

# EU Dairy Markets, Situation and Outlook

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## Highlights

- **Milk and dairy product prices** at high levels and growing **production**

- SMP, Dairy Protein products, lactose prices on international markets and in the EU will continue to be close to each other
- Butter and other high milk fat product prices will continue to stay at still high levels, when compared to many years prior to 2011

- **EU milk supply:** seasonally up until May,  
but the growth is likely to slow down, compared to 2011



*additional cheese production  
lower butter and skim milk powder*

- **Outside EU milk supply:** will continue to grow but also at a slower pace than 2011.

- **Butter and milk fat supply:** not as tight in relation to demand as last year

- **Domestic demand:** might partly be affected by economic problems, but reaction will be modest

- **UE Export:** demand for exports will clear the European market from temporary surpluses

- SMP export volumes will be similar to 2011



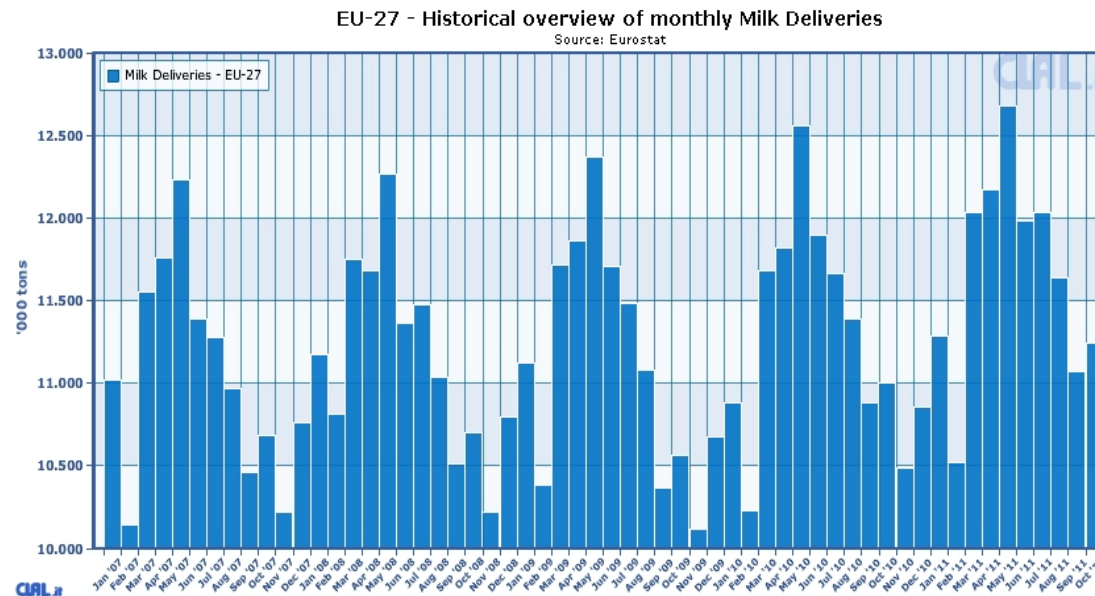
*Seasonally lower domestic prices  
Favorable currency rates*

- Butter and WMP exports could improve temporarily due to

# 1. EU Milk Production slowing down

- **EU milk supplies** started to grow in May 2010, reached the high rate of 3% in the first four months of 2011, from May to December 2011 it was 1,7% on average

