

Prof. Dr. Holger D. Thiele



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The European milk futures

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University of Applied Sciences Kiel
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Workshop about GlobalDairyTrade and Futures
Thursday 28th May

IFE Institute of Food
Economics Kiel



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Market analysis

- Weekly/monthly dairy market analysis Europe, US, World
- Cost analysis of the dairy supply chain
- Process cost analysis of dairy industry



Market information

- Calculation of forecast indicators
- Calculation of European dairy market indices
- Calculation of milk futures prices
- Weekly evaluation of dairy spot markets

Consulting for dairy companies

- Consultancy for dairy and food industry
- Expertise for milk and dairy contracts
- Consulting/expertise
- Optimization product portfolio

Seminars on dairy markets and futures

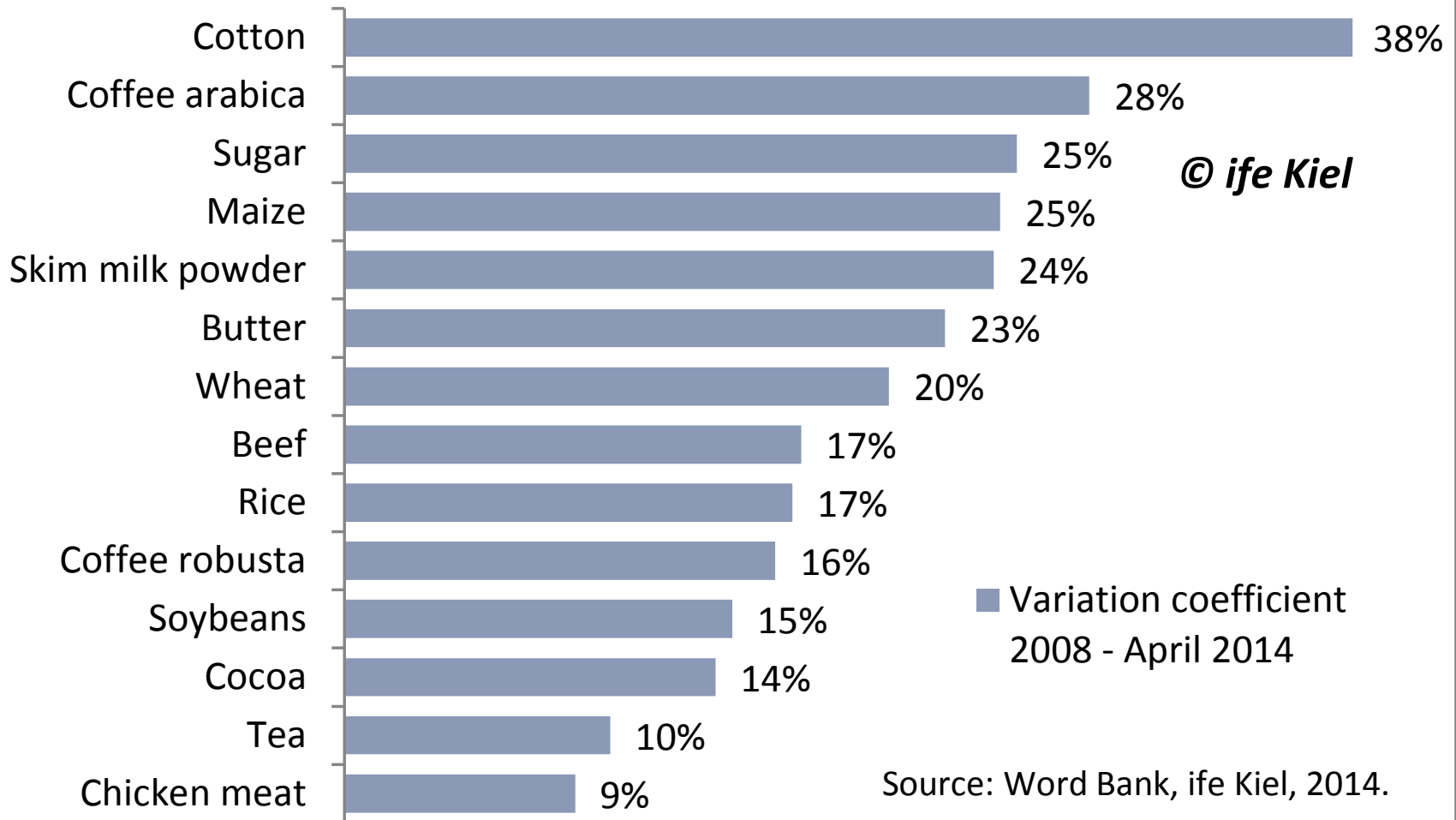
- Qualification program board of directors / board of management
- In-house seminars and trainings on dairy risk management



