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EU Dairy Markets, Situation and Outlook, September 2008

Special report produced for CLAL

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Highlights:

- EU milk markets under pressure:
 - Milk supplies increasing,
 - demand from domestic markets stagnating and partly declining,
 - demand from export markets reduced
 - stocks building up
 - dairy commodity prices have declined, no recovery in sight yet
 - inevitably farm milk prices will follow: for the remainder of 2008 it will be difficult to keep the levels or follow the seasonal increase which can usually be observed in the autumn
- World milk production growing faster than demand potential demand
- EU suppliers are in unfavourable competitive position, despite only small gaps between EU and World market prices because the Euro rate has soared and no export refunds are to be expected as long as EU market prices are still significantly above the support level
- The world economy is endangered by the financial crisis in the USA



Table 1

EU Dairy Market: Overview 2002 - 2007 and forecast 2008									
in '000 t	2002	2003	2004	2004	2005	2006	2007*	2007*	2008**
	EU-15	EU-15	EU-15	EU-25	EU-25	EU-25	EU-25	EU-27	EU-27
Dairy Cows (Nov. census, '000)	19 539	19 214	18 811	23 248	22 766	22 368	22 189	23 800	23 500
Milk Production	121 461	121 881	120 647	142 271	142 713	141 164	141 416	148 616	150 000
Milk Deliveries to dairies	115 666	116 229	115 061	130 997	132 622	131 719	131 768	133 670	135 000
Milk for liquid consumption ¹⁾	29 504	29 573	29 559	33 515	33 625	33 553	33 738	33 974	34 000
Consumption cream	1 750	1 760	1 800	2 260	2 370	2 400	2 460	2 700	2 700
Fermented Products	7 600	7 900	8 000	9 000	9 400	9 600	9 750	10 000	10 000
Butter									
Production	1 865	1 867	1 794	2 107	2 137	2 042	2 055	2 065	2 070
Consumption	1 712	1 656	1 622	1 902	1 940	1 940	1 940	1 960	1 920
Cheese									
Production ²⁾	7 220	7 299	7 445	8 430	8 584	8 695	8 809	8 976	8 980
Consumption ³⁾	7 107	7 178	7 296	8 226	8 402	8 488	8 544	8 721	8 740
Skim Milk Powder									
Production	1 155	1 117	907	1 113	1 114	1 036	1 085	1 090	1 040
Consumption	997	957	950	1 020	970	950	860	870	850
Whole Milk Powder production	833	799	781	865	858	790	770	775	830
Condensed Milk production	1 236	1 178	1 159	1 212	1 181	1 130	1 140	1 140	1 100
Skim Milk used for Casein	4 912	5 447	5 919	5 949	5 938	4 269	4000**	4000**	4500**
Population (million head)	377	379	381	457	460	462	463	492	492

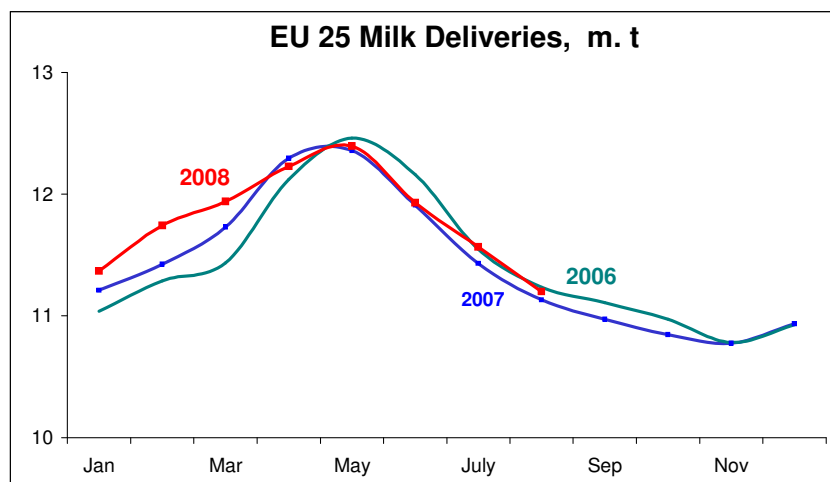
¹⁾ Provisional. ²⁾ Estimated. ³⁾ Incl. buttermilk. ²⁾ Incl. Farmhouse production and cheese made from other animals milk, excluding processed cheese. ³⁾ Including processed cheese.

Source: ZMP, Bonn, Germany; own calculations of the author.

Milk Deliveries:

- So far behind increased quotas, but above 2007 volumes
- Strong increases in the first trimester 2008
- Similar to 2007 volumes in the second trimester
- No significant impacts of the “milk boycott” in Germany and Austria (280.000 t)
- Modest increases in the third trimester
- No expansion over 2007/08 figures expected in the period from November 2008 to February 2009
- Estimate for the period January through August in EU 27: 90,4 m. t., up 1,2 m. t. or +1.0% (adjusted for leap day)
 - In France +1,0 m. t.
 - In Germany – 70.000 t, (milk boycott effect 260.000 t).
 - Expansion in Denmark, the Netherlands, Poland, the Baltics
 - Decline in U. K., Ireland, Sweden, Finland

Graph 1



Source: ife-ev, ZMP

EU Productions, first semester 2008:

- Butter slightly increased
- Cheese stagnating
- WMP significantly up
- SMP reduced
- Casein significantly up
- Whey powder only slightly up