**2012:** it is expected a reduction of the growth in the first three months.



## 1.a EU Milk Production slowing down

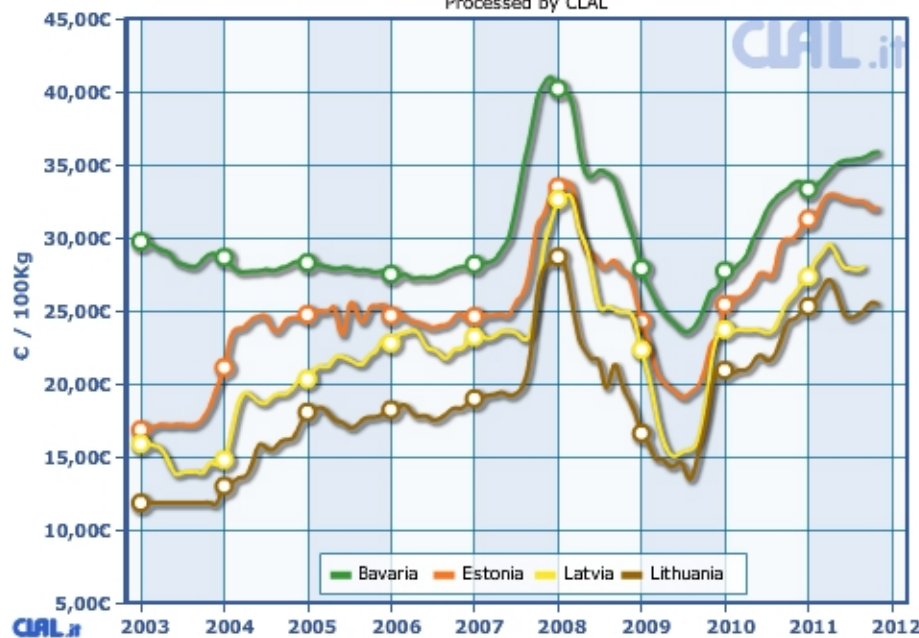
- Is there space to expand the production in EU?
  - Some countries risk to exceed their quota (i.e. Ireland, Belgium, Germany, Austria, the Netherlands and Denmark)
  - the quota year's deadline and higher milk prices might give incentives to take advantage of this additional space, even if a slight decline of the milk prices from 2011 levels for most of the EU cannot be ruled out
- **WORLD milk supplies** expected to slowing down
- World's cow milk production in 2010: 611 mio MT (+11 mio MT vs 2010)
  - ➔ It seems to be difficult to go on in that speed, although sales have followed and prices are still high

## 2. European milk prices relatively stable

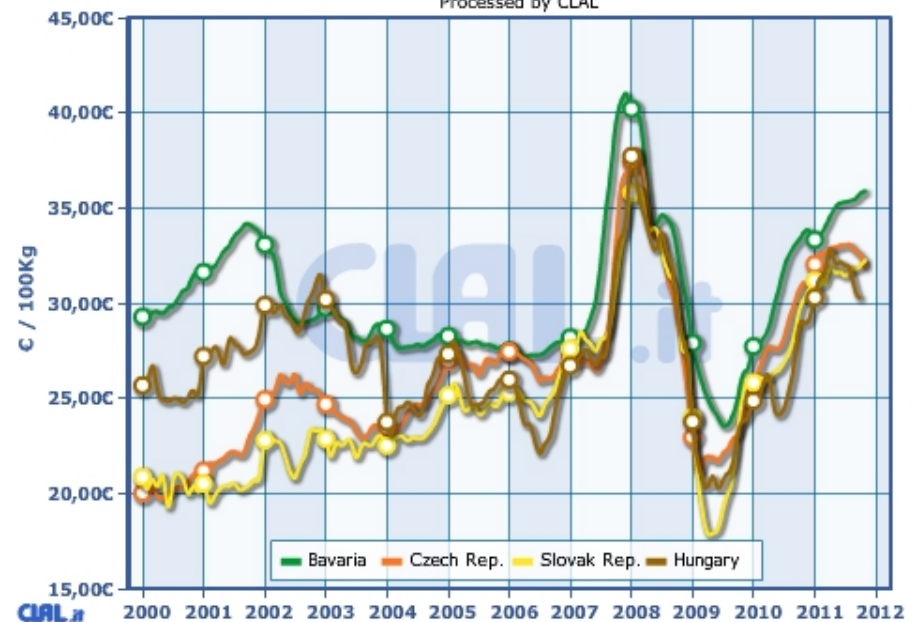
- Milk prices had **continued to go up in 2011**: as the key commodities Butter and Skim Milk Powder markets influence the milk price market, a **slight decline cannot be ruled out**
- **2012** has started with **firm prices of milk powder and only slight weaknesses in the bulk butter market** but they are still high in relation to years prior to 2011
- Returns for milk from cheese making have soared and are higher than a year ago, boosted by **higher prices of cheese and whey products as well**
- It can be expected that in the first half of the year average **farm gate prices of milk** with fat contents between 3,7% and 4,0% **are moving closely to the levels of 2011**