What is new in European milk markets: a new demand for efficient price risk management

- EU will increase the market share on global dairy markets => increasing convergency between global and EU markets.
- New price risks for EU dairy markets due to international climate risks, economic risks, and political risks.
- New price risks for EU dairy markets due to currency risks
- New farm investments and growth in milk production increase liquidity problems of EU milk production.
- What is new in the EU:
 - The demand of price stability of milk and milk products increase in the future!
 - Efficient milk price risk management will be a more and more important factor in milk market competition.
 - Efficient risk distribution between the different member of the milk supply chain - farmers - processors - customers will be an important task! Everybody try to reduce their risk taking position!

Price risk of smp/butter > wheat, coffee, cocoa



USD:EUR exchange rate influences EU milk prices: 2014 = from 1.38 to 1.08 => + 8 Cent milk price!



Source: EZB **Devaluation of the EUR increases European milk prices in 2014: +8 Cent/kg milk. A revaluation of the EUR is working in the different direction!**

Dairy future contracts in Europe

Skimmed milk powder (5 t)

- started May 31, 2010 at the EUREX, Frankfurt (Germany)
- since May 11, 2015 tradable at the EEX, Leipzig (Germany)

Butter (5 t)

- started May 31, 2010 at the EUREX, Frankfurt (Germany)
- since May 11, 2015 tradable at the EEX, Leipzig (Germany)

Whey powder (5 t)

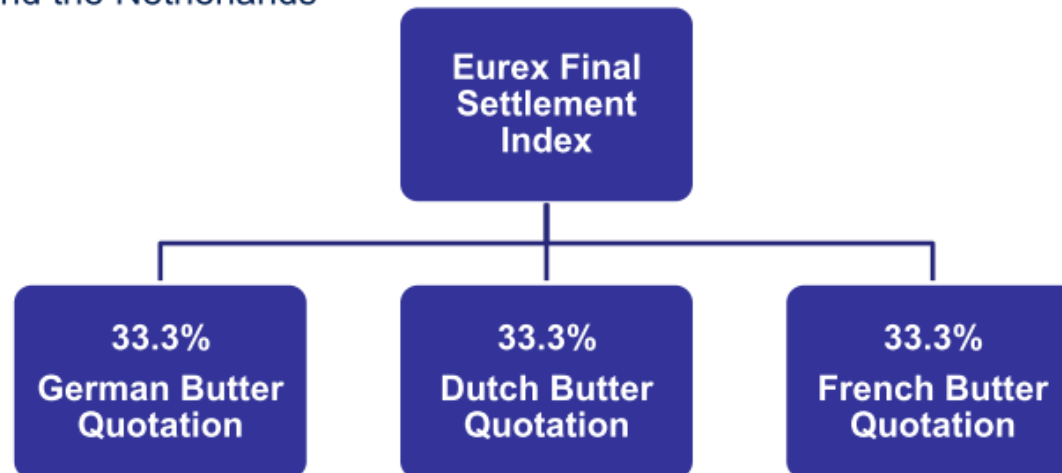
- started September 26, 2012 at the EUREX, Frankfurt (Germany)
- since May 11, 2015 tradable at the EEX, Leipzig (Germany)

Since May 2015 we also have new future contracts at MATIF in Paris!

