

MMO Economic Board

Meeting of 27 March 2020

- o The 33rd meeting of the MMO Economic Board which supposed to take place on 27/03/2020, with the participation of experts from the milk supply chain, has been postponed due to preventive measures in line with the Commission guidelines regarding the outbreak of Covid-19 pandemic. Instead of regular presentations and exchange of information during the meeting, members of MMO were asked for written contributions on the observed impact on the markets of this pandemic and potential consequences for the near future.
 - o EU-27 milk deliveries modestly increased in Jan-Dec 2019 by 0.4%. In January 2020, EU deliveries increased by 1.7% (194 000 t) with NL, IT, FR and PL reporting the highest production growth, and IE and HR the main reduction. The increase of milk collection in this period translates into some production growth for dairy products: cheese (+1.2%), SMP (+1.0%), WMP (+7.4%). Butter production decreased slightly in January (due to slight drop in BE, ES, IE and PL). Reduced production has been reported in January also for: cream for direct consumption (-0.1%), drinking milk (-0.2%) and fermented milk (-4.7%).
 - o The EU-27 average farm gate milk price is reported at 35.3 c/kg in January 2020, which is 0.7% lower than in December 2019, 0.2% higher than a year ago and 4.1% above the last 5 years' average. Feed and energy costs are reported to be decreasing.
 - o By 29/03/2020 EU SMP prices have showed the sharpest decrease trend (-4.4% in week, -14.1% in last 4 weeks) but still +25.5% above last five years average. EU butter prices also in a downward trend but at a lower rate (-2.9% in last 4 weeks, -9.9% below five years average). Prices have decreased in March also for WMP (-5.1%) but they are almost at the same level as a year ago (-1%). Cheeses prices are fairly stable and above 5 years average. In last 4 weeks we observed increases for: cheddar (+1.1%) and Emmental (+4.6%). On the contrary, prices slightly dropped for: Gouda (-1.1%) and Edam (-1.5%).
 - o The assessment of EU stock levels based on a residual approach (EU production + EU imports – EU internal consumption – EU exports) shows a progressive reduction of private SMP stocks which are back to a normal level estimated around 120 000 tons, thanks to large volumes exported to third countries in 2019. Butter stocks were high by September 2019 but have decreased to normal level by the end of January 2020. By the end of January 2020, cheese stocks were also back to normal level, 10 000 tons higher than the level of a year ago.
- Strong exports in December 2019 and January 2020 were the main factor for this good stock situation.
- o In March, retail demand for dairy products, in particular those with long shelf lives (butter, UHT milk, and certain cheeses) was exceptionally strong as consumption almost exclusively took place at home moving away from food service. This phenomenon has been amplified by the hoarding of food supplies by many consumers. This phenomenon has been amplified by the hoarding of food supplies by many consumers. In many Member States a demand in the food service sector has all but disappeared due to the forced closing of restaurants, bars, schools etc. Also closure of open-air food markets cut off a big number of SME dairies and farmers from their important outlet.
 - o Risk of production/collection capacity if farmer or workers in farms fall sick or are in quarantine, this would lead to severe consequences, notably in family farms. Also the dairy processors are running businesses at high risk that members of the staff may be affected by COVID-19. They are reviewing protocols to avoid contact between drivers and workers in the plants as well as between staff of different shifts.
 - o On trade side, in January 2020 EU exports to third countries, including China were generally positive for butter, cheeses, drinking milk and fresh products. SMP exports to China decreased significantly (-26%) but January 2019 was exceptionally high; exports this year are still more than double than those in January 2018. At the end of January, the arrival of the Covid-19 pandemic paralyzed deliveries of dairy products to Chinese market, as well as new orders.
- The situation in the Chinese ports are improving but due to limited availability of containers, transportation costs are higher. In China and other affected Asian countries there has been a clear change of consumers' behaviors but there is a hope that situation will come back to normal in coming weeks.
- o Market situation is unpredictable and changing rapidly. The global picture of dairy market can be misleading as the situation varies across Member States, depending on the severity of quarantine measures in place. In general, production, collection, processing and marketing of milk and dairy products is proceeding, albeit with great efforts. There are a lot of uncertainties and fear that situation will be getting worst, especially in coming months when there is a peak milk deliveries.