## 2.a European milk prices relatively stable

**Bavaria, Estonia, Latvia, Lithuania**  
Historical comparative overview of farm-gate raw milk  
Processed by CLAL



**Bavaria, Czech Republic, Slovak Republic, Hungary**  
Historical comparative overview of farm-gate raw milk prices  
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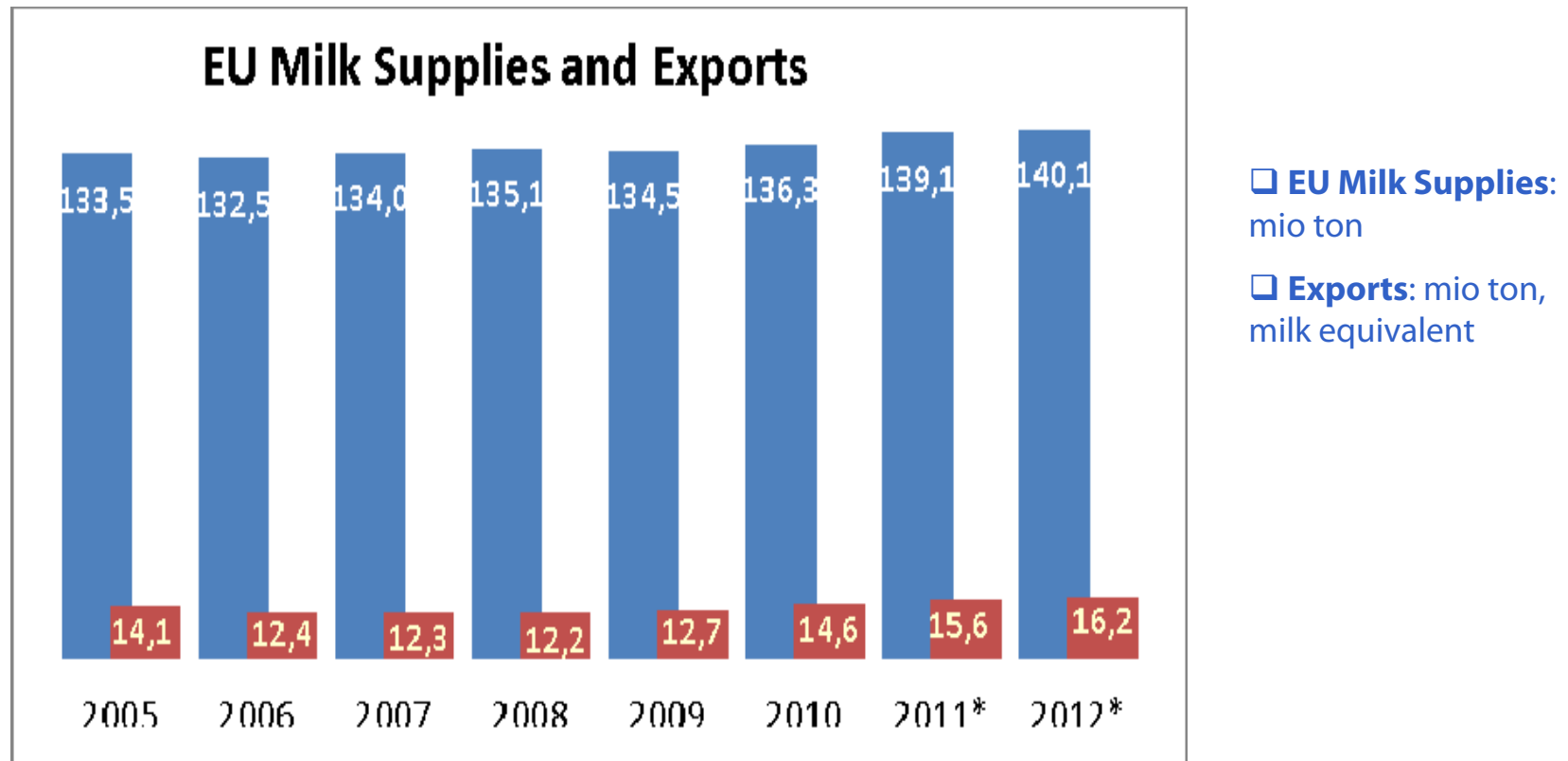
### 3. Milk Utilisation in EU:

## Cheese will absorb most of all milk

- Most of all additional milk (+ 1 *mio ton*) delivered will be processed into cheese due to the ongoing domestic and international demand
  - ➡ only small additional volumes of butter and SMP available
- Smaller growth of world milk production
- Good export demand from emerging market will clear all potential surpluses
  - ➡ Stable market, but possibly weakness in spring in the butter sector

### 3.a Cheese will absorb most of all milk

- Exports cannot be increased according additional milk volumes



\*)Provisional/ Forecast

## 4. Stable butter market in EU

- High milk supplies ➡ butter **production is expected to grow** slightly
- European **Butter prices:**

➤ temporarily will be above the international markets



More imports into the EU, notably from New Zealand

➤ in spring and early summer the price difference to the international market can be small



Might enable the EU to export more butter to foreign markets than in 2011



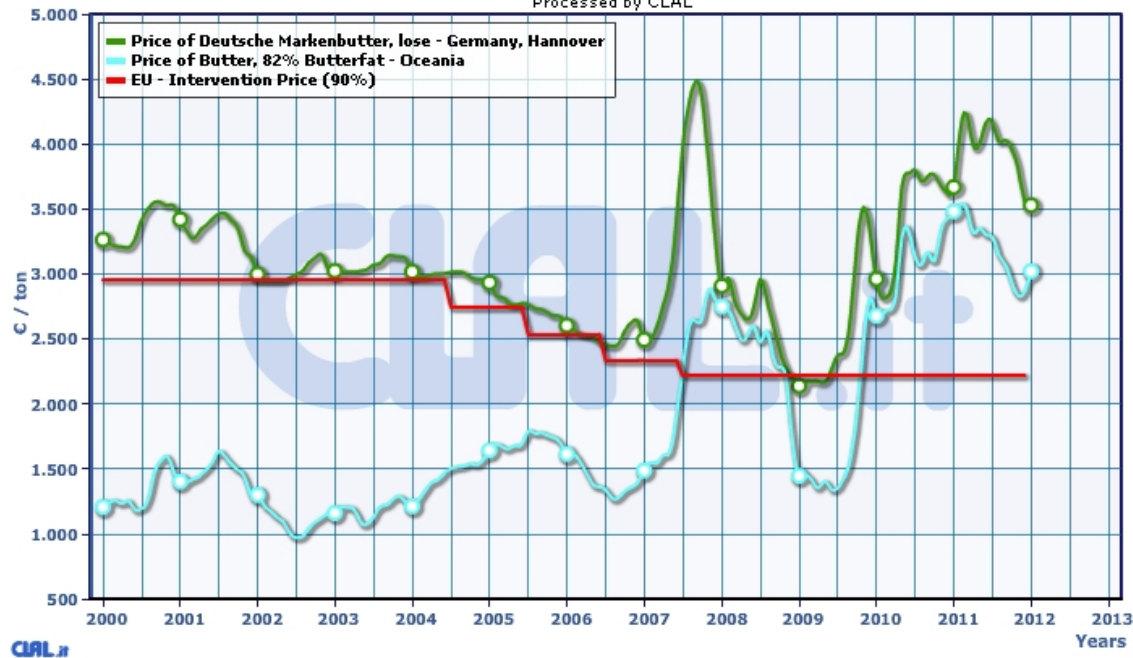
## 4.a Stable butter market in EU

- **Domestic consumption: slight declines** in the sector of private households might be compensated in the sector of caterers etc. and in the food industry
- **Modest increase of stocks**
- **A price evolution below 2011 levels**, but still elevated when compared to the long term development
- **The average prices in 2011 were only slightly below 4€/kg**, which was for instance in Germany the highest average since the early Eighties!