Milk price hedging is possible: e.g. using Eurex European Butter Futures

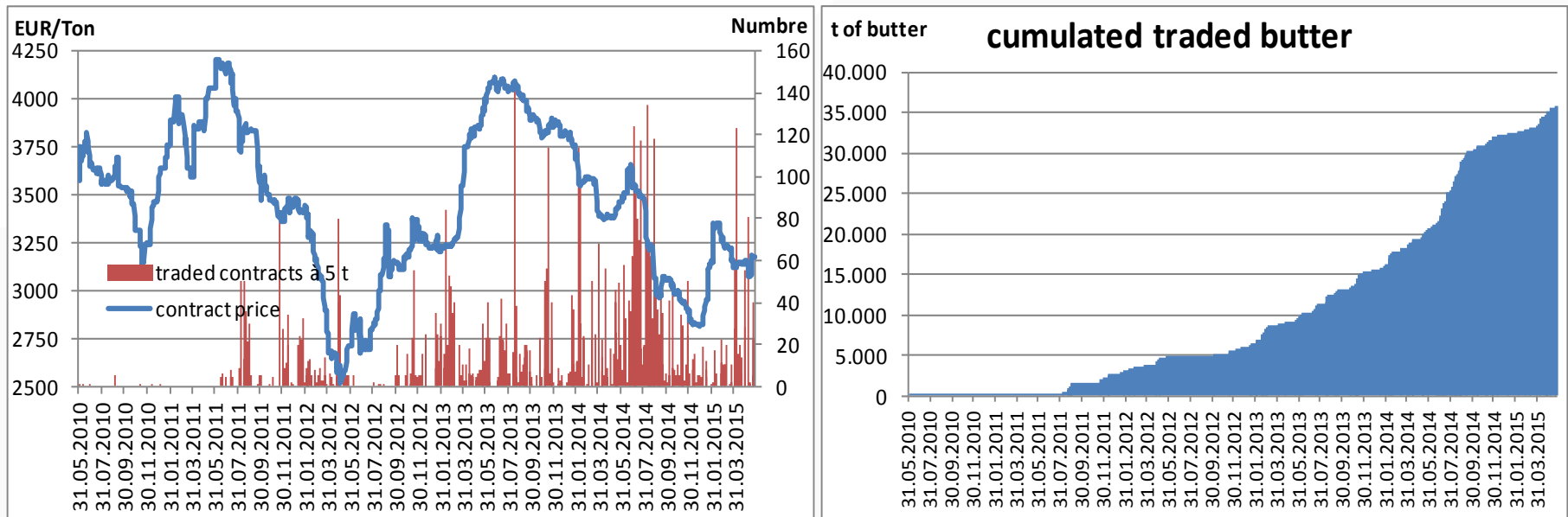
Eurex European Butter Futures

- Contract Size: 5 Metric Tonnes
- Contract Months: Near six months and quarterly thereafter, Jan / Apr / Jul / Oct Quarterly for 18 months
- Trading Unit: Euro per Metric Tonne
- Settlement: Settled as the weighted average of the settlement weeks (**final Wednesday per listed month**) published prices from three primary consumptive, productive and international trade regions for Butter in the EU, namely: Germany, France and the Netherlands



