

EU Dairy Markets, Situation and Outlook January-April 2010

by Erhard Richarts, Dairy Market Consultant, Chairman of IFE (Informations- und Forschungszentrum für Ernährungswirtschaft e. V., Kiel)

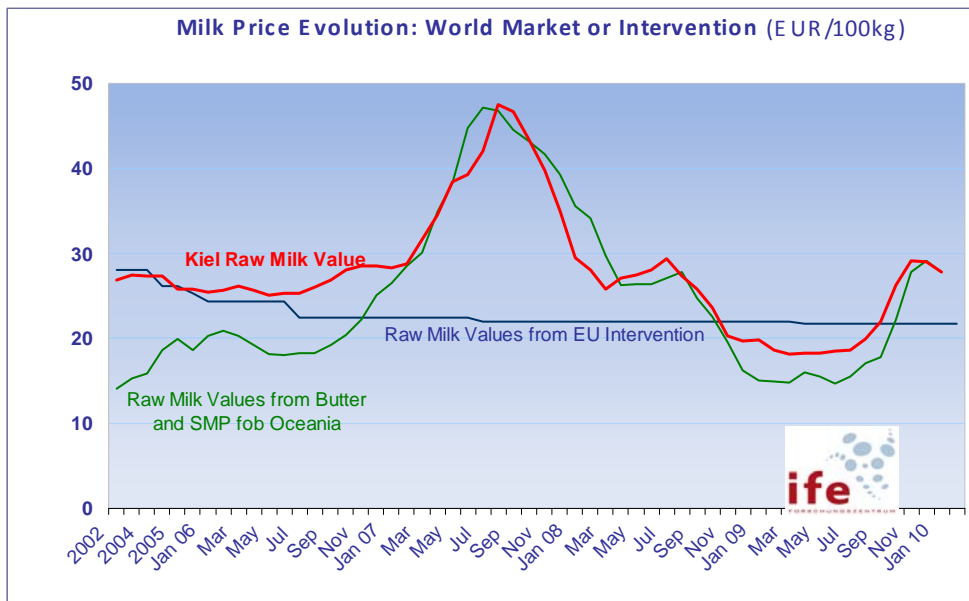
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Highlights:

- No significant increase of milk supplies and behind quota increase;
- Milk prices for farmers will recover, but not yet enough to encourage more milk production;
- Production of butter and SMP will be reduced, in particular because cheese and WMP production will accelerate due to growing demand from domestic and export markets. Export volumes increasing because world markets move again towards earlier growth, but supplies from other than European origins are tight. Market surpluses of SMP might have to be cleared temporarily by intervention, but intervention will be open only for a short time. SMP stocks will also be reduced slightly, but selling out will partly be offset by buying in Butter intervention unlikely, butter stocks will be reduced;
- Should intervention purchases be necessary, however, intervention price will not determine the basic return value for milk for long periods.

Although the milk market situation in early 2010 is characterized by the usual weakness which results from the seasonal increase of milk supplies and temporarily reduced consumer demand in January, the prospects are quite different to the situation of the year ago. This is also evident by the fact that in Germany most dairy companies did not reduce the prices for the milk which was delivered in December, and several have already announced that they do not intend to reduce the milk payout prices for January, which often could be observed after the start of a new year. Some of them might reduce milk prices later in spring, but it is unlikely that prices will move downwards to such low levels as in the year ago.

