

EU Dairy Markets, Situation and Outlook

May – August 2013

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Special report produced for CLAL

Highlights:

- An easing of the relatively short supply situation is unlikely before the end of the year 2013. The cyclical decline of EU milk production might come to its end just when it starts to go down according to the regular seasonal pattern within short time. Production in other exporting areas of the world is also stagnating or even reduced.
- With reduced EU milk supplies and increased requirements for cheese manufacturing and fresh markets the availability of milk for the production of the exportable commodities will be lower than in 2012 until at least the mid of the year. After that time, it could be ahead of the year 2012. Only the annual totals of cheese are likely to exceed those of last year, whereas butter and milk powder totals will be less.
- The prices of the commodities butter and skim milk powder will stay high for most time until the end of 2013. They started to go up just in the major production season in the European spring.
- For some time ahead international prices will have to adjust to European price levels regardless of the Euro rate.
- The EU will neither be in the position to keep milk powder exports at record levels nor to cover the domestic demand like in 2012.

Seasonal decline of milk production

In May milk production in the EU has reached its seasonal peak, but so far has been reduced when compared to the year before with the exception of February. According to figures released by ZMB, Berlin, EU milk supplies of the first trimester were 0,7 mio. metric tons less than the year ago. Half of this reduction is due to the cyclical decline and half of it is due to the day less in February, which gives an average reduction rate of 1.0%. This change on the year to year basis in the EU keeps already going on since the mid of 2012. Main reasons are a poor basis of feed crops in terms of quality and volumes from the 2012

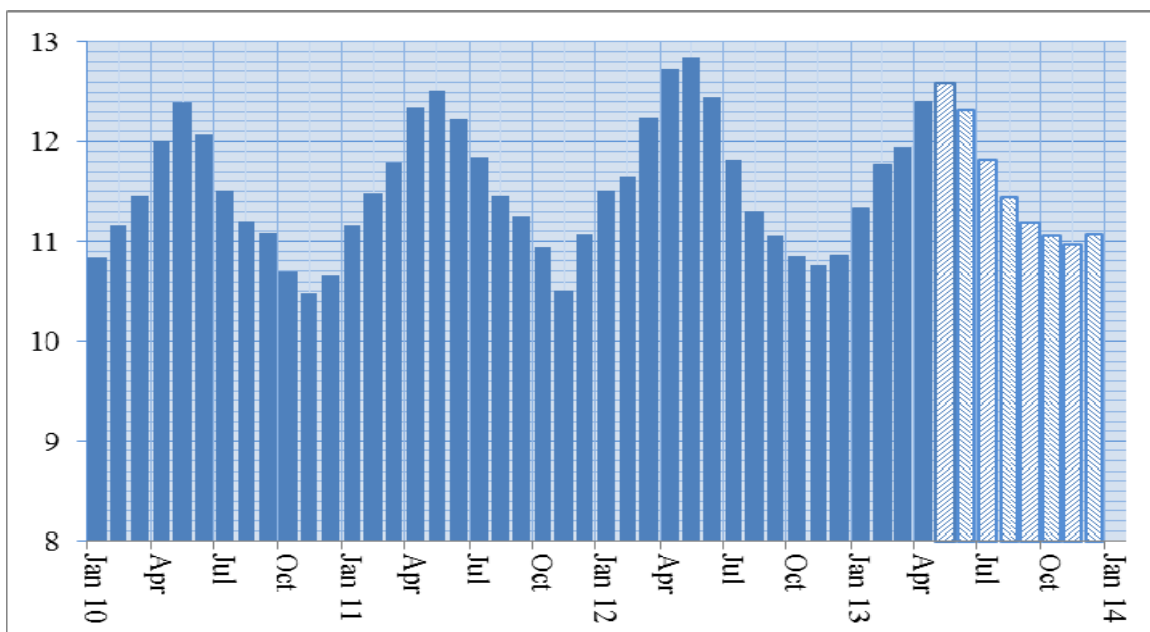
harvest, high prices of concentrate feed and milk prices which gave no incentives to boost milk yields by stronger feeding of concentrates. Moreover, the cold spring led to a late start of the season for pasturing or feeding of freshly grown forages where they form the major feed basis in spring and summer.