Butter is stronger traded at the EUREX/EEX since 2011

EUREX-Future Butter



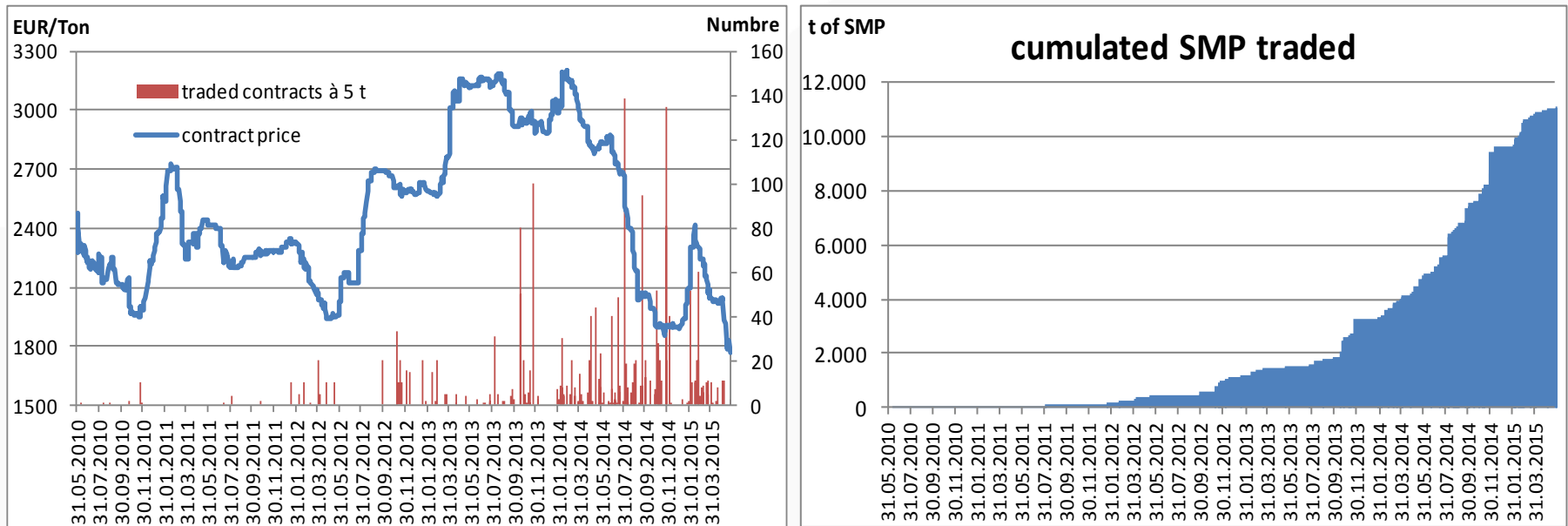
Since May 2010 7.183 butter contracts (=35.915 t of butter) were traded via the EUREX/EEX.

Contract price = Average price of the traded contracts

Source: ife Institute Kiel, EUREX-quotations, EEX-quotations since May 11, 2015.