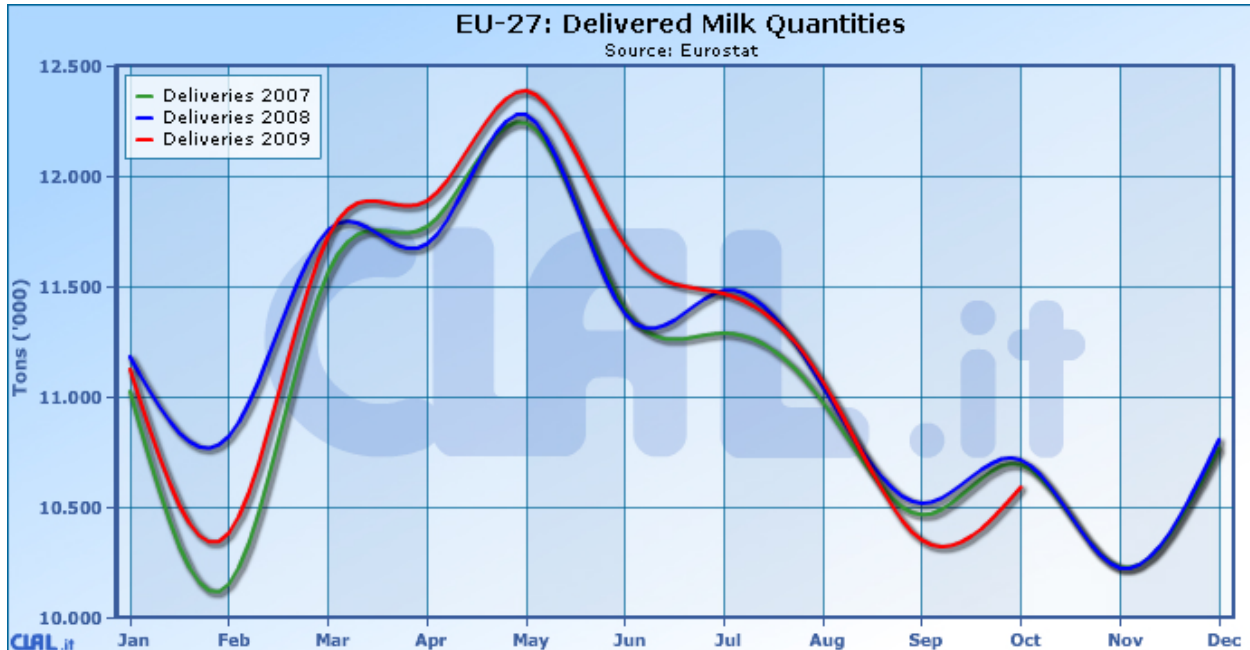
The temporary weakness of spot milk prices over the holiday period turned to slow firming up in the second half of January. The raw milk value calculated from market price quotations of butter and SMP by *ife* in Kiel went down in January by 1.2Ct/kg to 27.8Ct/kg. It is the highest January value since 2001, if we do not take into account the years 2007 and 2008, and it is very close to that of January 2007 when 28.2Ct/kg were published.



Of course it would be premature to expect a similar spectacular market evolution like in 2007. Some features of the market are similar, and some are different.

Reduced Milk Supplies

Similar is the evolution of milk supplies: By the end of 2009, milk deliveries in the EU were lower than the year before and for the quota year 2009/10 they are expected to be short of the available quotas in volume of around 6 m. tones, after 4 m. .metric tonnes the year before and 2 m. metric tonnes two years ago. Thus the response on higher quotas which were allocated to the member states following the Health Check decisions was only poor. One major reason is the low level of producer milk prices, which does not give incentives to intensify milk production by high performance feeding etc. There are also no clear signs that the structural change has been accelerated with more farmers giving up than in periods with more favorable producer prices.



There is no evidence that milk supplies will increase in the next months stronger than according to the normal seasonal profile, which means that probably until May milk deliveries in the EU will not exceed the volumes of 2009. And it is will also be difficult to increase milk supplies in the late spring and the summer months beyond the volumes of 2009, because in many European regions the climatic conditions in the summer 2009 were excellent for milk production. But since September 2009 EU milk supplies were lower than the year before and this tendency continued until now.

Also in other parts of the world milk supplies are reduced: The United States expect a decline of milk production for the first time since many years. Less milk is being produced in the current dairy year in Australia, and the production of New Zealand and some Latin American countries is behind expectations. Stagnation is also reported from Russia and an ongoing decline from Ukraine. Information from China is worrying: The question is whether the restructuration of dairy farming and the introduction of strict food controls after the melamine disaster will enable growing milk production already this year or whether the dairy and food industries will continue to buy large volumes of milk powder from the international market to cover the growing domestic demand for dairy products.