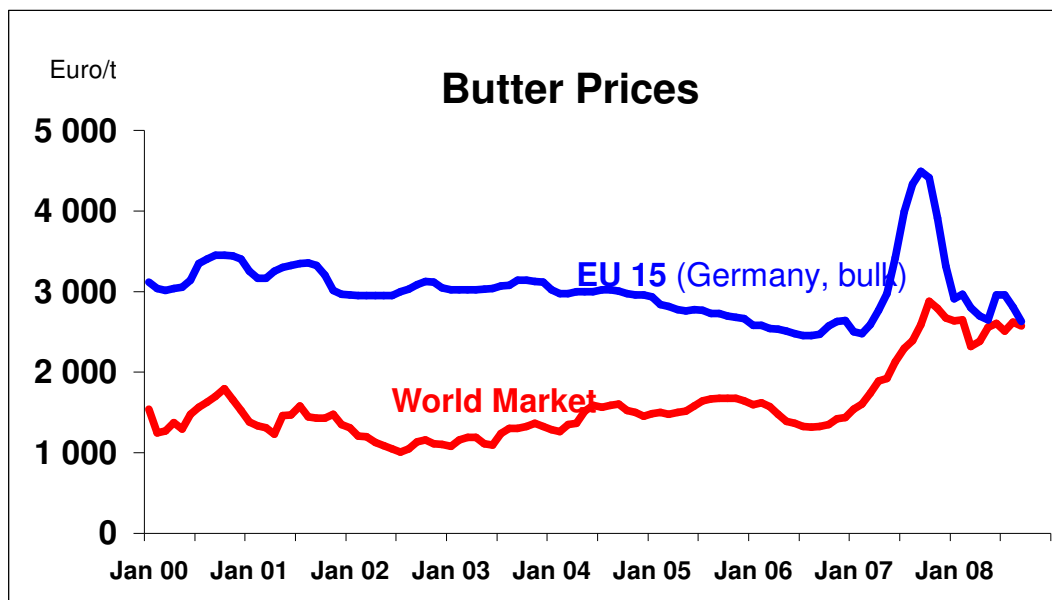
Table 2

EU Butter Balance Sheet						
'000 t	2004	2005	2006	2007	2007	2008*
	EU 25	EU 25	EU 25	EU 25	EU 27	EU 27
Total production	2 107	2 137	2 042	2 055	2 065	2 070
Imports	93	86	82	85	85	80
Exports	355	342	248	220	210	150
Final stocks	223	164	100	80	80	170
- public stocks	171	121	64	0	0	0
Disappearance	1 902	1 940	1 940	1 940	1 960	1 920
- at market prices	1 411	1 462	1 460	1 786	1 806	1 920
- subsidised	480	478	475	154	154	0
Per capita (kg)	4.2	4.2	4.2	4.2	4.0	3.9

*) Forecast. Updated Sept. 2008

Source: ife-ev, ZMP

Bulk butter prices are close to the international levels:



Source: ZMP

Table 3

EU Cheese Balance Sheet						
'000 t	2004	2005	2006	2007	2007	2008*
	EU 25	EU 25	EU 25	EU 25	EU 27	EU 27
Production	8 430	8 584	8 695	8 809	8 976	8 980
Imports	112	102	107	105	94	90
Processing addition**	260	262	263	260	265	260
Exports	576	546	587	610	594	570
Stock Change	0	0	-10	+20	+20	+20
Consumption	8 226	8 402	8 488	8 544	8 721	8 740
- per capita (kg)	18.0	18.3	18.4	18.5	17.7	17.8
*)Forecast. **) From processed cheese production.					Updated Sept. 2008	

Source: ife-ev, ZMP

The growth of the **EU cheese market** has slowed down to a rate which seems no more to allow expansion of the production on the short term, also since demand from export markets has become weaker.

Table 4

EU Balance Sheet of Whole Milk Powder						
'000 t	2004	2005	2006	2007	2007	2008*
	EU 25	EU 25	EU 25	EU 25	EU 27	EU 27
Production	865	858	790	770	775	830
Imports	3	2	2	2	2	2
Exports	517	490	423	362	362	432
Change in stocks	-20	0	0	20	20	0
Sales	371	370	369	391	395	400
*)Forecast.					Updated Sept. 2008	

Source: ife-ev, ZMP

Table 5

EU Balance Sheet of Condensed Milk						
'000 t	2004	2005	2006	2007	2007	2008*
	EU 25	EU 25	EU 25	EU 25	EU 27	EU 27
Production	1 212	1 181	1 130	1 140	1 140	1 100
Imports	1	1	0	0	0	0
Exports	198	201	210	227	227	210
Change in stocks	10	0	-10	0	0	0
Consumption	1 005	981	930	913	913	890
*)Forecast.					Updated Sept. 2008	

Source: ife-ev, ZMP

Table 6

EU SMP Balance Sheet						
'000 t	2004	2005	2006	2007	2007	2008*
	EU 25	EU 25	EU 25	EU 25	EU 27	EU 27
Opening stocks	280	117	74	94	95	128
Production	1 113	1 114	1 036	1 085	1 090	1 040
Imports	26	7	18	10	10	5
Consumption	1 020	970	950	860	870	850
- as food	597	600	600	620	625	625
- in feed	423	370	350	240	245	225
Exports	283	194	84	200	196	190
Ending stocks	117	74	94	129	129	133
- in intervention	64	8	0	-	-	-

**)Forecast. Updated Sept. 2008*

Source: ife-ev, ZMP

It seems to be possible that the milk powder markets can come into a more stable situation.

In milk replacers, however, only a modest return to increased incorporation of **SMP** can be expected, mainly resulting from an improved situation of the veal fattening industry rather than from a higher incorporation rate. The period of high prices for SMP and whey has created new formulas for milk replacers with other ingredients. The calf feed producers tend to keep the relation to the new sources, at least also as an option for similar market developments as 2007 in the future.

On export markets, it remains to be seen whether the Chinese milk powder disaster may lead to increased demand in the EU for **SMP** and **WMP**, both for exports to China and for exports to destinations of Chinese milk powder exports.

