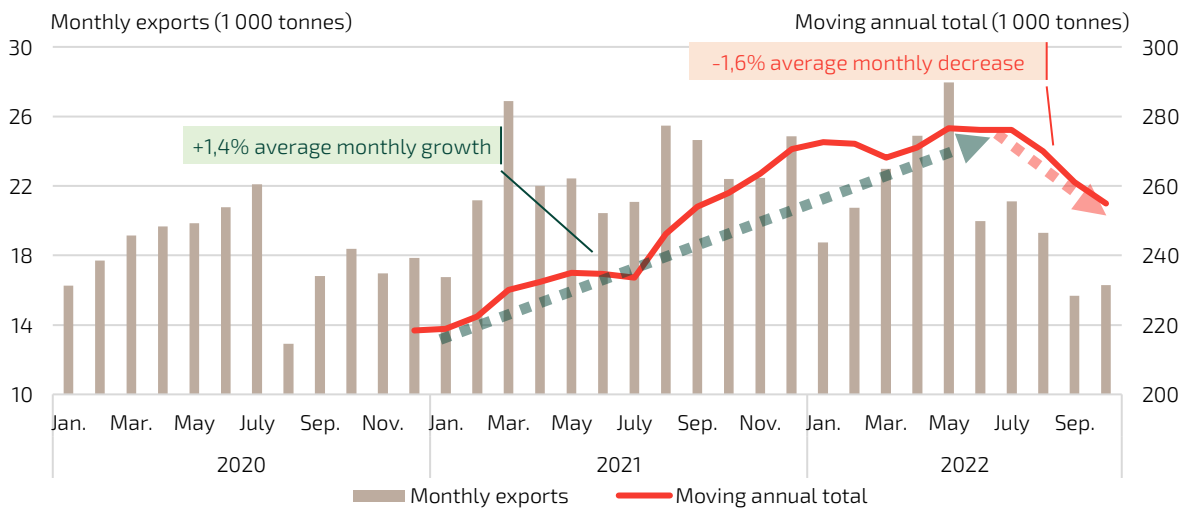
Africa has been the most important growth region for European FFMP in recent years. In the course of 2022 the situation changed, which can be related to the very high prices of the

milk protein as well as the vegetable fat component. Prices peaked in March and April, having a big impact on buying behaviour in the export markets afterwards. Especially in the months June to October export volumes to Africa stagnated (figure 2). In September the price per exported kg reached a record level of € 3,68 FOB (figure 3), more than 50% higher than the average price per exported kg in 2021. Exports to Nigeria (-34%), Ivory Coast (-18%), Egypt (-27%) and Benin (-66%) in particular tumbled down in the period until October 2022. Though trade to Senegal was only slightly lower on balance, this market also showed a strong negative development from June.

The top three exporting countries in the EU, Ireland, the Netherlands and Germany, all recorded declining volumes in the period until October 2022 compared to the same period last year. On balance, France and Poland continued to show staggering growth. However, they also had to deal with some stagnation in exports to Africa from June/July.

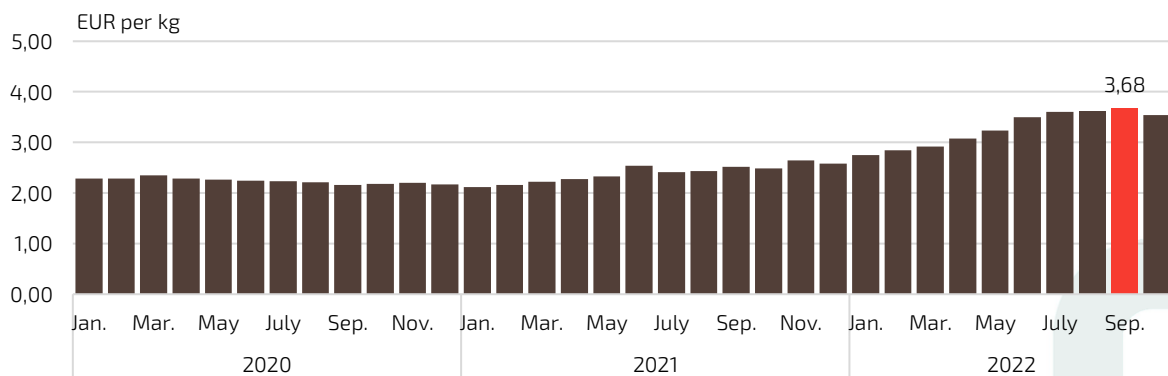
African consumers are used to the taste of FFMP and are loyal to their brands (origin and recipe). Especially Irish and Dutch products are very popular. In the past, during the introduction of FFMP on the world market, FFMP and WMP were far more interchangeable than they nowadays are. Despite WMP being priced relatively favourable between March and June due to vegetable fat being in relative terms even more expensive than milk fat, this did not lead to additional demand for WMP.