Demand: Will it grow again? Supplies: Will they be short of growing demand?

There are signs for a return of many markets to growth again. The long term growth had been hindered just in the period between 2007 and 2009 first by the bullish price evolution and after that by the economic crisis. But now in most markets prices have come down. There is an underlying trend of changing consumer habits in favor of dairy products even in markets with already high consumption level, and this relatively independent from the economic situation. However, in European countries and also in the U.S. the economic crisis has not yet been overcome, in particular the impacts on employment and incomes. But nevertheless a modest increase of demand can be expected as long as prices are only modestly rising, and for the U.S. also the ongoing growth of the population is a reason. Several of the “emerging” markets for dairy are now already back to the earlier economic growth rates, notably China. Therefore the demand for dairy products on the worldwide scale will also grow again. Even if the total will not reach in 2010 to the growth volumes of the time before 2007, a certain supply shortage on the world market seems to be likely, if the expected evolution of milk production is taken into consideration. This promises increasing export opportunities for butter, milk powders and cheese for the EU, and exports will be easier, if the weakness of the Euro rate will last for longer times.

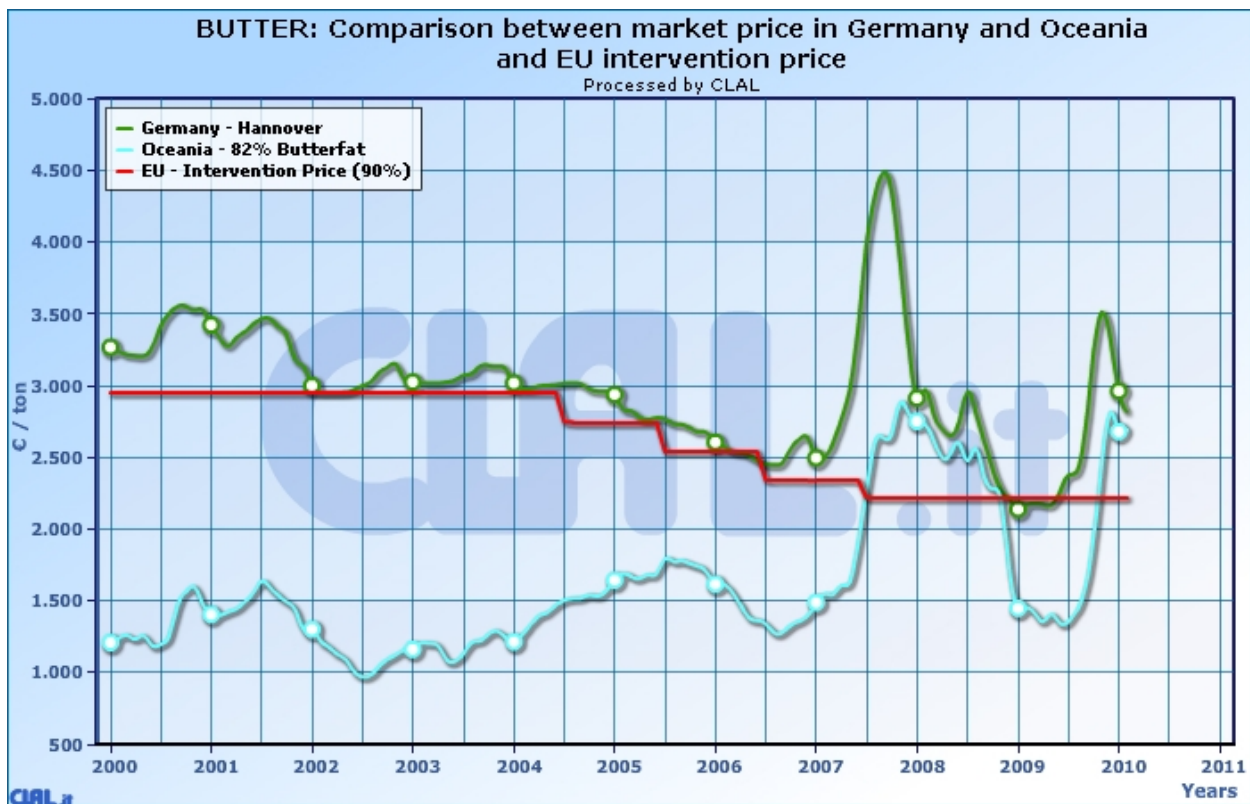
More Cheese and WMP in the EU

With slightly growing domestic demand for cheese and better export opportunities, probably more cheese and whole milk powder will be produced in the EU. If milk production remains unchanged, this will have strong effects on the production of butter and skim milk powder, which will be significantly reduced. If also more of these items is asked for exports, the markets of both intervention products will come into a much better balance than the year before. There are concerns in the dairy industry about the envisaged donation program of intervention products for needy people, that the volumes which will be released from intervention could cause turbulences in the market. This cannot be ruled out, and it will depend on the technical details whether this happens or not. But when a prospective balance sheet for 2010 is established with taking all the assumptions described above into account no pessimistic view seems to be justified. When the intervention stock of

260.000 tonnes of SMP at the end of 2009 is considered it has to be remembered that this volume is the structural surplus of the two calendar years 2008 and 2009 with weaker demand. It existed already a certain time before it appeared in the public storages.