Recovery possible in the second half of 2013

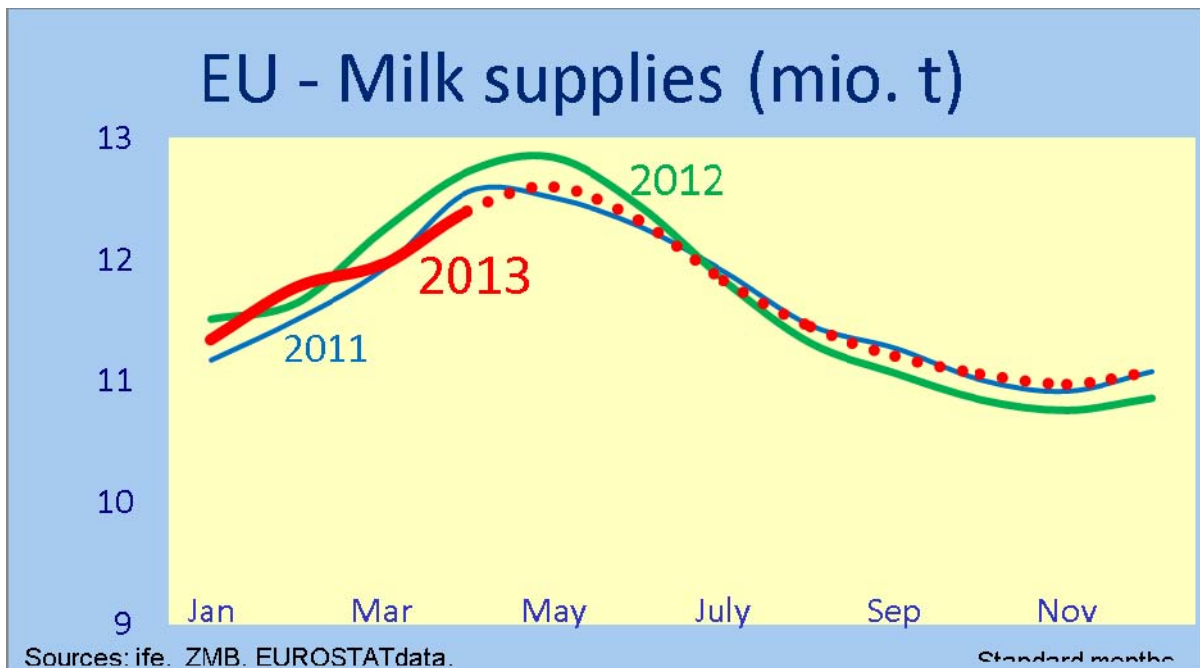
Therefore the few figures which are available for April so far do not give any indication that this declining tendency has changed. However, it often could be observed that such depressive developments have changed in the months of June and July, and it seems to be possible also in 2013: Fodder crop growth can easily catch up in spring when it has been in delay for a couple of weeks. Feed concentrate prices and their components are expected to ease also, but so far only modestly. Therefore the economy of dairy farming will mainly improve by higher farm milk prices which are expected to rise faster in the coming months. Differently from the years before prices in most EU member countries were not reduced in the first trimester.

Assuming better economic and climatic conditions for the remainder of this year an annual total of 140 mio. t. of milk deliveries to dairies for the 2013 seems to be possible. It means that the decline of the first five months 2013 versus 2012 can be offset by an increase in the period July through December. But anyway milk supplies will decline seasonally and probably cannot change the firm market situation fundamentally before the end of the year.

EU-27 Milk Deliveries, January 2010/April 2013 and estimate May 2013/December 2013, adjusted for average length of months, mio t.



Triennial overview of EU milk deliveries (mio. t)



Milk production of Oceania reduced, international trade in dairy products cannot hold its speed.

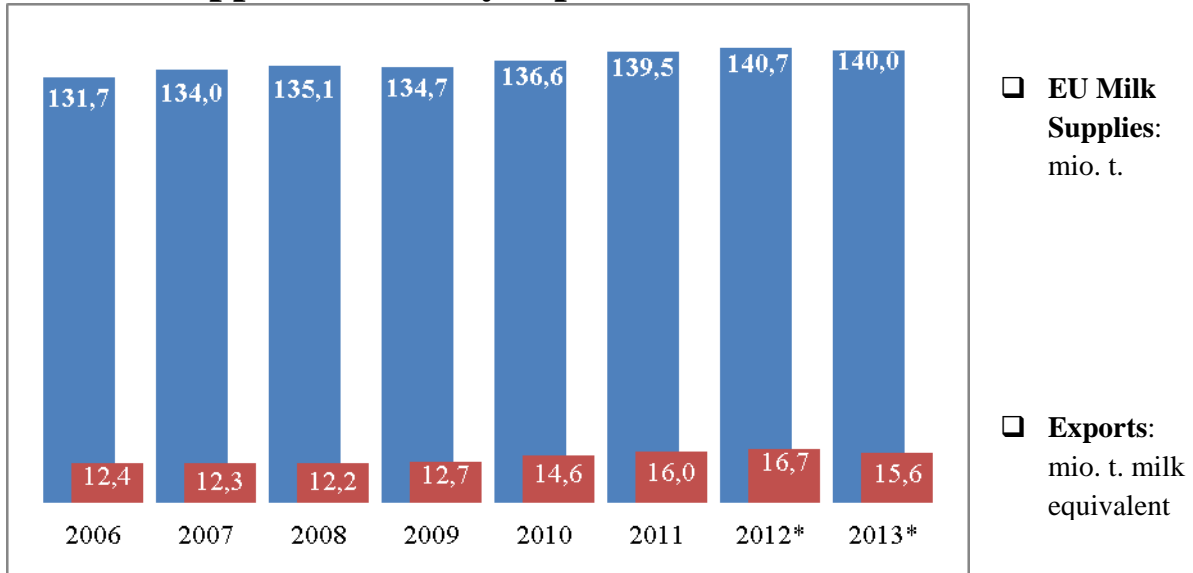
This view is underpinned by the developments of milk production in other parts of the world, notably in major exporting countries New Zealand and Australia, where milk production also has trailed behind previous years' quantities. In the United States a change from the stagnation might start soon, which is paralleling the expected development in the EU, but also here accompanied by the usual seasonal decline. Production of Oceania will not provide significant exportable volumes before August/ September.