Skimmed milk powder is stronger traded since 2013

EUREX-Future skimmed milk powder



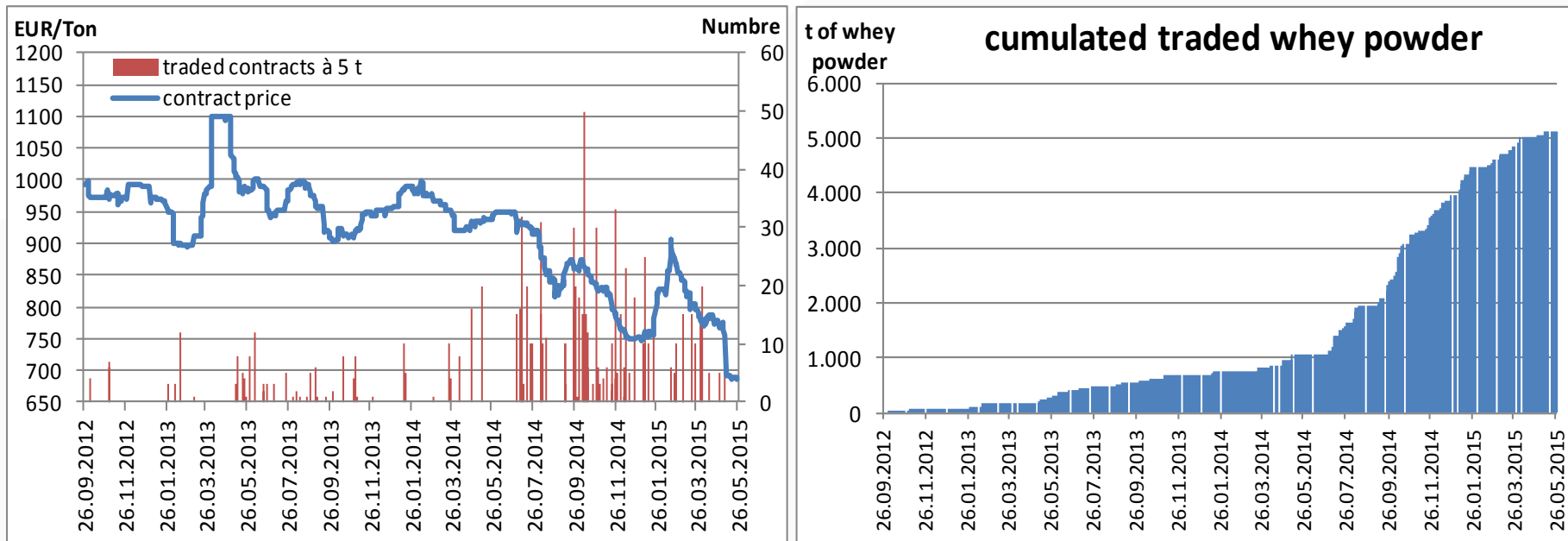
Since May 2010 2.217 SMP contracts (=11.085 t of SMP) were traded via the EUREX/EEX.

Contract price = Average price of the traded contracts

Source: ife Institute Kiel, EUREX-quotations, EEX-quotations since May 11, 2015.

Whey powder contracts can be traded since September 2012 at the EUREX/EEX

EUREX-Future European whey powder



Since September 2012 1.021 whey powder contracts (=5.105 t) were traded via the EUREX/EEX.

