

# EU Dairy Markets, Situation and Outlook May-August 2011

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*Special report produced for CLAL*

## Highlights:

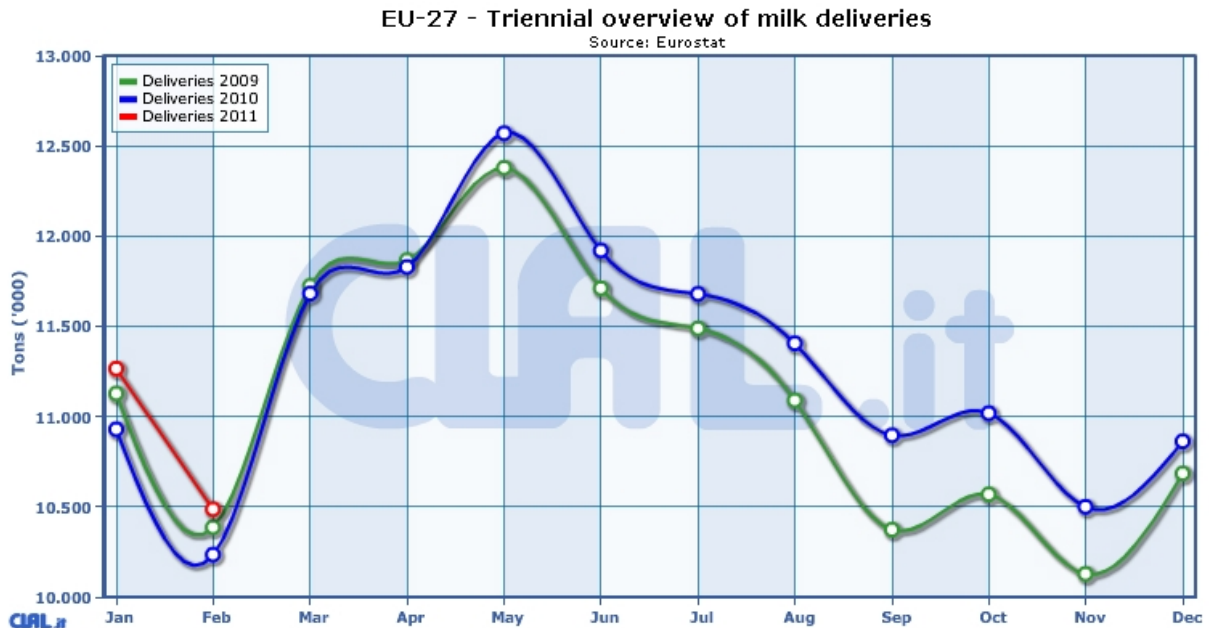
- Milk and dairy markets are mainly characterized by prices at high levels and growing production.
- EU milk supplies after seasonal peak in May still above 2010 levels.
- Rising farm milk prices give incentives to increase milk production, but in view of rising feed costs and the spring drought the growth will be expected to slow down.
- Nevertheless the increased milk volumes are only at relatively high prices in balance with the demand from international and internal markets.
- Outside EU milk production is increasing in many parts of the world, but obviously not fast enough to cover additional demand.
- Most of all additional milk supplies in the EU and the United States will be used to expand cheese production. Therefore only modest increases of butter and skim milk powder production are likely.
- Dairy commodity prices on the international market and in the EU are very close to each other.
- Intervention stocks of skim milk powder will be reduced further. Sales prices will not moderate the firm market situation.
- Butter and milk fat supplies are tight in relation to demand, and because only modest stocks are available for the low production season therefore prices of butter, bulk cream and other milk products with high fat contents will stay at high levels for most of the year 2011.
- The fluctuating relation of the Euro to the US-Dollar is creating uncertainty.
- Easing of the tight supply situation might be possible later in the year, if Oceanian suppliers come into the position to offer significantly more products from the new 2011/12 season – which, however, remains to be seen.

## **Milk production**

EU milk supplies are still characterized by ongoing growth. According figures released recently, 33.9 m tonnes of milk were delivered to the EU dairies, 0.9 million tonnes or 2.8% more than in the same period of 2010. The strongest increase could be observed in the first trimester in Ireland with 17%, followed by France with 6%, U.K. with 5% and Poland and Germany with around 3%. In absolute terms, the strongest increase in terms of volume could be observed in France, Germany, U.K. and Poland, which counted for 0.8 million t. Little changes occurred in most of the other member states.