Firm commodity prices until late 2013

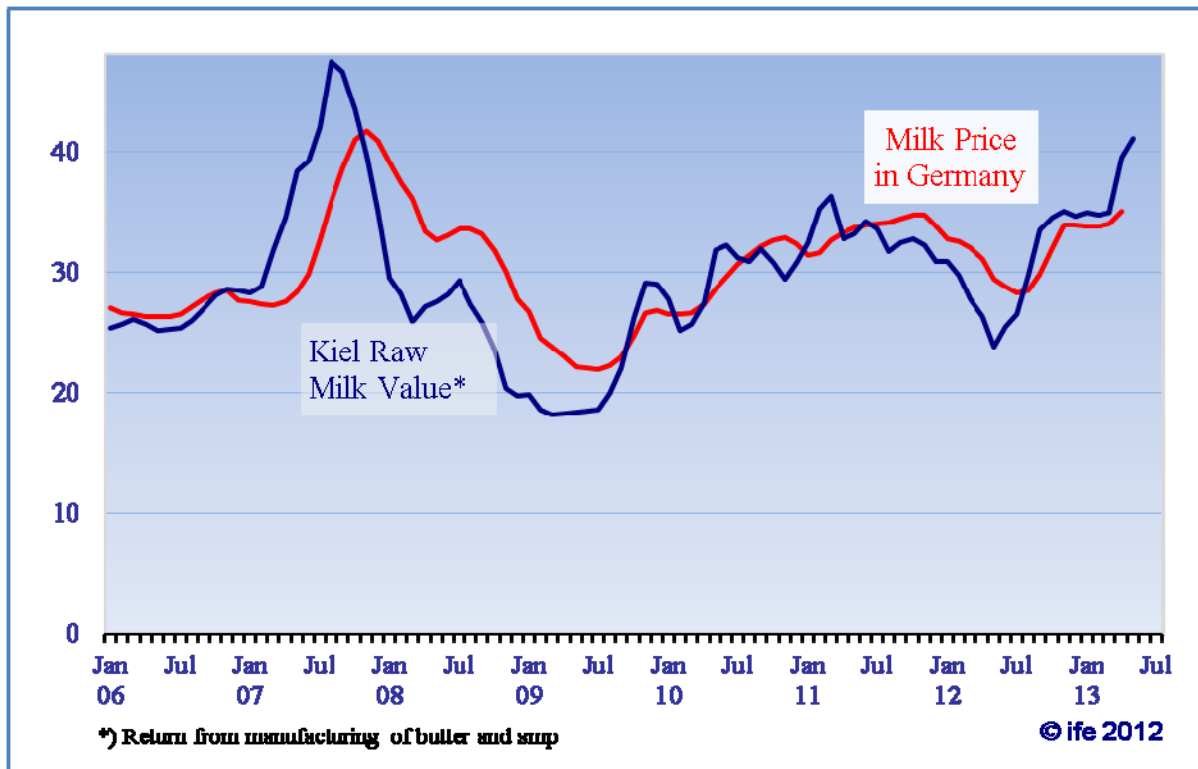
The soaring of dairy commodity prices both in Oceania and the EU came to a provisional end in the second half of April with Oceania prices going down a bit and EU prices moving sideward. The following reduction of the quoted Oceania prices seems to be a correction of the early April price reports, since identifying of representative price in times of reduced availability and trade volumes is difficult. But as described above the market fundamentals do not point to a cyclical turn of the market. In particular Europe will not be in the position to boost exports once again. In major EU countries prices of dairy items for retail outlets have been increased to make sure that domestic needs for dairy have priority and can compete with export demand. No inventories of skim milk powder in intervention are available anymore, and only small butter quantities

have been taken into cold stores to balance the market in fall and winter when production is small.