Contract price = Average price of the traded contracts

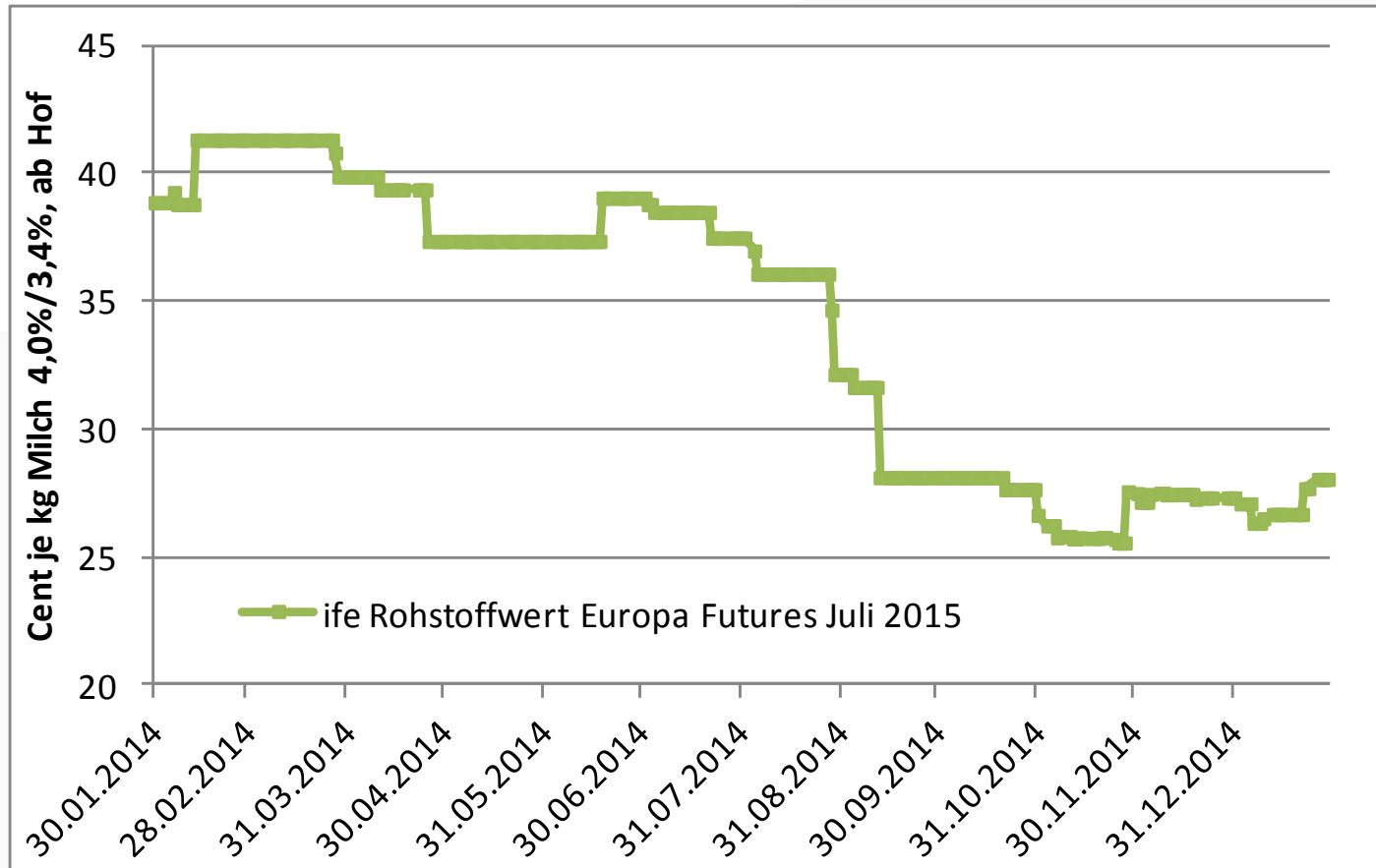
Source: ife Institute Kiel, EUREX-quotations, EEX-quotations since May 11, 2015.

The milk price level at the EEX is till October 2015 at about 26 ct/kg milk

contract	FBUT - FUTURE	FBUT Open interest	FSMP - FUTURE	FSMP Open interest	ife raw milk value (farm gate)
May 15	3013	110	1773	36	25,3
Jun 15	3090	201	1800	20	26,0
Jul 15	3090	177	1738	58	25,3
Aug 15	3125	17	1744	5	25,6
Sep 15	3108	0	1744	0	25,5
Oct 15	3163	0	1825	75	26,6
Jan 16	0	0	0	0	n.a.
Apr 16	0	0	0	0	n.a.
Jul 16	3400	0	0	0	n.a.
Oct 16	3400	0	0	0	n.a.
		505		194	