However, the speed of expansion has slowed down to around 2% March and April. Also for the remainder of the year slower expansion rates are likely. One reason might be the lack of sufficient rainfalls since early 2011 in Western and Central Europe. If with ongoing spring more rainfall should come, the situation could be eased for the following months. But already now the prospects for grain crops are reduced. Hence grain prices and consequently also the prices of feed concentrate for dairy cows will stay at high levels. All this might still be compensated by high milk prices. But the other reason for reduced growth is that in the year ago period, starting in May 2010, more milk volumes were delivered to dairies. Also under normal weather conditions strong increase rates in winter cannot be maintained over the rest of the year and not over two subsequent years.

In the quota year 2010/11, 137 m. tonnes were delivered to the dairies in the EU, 2.9 m. tonnes or 2.2% more than the year ago. According to a first estimate this volume plus the fat adjustment is 6% below the total of 146 m. tonnes of available milk quotas in the EU in the period April 2010 through March 2011. Only in few countries quotas were exceeded, notably in the Netherlands, Denmark, Belgium and Austria. Especially in the countries with the recent strong increases of milk deliveries like France, Ireland and U.K. quotas had not been used to the full extent. With another percent allocated to all countries except Italy for the quota year 2011/12 most of the member countries have again more space to expand milk production, but 100% for total EU are far out of reach.



Russia and Ukraine started in 2011 with reduced, Belarus with growing milk supplies. Russia is likely to need large imports again, mainly cheese. In the United States and many other countries milk production continues to rise. Oceania milk production is close to the seasonally lowest quantities, with 3% growth in New Zealand over the 2010/11 (June – May) season because of better conditions in recent months. Also Australian milk supplies had been reduced in the second half of 2010, the first months of 2011 brought the usual seasonal decline, also here with greater volumes than the year before, which probably might result in an unchanged total over the whole dairy year (July – June). Under normal conditions both Oceania countries will produce more milk in the next dairy year, however, with more modest growth in Australia.

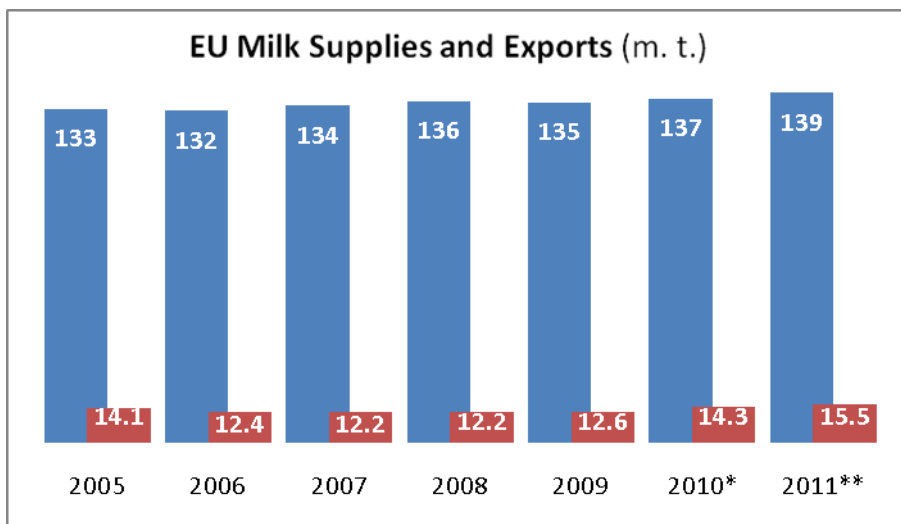
In the United States milk production will probably expand continuously after a growth of around 2% in the first trimester 2011. Strong increases of milk production are recorded from Brazil and Argentina.

No recent estimates are available from China and India. The world's milk production, however, can only go up more than 2% or 14 million t if both countries have much stronger increases than just 2%, which remains to be seen. More import demand for milk powders and whey products is likely.