Figure 2. Monthly EU FFMP exports to Africa



Source: Dairyntel trade database

Figure 3. Export price development fat filled milk powder from EU in Africa

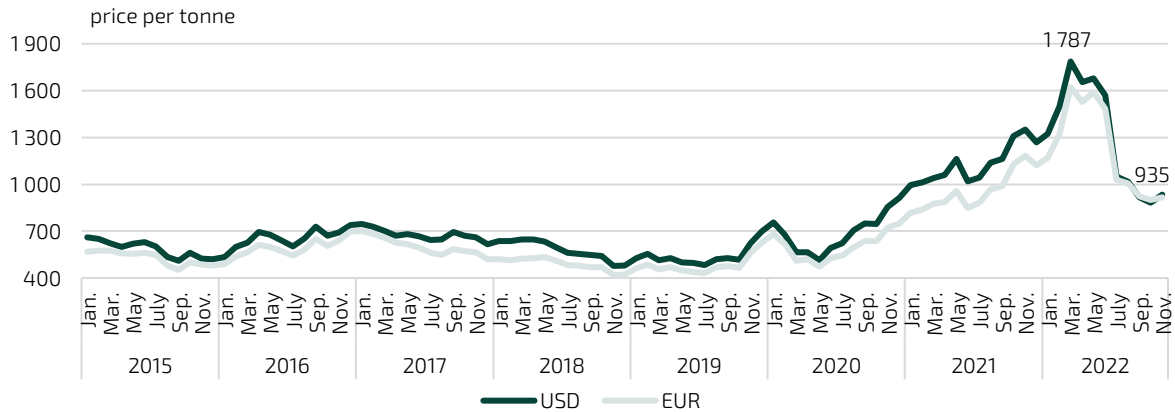


Source: Dairyntel trade database

Recovery expected in months to come

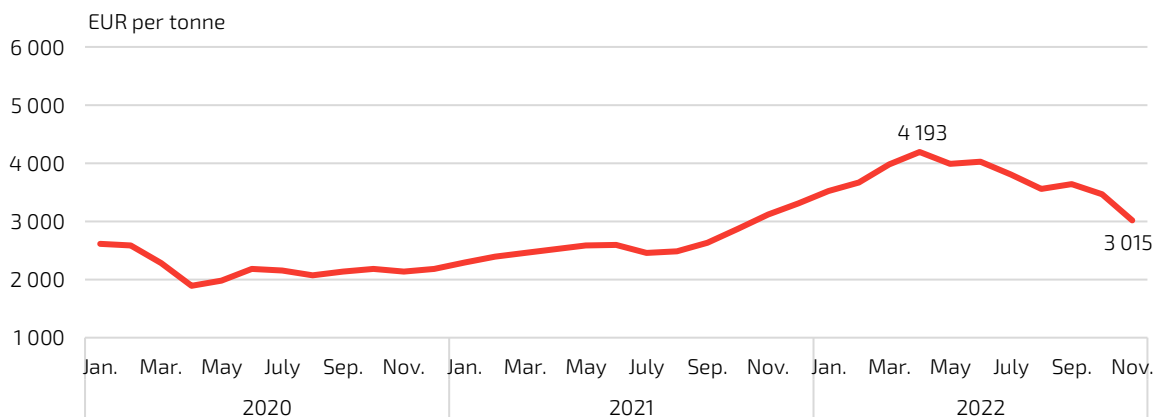
After reaching peak levels in March, export prices of palm oil stayed at a very high level until June (figure 4). From the end of June prices declined rapidly, mainly because of the lift of the export ban by Indonesia in May. Supply on the world market increased significantly and prices deteriorated. In November palm oil prices (expressed in USD) were almost 50% lower than in March. With this sharp drop in palm oil prices, it is currently less expensive to produce FFMP than in the second and much of the third quarter of 2022.

Figure 4. Development monthly export prices RBD palm oil*



*RBD palm oil is used in the production of margarine, confectionary fats, cooking oil and in the milk industry for the production of sour cream, cheese, cream cheese spread, condensed milk and for the production of other food products.
Source: Malaysian Palm Oil Board

Figure 5. Price development SMP (Dutch quotations)



Source: ZuivelNL

Moreover milk proteins (figure 5) have also become considerably cheaper in comparison to the April peak level. If SMP prices decrease further in the coming months - please also read our Insight '[Where will SMP prices land in 2023?](#)' - then FFMP prices come within reach of the average African consumer again, despite the economic headwind that the global economy is facing in 2023. Since we have argued that the competition from WMP - which is also priced relatively low these days due to the reduced Chinese appetite for WMP - is no longer a material issue, volume recovery is quite likely in 2023, especially in the second half of the year. It will be interesting to monitor which markets recover, to what extent and who benefits.

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