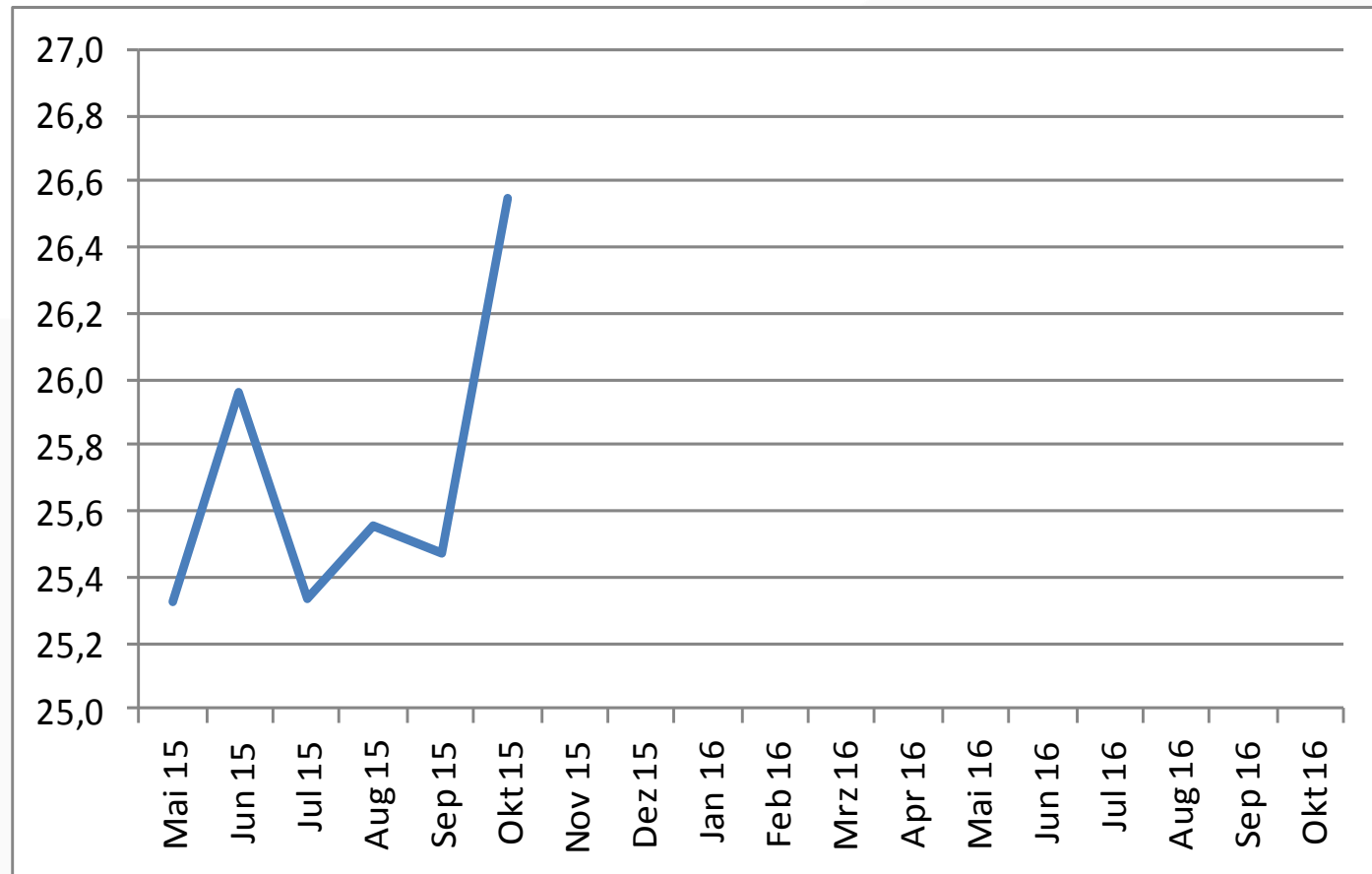
Quotations at the EEX from May, 27 2015
(daily calculated by the ife into a raw milk value)

In August 2014 it was possible to log in a milk price for July 2015 of 33 Euro Cent / kg Milk!



FBUT and FSMP contract delivery month July 2015 converted into ife milk value!

Forward kurve: raw milk value in ct/kg calculated from butter and SMP price at the EEX at May, 27