### **Strong exports clear EU market**

The EU market itself does only show a moderate growth, which is due to the fact that demand here is already very elevated when it is compared with other countries and because the economic recovery is not developing in the same

speed as it does for instance in Germany, also because the impacts of the financial crisis of Greece, Ireland and Portugal reduce purchasing in these countries. But so far the additional milk supplies and even more have been absorbed by the domestic markets of cheese and fresh dairy markets, and even more by growing exports of cheese, skim milk powder and whey products. Converted into milk equivalent, the exports already reached a ten years' high in 2010. If they continue, even at reduced rates, a new record would be achieved over the whole of 2011. Together with the conservative estimate of domestic consumption going up by 0.9 m. tonnes in milk equivalent, the market will be well balanced and even needs more of the SMP intervention stock. No butter is available from intervention anymore.



\*)Provisional. \*\*)Forecast

### Dairy product prices likely to stay at high levels

Although milk supplies in the EU and many countries beyond developed both seasonal and cyclical growth in recent months, prices reacted only shortly by a certain weakness and remained relatively high. The dependency on currency rates with temporary strength of the Euro led within the EU to a certain weakness of milk powder and butter prices - though at elevated levels. But this was only for a short period, and the recovery started already before the seasonal peak of West European milk production in May.

Under the condition that world economy will continue to provide economic growth and is not disturbed by political turmoil, it is very likely that EU dairy

product prices will stay at relatively high levels. For milk powders this might hold on until end of September. What happens then will depend on the supply situation in Oceania in the new season. This does not necessarily mean that new offers from there immediately will create a reverse trend. In particular the EU

butter and milk fat markets will prospectively be short in supplies, regardless what happens on the world market.

### **More milk for cheese production**

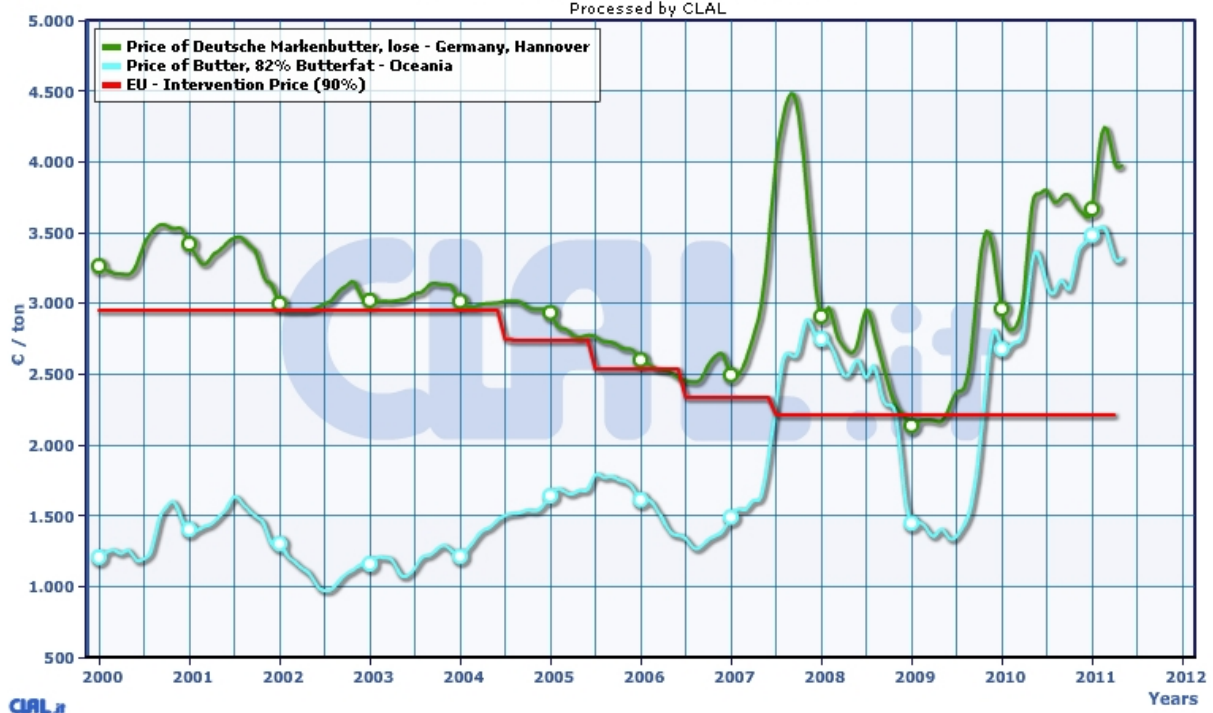
As EU cheese production is boosted both by domestic demand and growing export opportunities, more than half of the additional milk supplies will be used for cheese manufacturing. Also some more milk will be required fresh dairy products. Thus quantities of milk which will be left for additional production of butter and skim milk powder by far do not comply with the increase of milk collection.