## 4.b Stable butter market

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

Processed by CLAL



Oceania butter prices have gone down since the mid of 2011. But if they are transformed into Euro terms they have recovered towards the end of the year and moved closer to the EU prices. With the actual rate from time to time the window for increased exports could be opened

## 4.c Stable butter market in EU

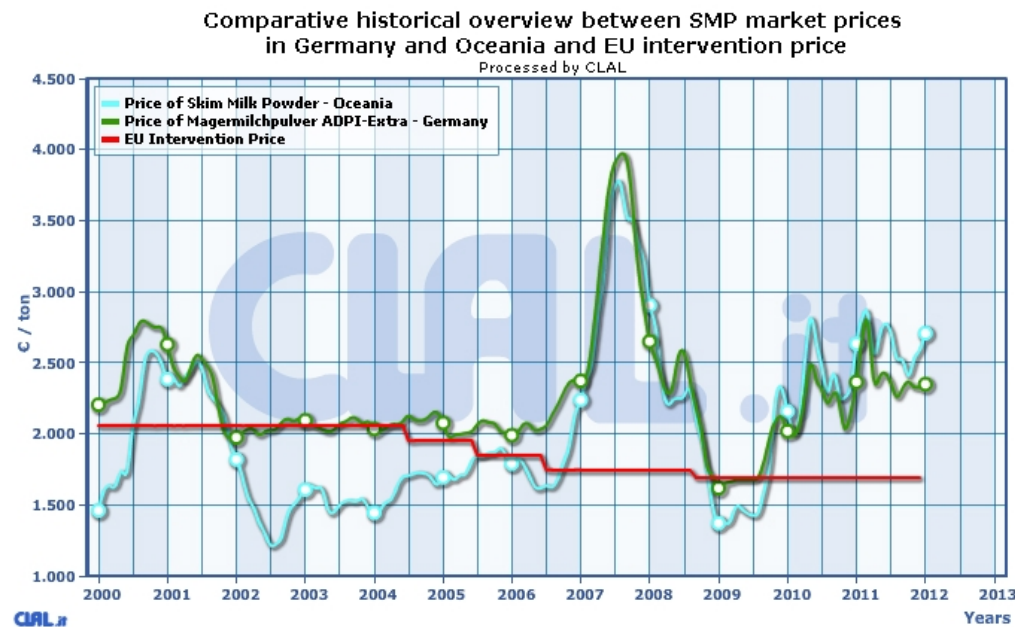
### BUT

The scenario could be somewhat different if milk supplies would grow faster than has been assumed for this market assessment: It would probably end in

- more exports or
- higher stocks and lower prices

## 5. EU milk powder markets will remain highly interlaced with the international market

- The recent strength of the domestic prices has resulted from the weakness of the Euro vs. the US-Dollar
- But it would be premature to predict a similar development as in early 2011 with fast increasing prices of skim and whole milk powders in the first months of the year



## 5.a EU milk powder markets will remain highly interlaced with the international market

- Slight recovery of whole milk powder exports, and consequently of the European production is expected, notably because the price gap to the international market has been bridged recently
- Only small increases of skim milk powder production can be expected as cheese and whole milk powder production are likely to go up



## 5.b EU milk powder markets will remain highly interlaced with the international market

- Stocks will be reduced further → market will remain shortly supplied in the EU
- If the Euro rate is likely to remain weak → The strong production in spring might find its market very quickly both within and outside of the EU market.



## 5.c EU milk powder markets will remain highly interlaced with the international market



- The strong production in spring might find its market very quickly both within and outside of the EU market
- It will also be difficult to keep export volumes on the record level of 2011
- Domestic market will require at least similar volumes for the food and the feed industries as in 2011
- Prices of whey powders, whey derivatives, casein and lactose are still high and have started the new year also with firmer prices