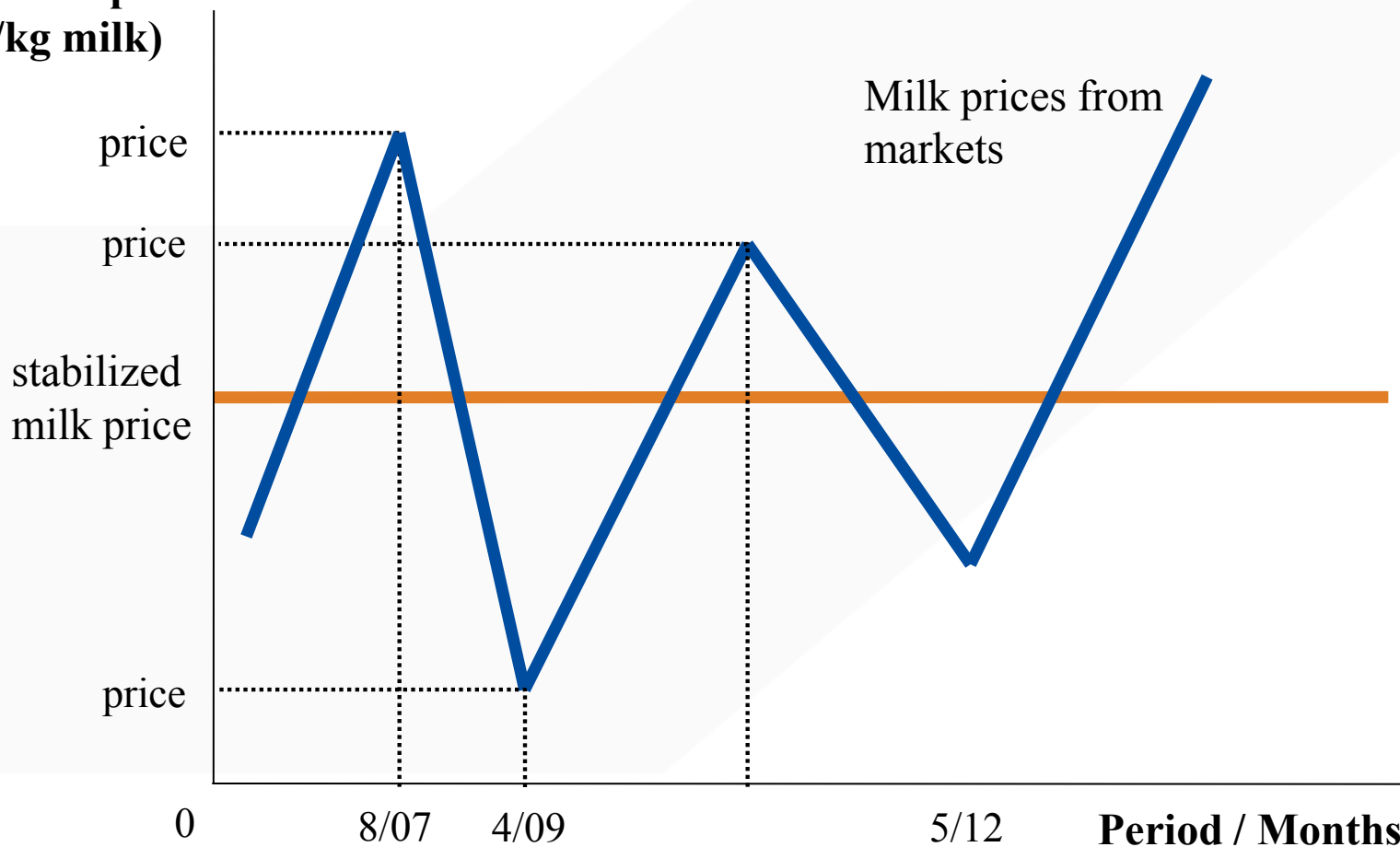


Source: ife Institute Kiel

Stabilization of milk prices = not the lowest and not the highest milk price!



Milk producer prices
(EUR/kg milk)



Outlook

- Due to liquidity problems there is a strong need for dairy risk management strategies in future European milk supply chain.
- In the future we will see many different price models and risk management models.
- European milk futures will play an important role in future milk price risk management.
- The volume of FSMP and FBUT increases since 2010. Now it is possible to hedge milk price risks at a European exchange.
- Farmers and processors can hedge fluid milk or milk products via FSMP and FBUT if they take the individual basic risk into account!

Thank you for your attention!

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