### **Firm butter market**

Even with an increase of EU butter production by 50,000 t and the slightly reduced consumption of butter as response to high prices the market prices are expected to stay at high levels. Under these conditions not much butter will be available for exports, as it already happened in the first months of 2011. The first available figures on international trade in butter in 2011 show a reduction of exports also from other origins, which probably is more due to reduced availability than to high prices. Intervention stocks are cleared by the donation scheme. The question will be whether on the medium and long term demand is reacting negatively on high prices, but the difference to the 2008 situation is that there is no economic recession.

Also the international butter market will be short in supplies. The reduced international trade is the result of short supplies rather than of high prices.

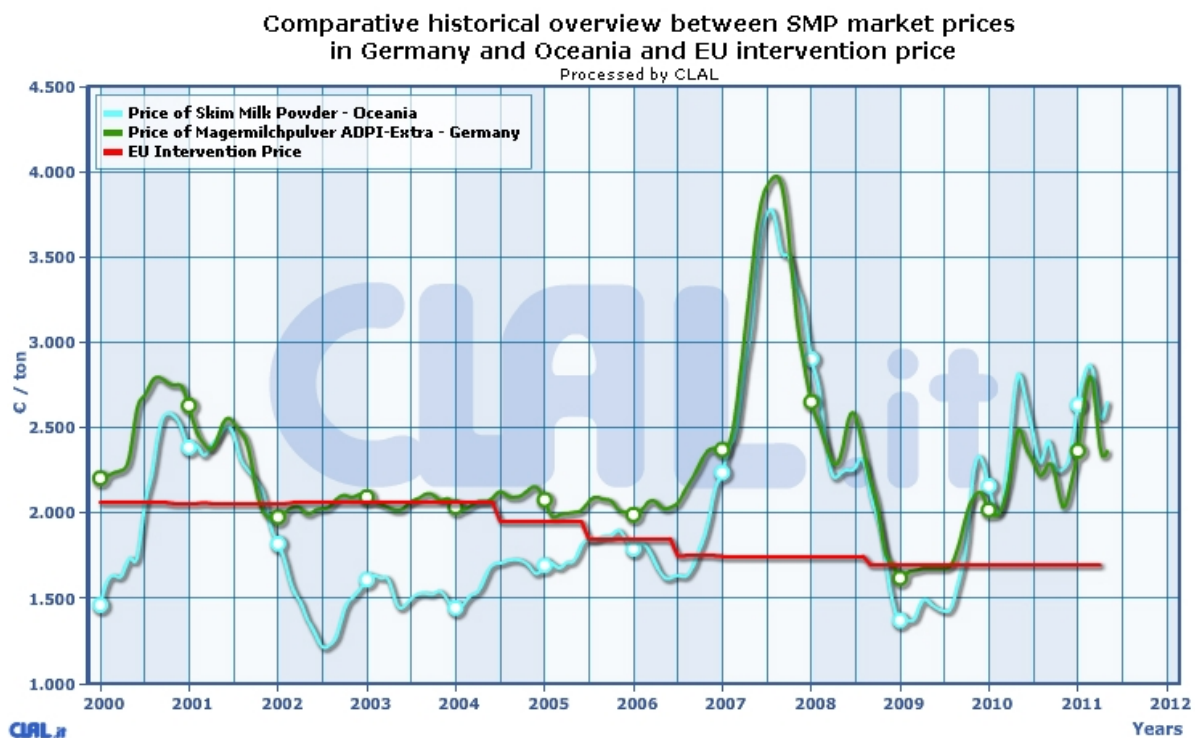
Historical comparative overview between Butter prices in Germany and Oceania with EU intervention price