EU milk supplies and dairy exports

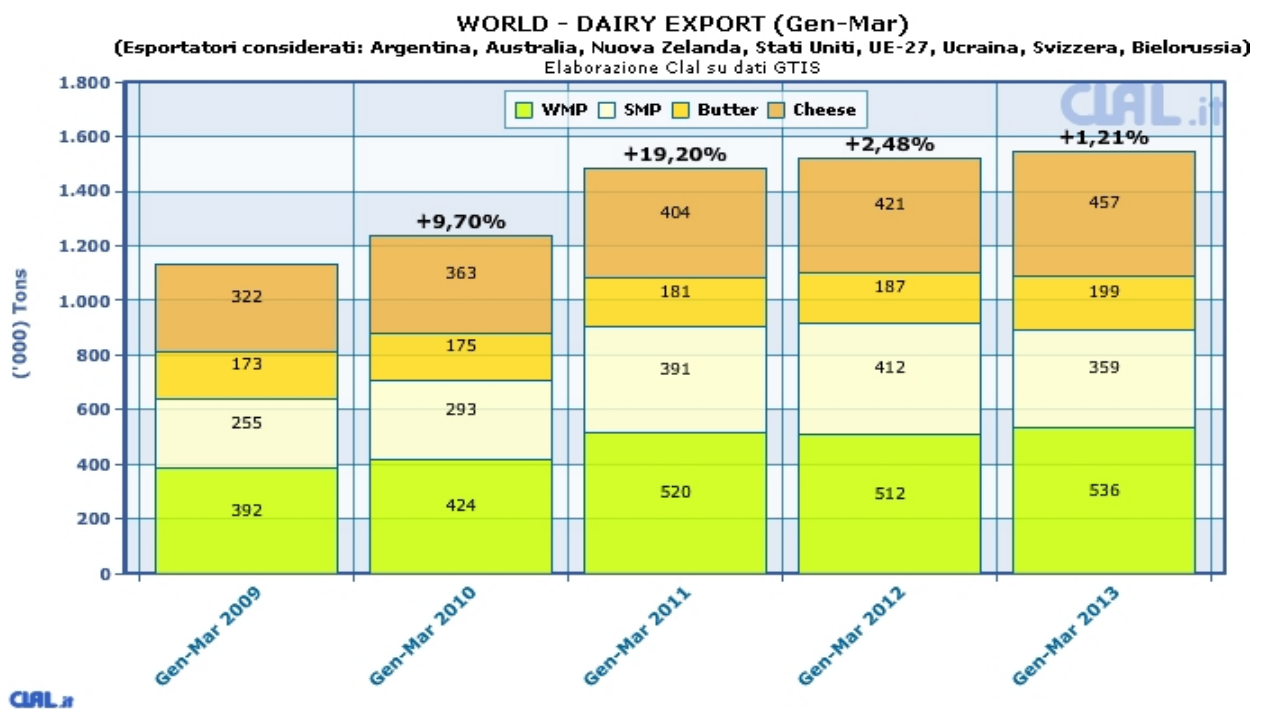


Market return from butter and skim milk powder in Germany (Ct/kg, 3,7% fat, 3,4% protein)



Modest growth of international dairy trade and high prices

As result of the slower increase of milk production only a modest increase of the international trade in dairy products is possible when compared to 2012, if any. However, in the first months more whole milk powder, cheese and butter was exported by the major exporters, but less skim milk powder. The question is whether New Zealand can continue expanding its exports in view of the drought impacts. For the EU it is unlikely that similar quantities of milk powders as 2012 can be exported and only small increases might be possible with cheese and butter. This will mean that international dairy product prices will stay at high levels until late autumn. What happens later remains to be seen.