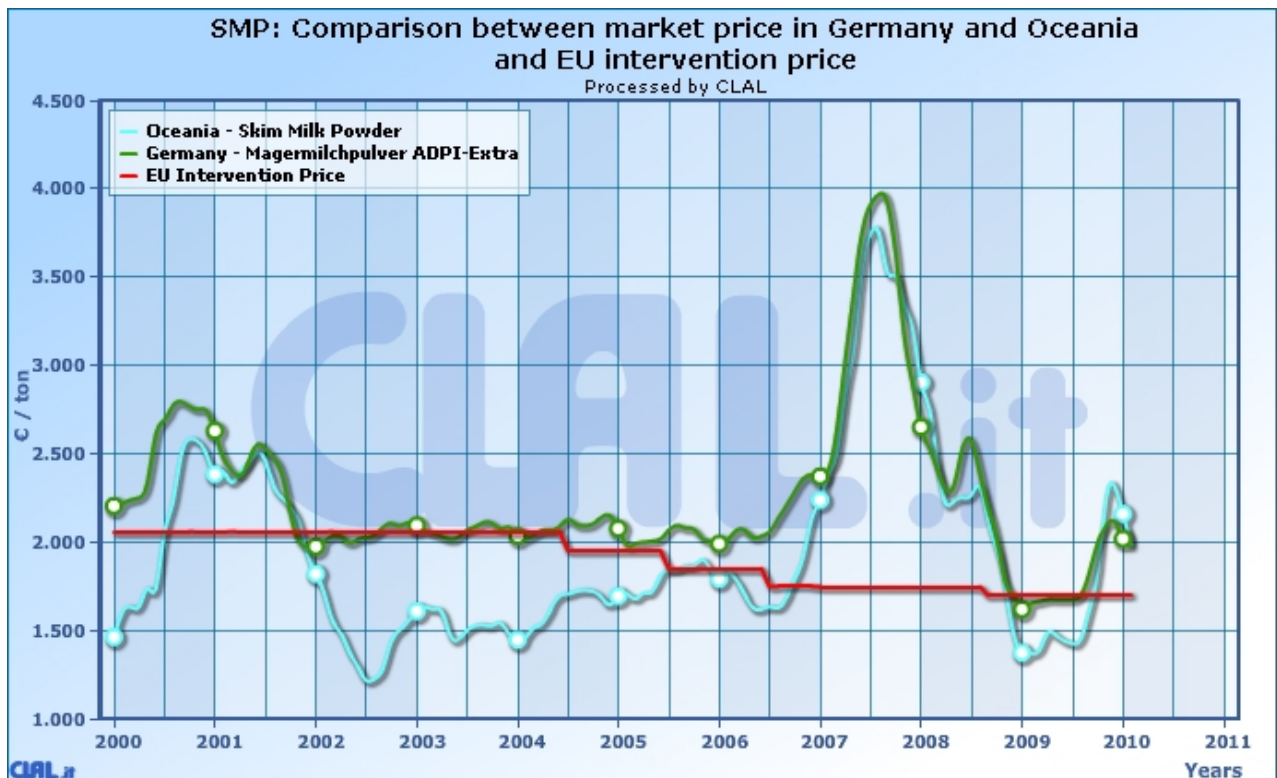
The Butter Market

With a declining butter production, unchanged domestic consumption in the EU and growing exports the butter stocks of the EU will be reduced. Therefore it is not very likely that again butter is sold to intervention agencies. It can happen under the conditions that prices go significantly down from present levels, if the optimistic assessment of growing exports should not come true. But prices of bulk butter are close to the world market prices, therefore EU supplies are competitive in the world market. They lose their competitiveness when international prices fall below the intervention level, unless exports refunds are introduced again to bridge the gap.



The Market of Skim Milk Powder

With the stock of 260.000 tonnes of SMP in intervention, the market can well be balanced if production goes down as expected and domestic and export demand should recover. Even if the assumed quantities of EU consumption and exports are not reality, intervention buying will not clear similar volumes as in 2009, and consequently it will not determine the price levels at the bottom line of intervention as long as it happened last year. If intervention takes place, also the question of export refunds might be raised again.



Annex

Table 1

EU Dairy Market: Overview 2007 - 2009 and Forecast 2010

	2007	2008	2009	2010
Milk Deliveries to dairies	133 767	135 508	135 225	135 300
Consumed as fresh products¹⁾	46 370	46 600	46 600	46 800
Butter				