## More skim milk powder produced, stable prices

The growing international demand for whole milk powder will almost be covered by increased productions in Oceania and Argentina. Within the EU most of the increased milk volumes will be used for cheese and smaller shares for fresh products. Skim milk powder production might go up in the size of 100,000t in the EU. Nevertheless the market will not be oversupplied, if demand for exports remains as strong as it was in early 2011, which would result in another increase of exports to historically high volumes of around 450,000t. According to EUROSTAT figures, 378,000 t were exported to countries outside EU in 2010, which is the highest quantity since 1992 when 380,000t were exported. With these strong exports and despite increased production the market will need stocks from intervention to cover all of the expected demand. Since January around 50,000t have been sold by the European Commission. In spring demand has declined, but the Commission did not accept offers at significantly reduced prices against earlier tenders, and the recent developments has confirmed the expectation of high prices. Only in periods with strong rates of the Euro against the US-Dollar domestic prices in the EU became weaker. The from time to time coming up discussions on the financial problems of some member states lead to reduced rates and at the same time to better competitiveness of the EU on the international market, and in fact they

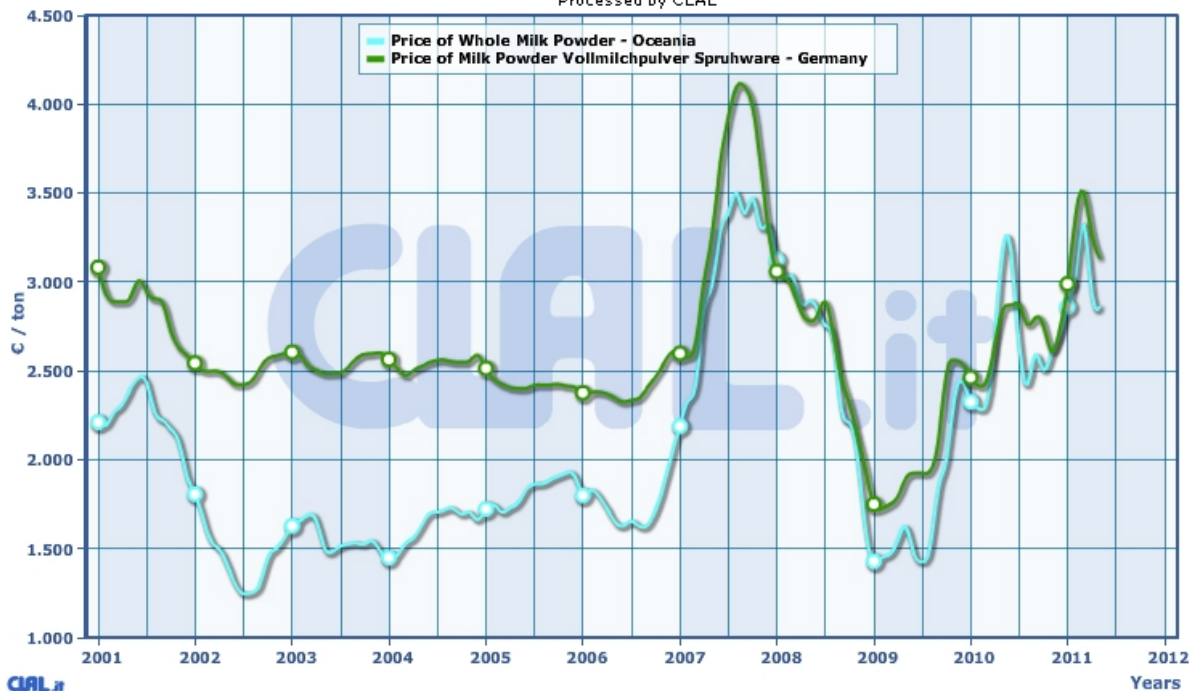
have also recently led immediately to new contracts. The manner in which the EU financial policies addresses the financial problems gives scope that the opportunities in the second week of May will not be the last ones for this year, although the economic fundamentals of the Euro-zone are obviously more in favor of a stronger Euro. The world market prices expressed in US-Dollar are stable. In the recent tenders of *Global Dairy Trade* prices for July contracts of skim milk powder were increased a bit, but for later almost at the same levels as they are now.