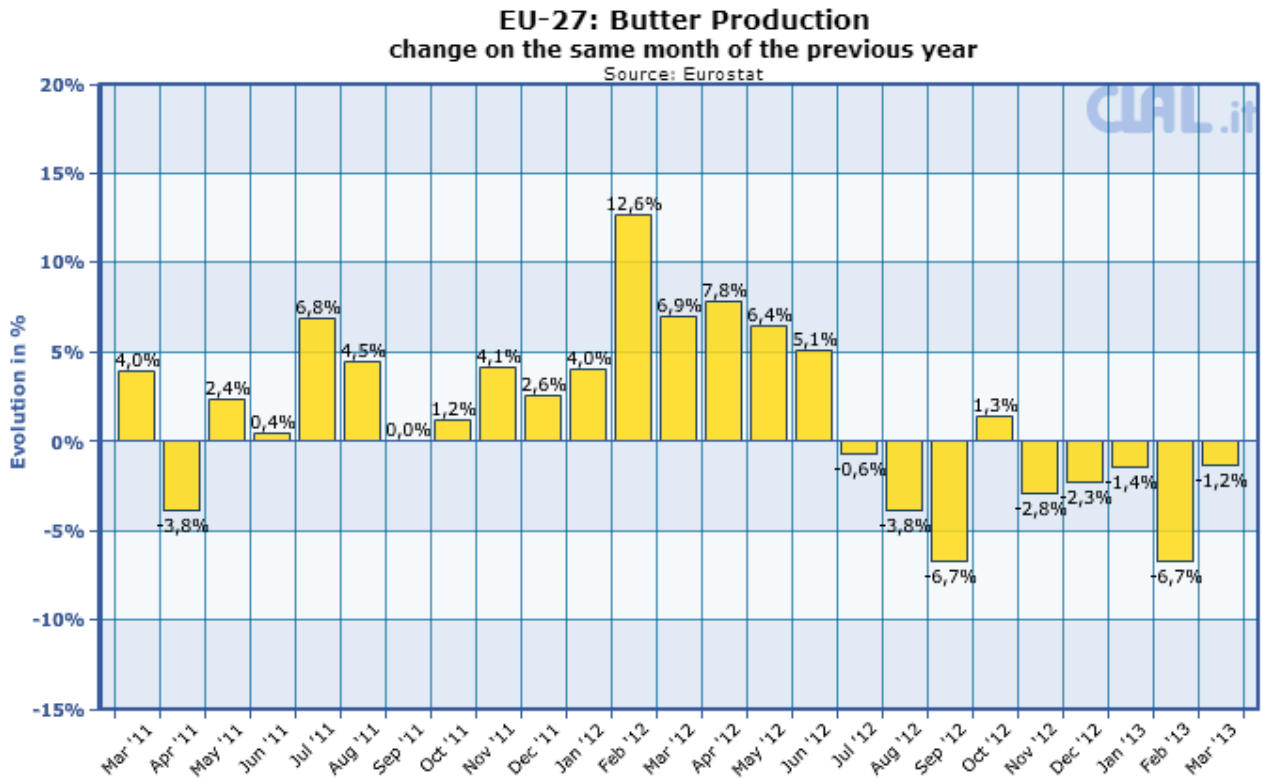


More cheese but less butter and milk powders in the EU

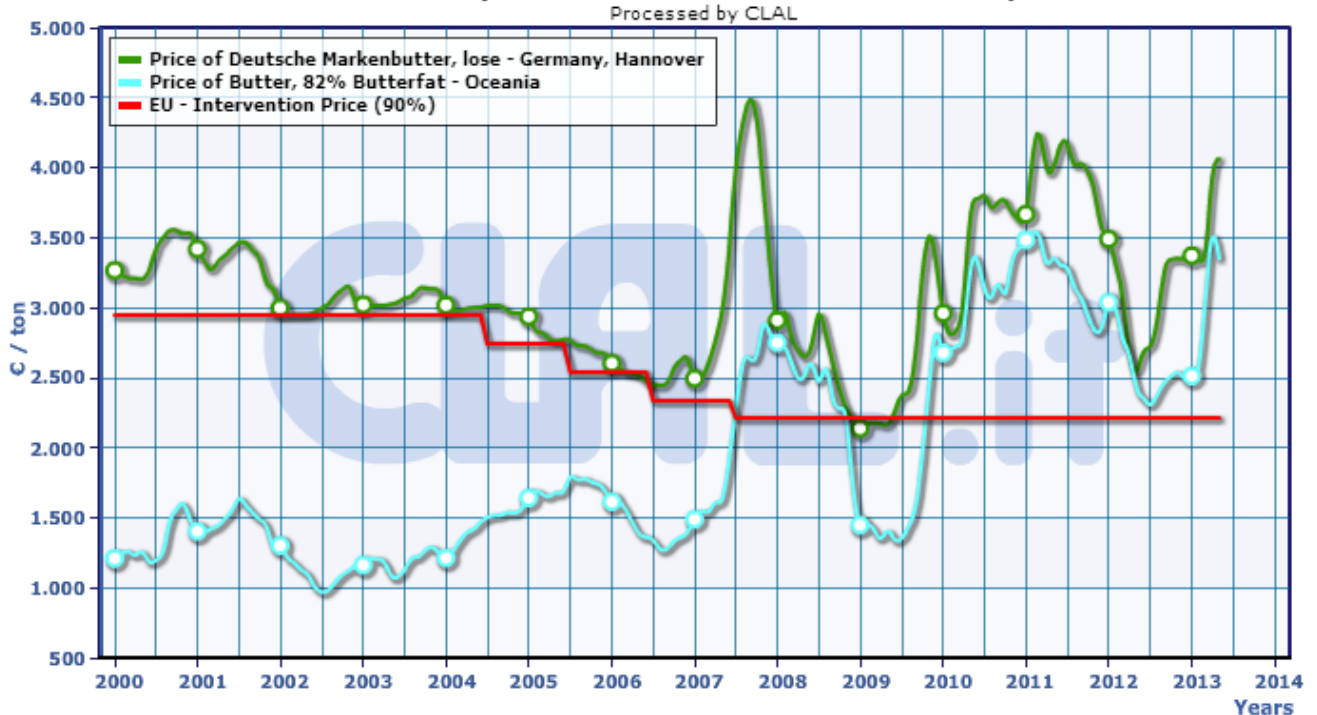
Under the assumption of milk deliveries in the size of 140 mio. t. and a modest increase of cheese manufacturing there will be less butter and milk powders produced in the total of 2013. With the possibility of an increase on the year to year basis in the second half also output of butter and skim milk powder could exceed the levels of the year before, but both will also be subject to the seasonal decline, as the needs of milk for the liquid and fresh product market and the cheese market are more constant. Therefore butter and skim milk powder productions are exposed to stronger seasonal variations than those which can be observed for milk deliveries.

Almost firm butter market

After butter production of the EU has been relatively stable in the last couple of years, it declined significantly in the first months of 2013, which resulted from reduced milk volumes. So far the internal demand did not react sharply on the higher price levels which have been quoted until spring because of a large share of sales being negotiated under contracts. Exports in January and February were above the levels observed in the same period of 2012. However, EU butter exports are only a small part of the international trade as domestic European prices have mostly exceeded the levels which were quoted in the international market. That has not changed in recent months, although prices have gone up in the EU, in Oceania and other markets. The volumes which have taken into private stocks under the PSA (private storage aid) scheme of the EU are still substantially lower than in 2012, which is another indication of a firm market over a longer period ahead.