Production	2 065	2 075	2 040	2 000
Consumption	1 966	1 920	1 930	1 930
Cheese				
Production ²⁾	8 976	9 030	9 030	9 130
Consumption	8 721	8 809	8 840	8 880
Skim Milk Powder				
Production	1 090	1 040	1 110	1 010
Consumption	874	752	746	800
Whole Milk Powder				
Production	775	850	800	825
Consumption	415	391	379	400
Population (m. head)	496	498	500	501

Source: ife Kiel, according figures collected from ZMP, ZMB and EU Commission publications.

Table 2

EU Butter Balance Sheet

1.000 t	2007	2008	2009	2010*
Total production	2 065	2 075	2 040	2 000
Imports	92	65	80	70
Exports	211	150	150	200
Final stocks	90	160	200	140
- in intervention	0	0	80	30
Consumption	1 966	1 920	1 930	1 930

*) Forecast

ife Jan. 2010

Table 3

EU Cheese Balance Sheet				
1.000 t	2007	2008	2009	2010*
Production	8 976	9 030	9 030	9 130
Imports	94	89	90	95
Processed cheese import	265	255	250	255
Exports	594	555	570	580
Stock Change	+20	+10	-40	20
Consumption	8 721	8 809	8 840	8 880
- per capita (kg)	17.6	17.7	17.7	17.7
*) Forecast			ife Jan. 2010	

Table 4

EU Balance Sheet of Whole Milk Powder				
'000 t	2007	2008	2009	2010
Production	775	850	800	825
Imports	2	2	1	0
Exports	362	481	420	425
Change in stocks	0	-20	0	0
Consumption	415	391	379	400
*) Forecast			ife Jan. 2010	

Table 5

EU SMP Balance Sheet				
1.000 t	2007	2008	2009	2010
Production	1 090	1 040	1 110	1 010
Imports	6	8	6	5
Consumption	874	752	746	800
Exports	196	177	225	240
Ending stocks	121	220	365	340
- in intervention	-	-	260	220
*) Forecast			ife Jan. 2010	