Whole milk powder prices have recently been quoted at somewhat reduced levels. But they also depend on the situation of the butter market, which is described above as probably firmer than even the skim milk powder market and possibly for a longer time beyond September/October. To see whole milk powder prices falling in the November – January period, as shown in the recent *Global Dairy* tender, does not seem to be the right signal.

Comparative historical overview between WMP prices in Germany and Oceania

Processed by CLAL



## Other sectors

As prices of industrial dairy commodities stay high for a longer period than initially expected the price evolution of consumer ready dairy products are trailing behind and do not fully reflect the true relation of overall supply and demand in the milk market. It might be different from country to country in the EU, depending on the margins in the supply chain. But where these margins are short, i. e. in the part of private labels in Germany, so far the prices could not be adjusted upwards enough. The uncertainty about prospective market developments has resulted in shorter contract periods now. It will depend on the market situation in the industrial sector how things will go on also here. But the general impression is that competition for suppliers on the domestic markets is stronger than on the international market. Anyway, prices for cheeses are better in line with the industrial (exportable) products than those of packaged butter and milk for liquid consumption.



Table 1

**EU- Dairy Market 2007 - 2010 and Forecast 2011**

in 1.000 t	2007	2008	2009	2010*	2011**
<b>Milk deliveries</b>	133.767	135.513	135.025	136.700	139.000
<b>Liquid Products</b>	44 850	44.818	44.820	45.030	45.200
<b>Butter</b>					
Production	2.110	2.100	2.050	2.010	2.050
Consumption	1.994	1.968	1.977	1.960	1.960
<b>Cheese</b>					
Production	9.248	9.305	9.298	9.370	9.550
Consumption	8.728	8.829	8.806	8.806	8.880
<b>Skim Milk Powder</b>					
Production	1.090	1.040	1.100	1.030	1.130
Consumption	870	770	780	770	780
<b>Whole Milk Powder</b>					
<b>Production</b>	773	840	740	748	760
<b>Population m. head</b>	496	498	500	502	503
*) Provisional. **) Forecast.				Updated May 2011	

Source: ife, Kiel; ZMB, Berlin.

Table 2

**EU Butter Balance Sheet**

1.000 t	2007	2008	2009	2010*	2011*
Total production	2.110	2.100	2.050	2.010	2.060
Imports	85	65	62	40	50
Exports	211	147	150	155	160
Final stocks	100	150	135	70	60
- in intervention	0	0	80	2	0
<b>Consumption</b>	1.994	1.968	1.977	1.960	1.960
*) Estimated.			ife May 2011		

Sources: ife, Kiel; ZMB, Berlin; EU Commission

Table 3

**EU Cheese Balance Sheet**

1.000 t	2007	2008	2009	2010*	2011*
Production	8.983	9.050	9.048	9.120	9.300
Imports	94	89	84	82	80
Processed cheese impact	265	255	250	250	250
Exports	594	555	576	676	750
Stock change	+20	+10	+0	-30	+0
Consumption	8.728	8.829	8.806	8.806	8.880
-per capita (kg)	17,6	17,7	17,7	17,7	17,7
*) <i>Estimated.</i>				<i>ife May 2011</i>	

Sources: ife, Kiel; ZMB, Berlin; EU Commission

Table 4

**EU WMP Balance Sheet**

1.000 t	2007	2008	2009	2010*	2011*
Production	773	840	740	748	760
Imports	2	2	2	2	0
Exports	366	481	451	444	440
Stock change	20	0	-30	-15	0
<b>Consumption</b>	389	361	321	320	320
*) <i>Estimated.</i>				<i>ife May 2011</i>	

Sources: ife, Kiel; ZMB, Berlin; EU Commission

Table 5

**EU SMP Balance Sheet**

1.000 t	2007	2008	2009	2010*	2011*
Production	1.090	1.040	1.100	1.030	1.130
Imports	10	8	6	4	0
Consumption	870	770	780	770	780
- as Feed	245	150	160	160	160
Exports	201	179	230	378	450
Ending stocks	124	222	318	204	104
- in intervention	-	-	260	190	90
*) <i>Estimated.</i>				<i>ife Mai 2011</i>	

Sources: ife, Kiel; ZMB, Berlin; EU Commission