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

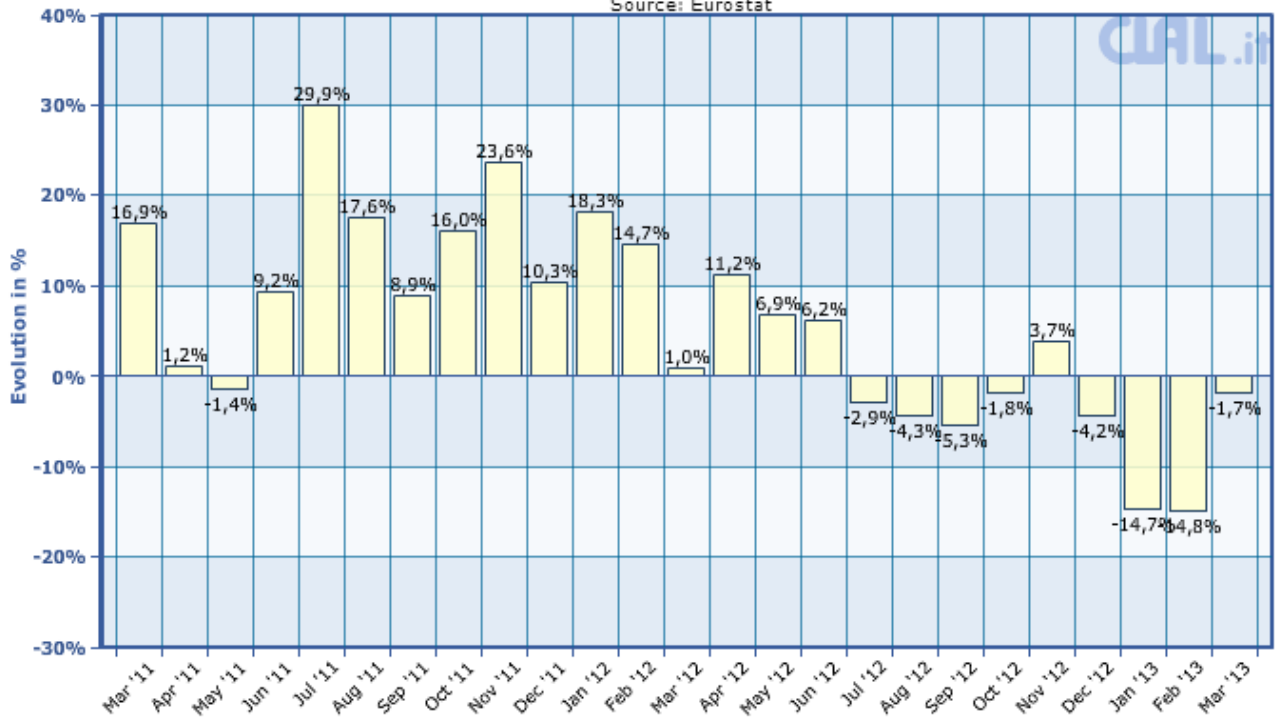


Milk Powders: Lower volumes for domestic markets and exports

As result of the reduced milk supplies and the increase of cheese production, less milk will be left over for the manufacturing of both skim milk and whole milk powders. Differently to the year 2012 also no skim milk powder is available from intervention stocks which had been taken into public storages in 2009. Moreover, one can assume that the year 2012 has ended also with lower stocks in the pipeline from producers to the traders and exporters. Consequently the situation which started in the mid of 2012 that all market participants have to live with lower availabilities of liquid skim milk and skim milk powders. And this situation will persist for some time longer. Domestic consumption and exports are likely to be reduced for the total of 2013, and the question will be if even in September the upcoming production season in Oceania can ease the situation.

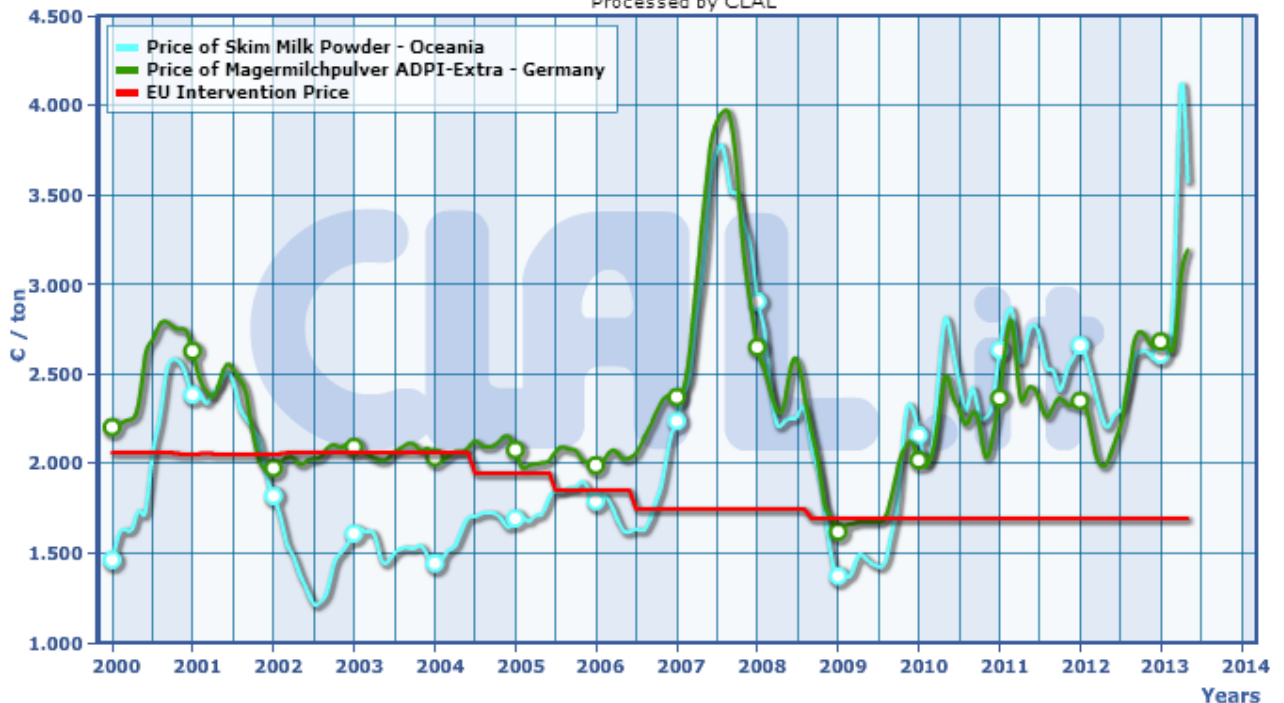
EU-27: SMP Production change on the same month of the previous year

Source: Eurostat



Comparative historical overview between SMP market prices in Germany and Oceania and EU intervention price

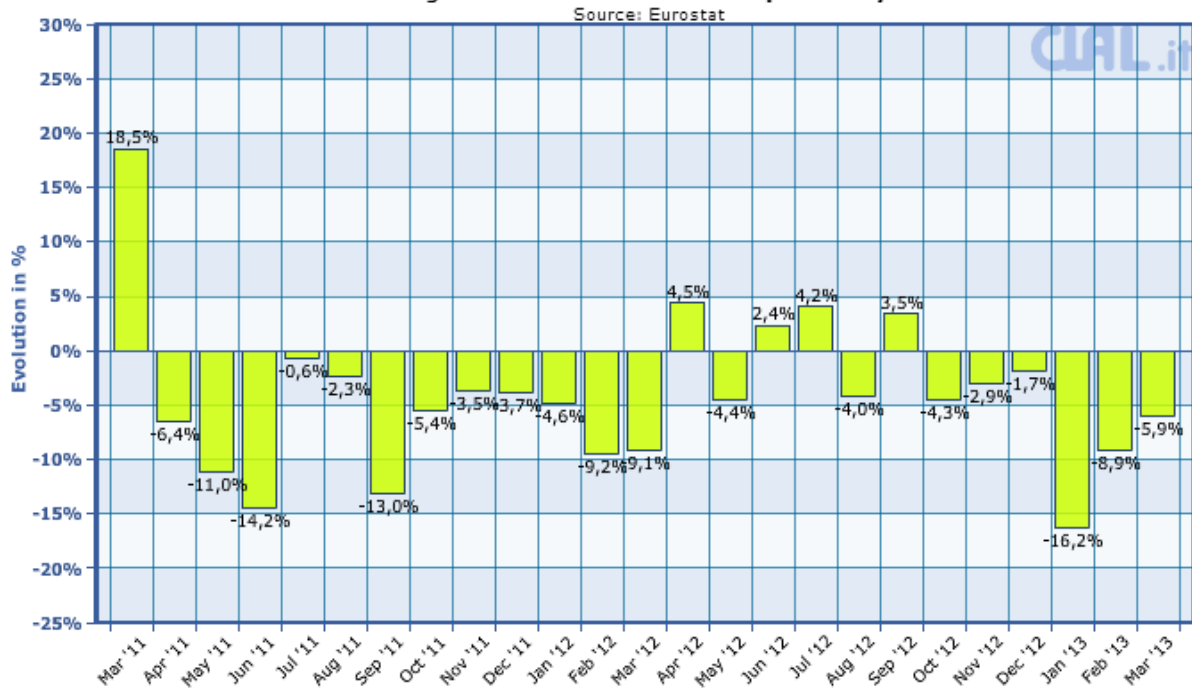
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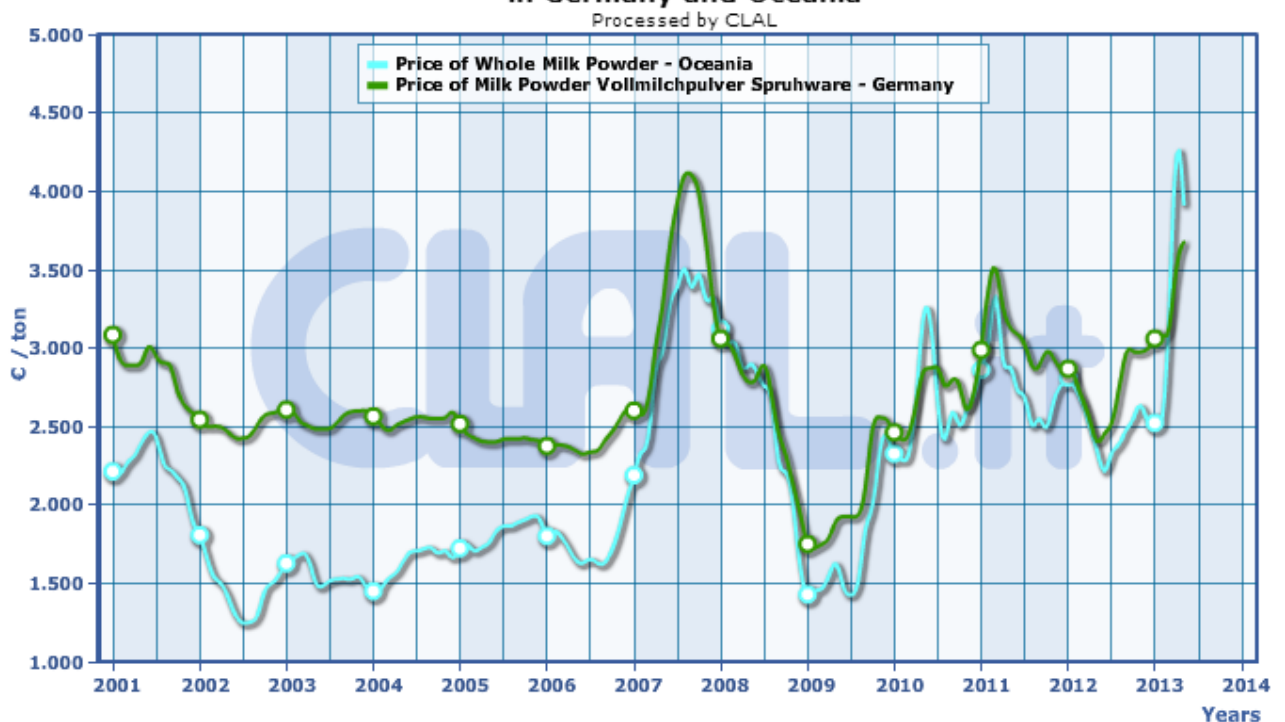
The demand from international markets for whole milk powder remained strong, but it could not be covered at previous prices when the production in New Zealand was reduced faster than according the normal seasonal pattern by the draught on the Northern Island. The European suppliers used to be less competitive in recent years because the cost of the fat part in whole milk powder

was boosted by butter prices which were almost higher than on the international market. Also now it will be difficult for the EU to produce and export significantly higher volumes in times of reduced milk production, be it for seasonal or cyclical reasons.

EU-27: WMP Production
change on the same month of the previous year



Comparative historical overview between WMP prices
in Germany and Oceania



Annex

Table 1

EU- Dairy Market 2007 - 2012 and Forecast 2013

1.000 t	2007	2008	2009	2010	2011	2012*	2013**	
Milk deliveries	134.047	135.108	134.713	136.579	139.494	140.680	140.000	
Liquid Products	44.242	43.772	44.157	44.440	44.555	44.850	44.750	
Butter								
Production	2.110	2.100	2.050	2.010	2.080	2.090	2.040	
Consumption	1.994	1.968	1.984	1.974	1.966	2.000	1.975	
Cheese								
Production	9.248	9.339	9.333	9.480	9.545	9.686	9.720	
Consumption	8.728	8.873	8.840	8.891	8.931	8.997	9.000	
Skim Milk Powder								
Production	1.090	1.040	1.160	1.080	1.220	1.230	1.180	
Consumption	870	770	800	800	810	808	740	
Whole Milk Powder								
Production	773	835	735	755	733	700	650	
Population m. head	495	498	500	501	502	504	505	
*) Provisional. **) Forecast.							<i>ife May 2013</i>	

Source: ife, Kiel; ZMB, Berlin.

Table 2

EU Butter Balance Sheet

1.000 t	2007	2008	2009	2010	2011	2012*	2013*	
Production	2.110	2.100	2.050	2.010	2.080	2.090	2.040	
Imports	85	65	62	40	47	52	30	
Exports	211	147	143	161	131	122	135	
Final stocks	100	150	135	50	80	100	60	
- in intervention	0	0	79	2	0	0	0	
Consumption	1.994	1.968	1.984	1.974	1.966	2.000	1.975	
*)Provisional/ Estimated.							<i>ZMB May 2013</i>	

Source: ZMB, Berlin

Table 3

EU Cheese Balance Sheet

1.000 t	2007	2008	2009	2010	2011	2012*	2013*
Production	8.983	9.084	9.083	9.220	9.300	9.450	9.490
Imports	94	89	85	82	74	77	80
Processed cheese impact	265	255	250	260	245	236	230
Exports	594	555	578	676	683	776	800

Stock change	+20	+10	+0	-5	+5	-10	0
Consumption	8.728	8.873	8.840	8.891	8.931	8.997	9.000
-per capita (kg)	17,6	17,8	17,7	17,7	17,8	17,9	17,8
*)Provisional/ Estimated.							ife May 2013

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

Table 4

EU WMP Balance Sheet

1.000 t	2007	2008	2009	2010	2011	2012*	2013*
Production	773	835	735	755	733	700	650
Imports	2	2	2	2	2	2	0
Exports	366	485	463	447	390	387	350
Stock change	20	15	-55	-20	10	0	0
Consumption	389	337	329	330	335	315	300
*)Provisional/ Estimated.							ife May 2013

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

Table 5

EU SMP Balance Sheet

1.000 t	2007	2008	2009	2010	2011	2012*	2013*
Production	1.090	1.040	1.160	1.080	1.220	1.230	1.180
Imports	6	8	6	4	0	4	4
Exports	199	179	227	378	518	523	450
Final stocks	121	220	359	265	157	60	54
- in intervention	-	-	260	195	50	0	0
Consumption	870	770	800	800	810	808	740
- as Feed	245	150	160	165	175	170	165
*)Provisional/ Estimated.							ife May 2013

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