**EU dairy products
monthly stock estimates
at the end of January 2020**

Milk Market Observatory

Economic Board

March 27th, 2020

Methodology

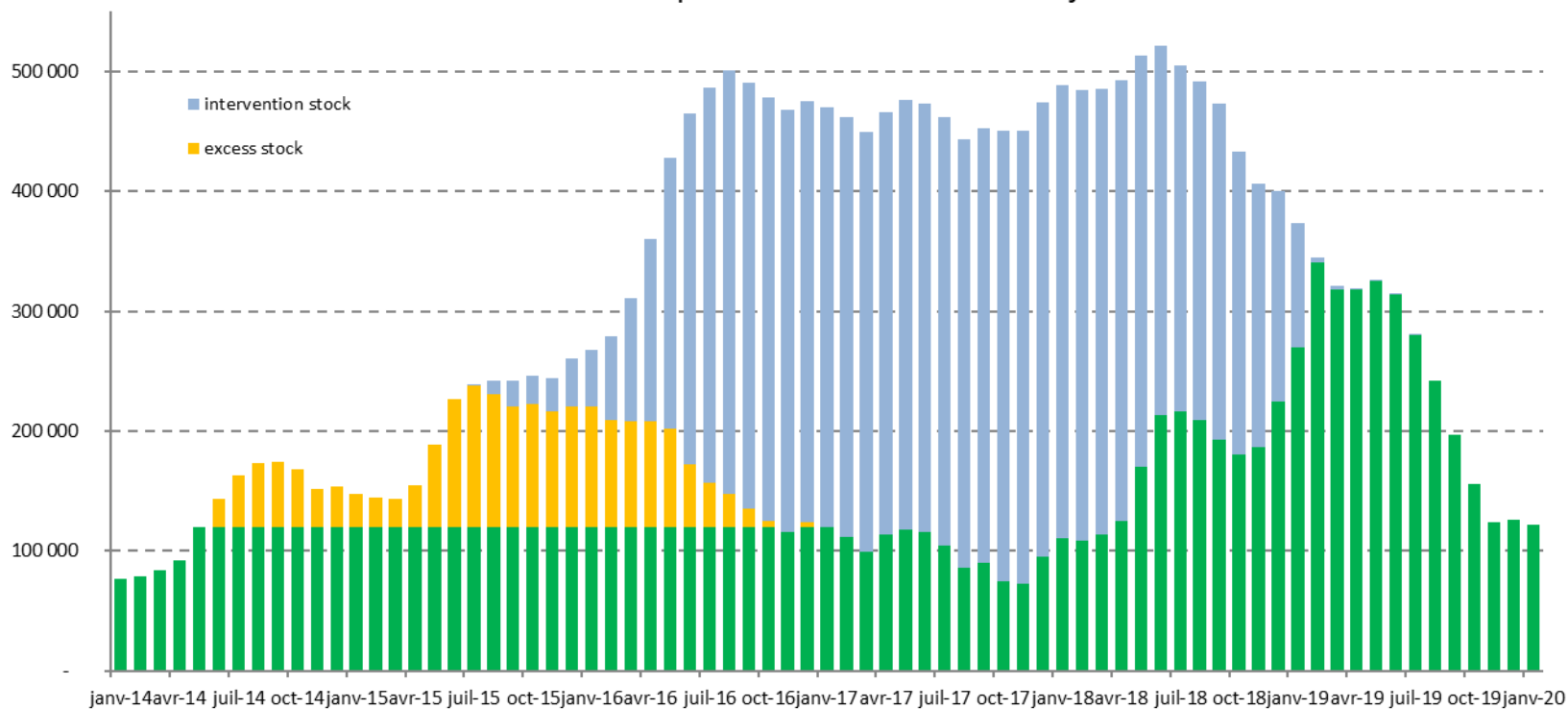
- For each dairy product and each month, the stock estimates are based on the equation:
 - **Stock variation** = EU production + EU import – EU internal consumption – EU exports
- ZMB balance sheets and forecasts have been used as references for :
 - End of year stock levels
 - Yearly consumption levels
- Monthly production statistics are based on ZMB Dairy World publications.
- Exports and imports figures are based on MMO website figures.
- The initial stocks entered in the model at the beginning of 2012 are :
 - SMP: 152 000 t
 - Butter: 80 000 t
 - Cheese: 200 000 t (arbitrary basis)
- The green parts in each graph mean that this stock level can be considered as normal for the month.
- The orange part means that this stock level can be considered as too high for the month.
- These qualifications are based on the EDA analysts' personal views and past market observations.

Since the end of November 2019, the European SMP stocks are back to a normal level estimated around 120 000 tons, thanks to large volumes exported to third countries in 2019.

stock level
in tons

European stock level estimates - SMP - January 2020

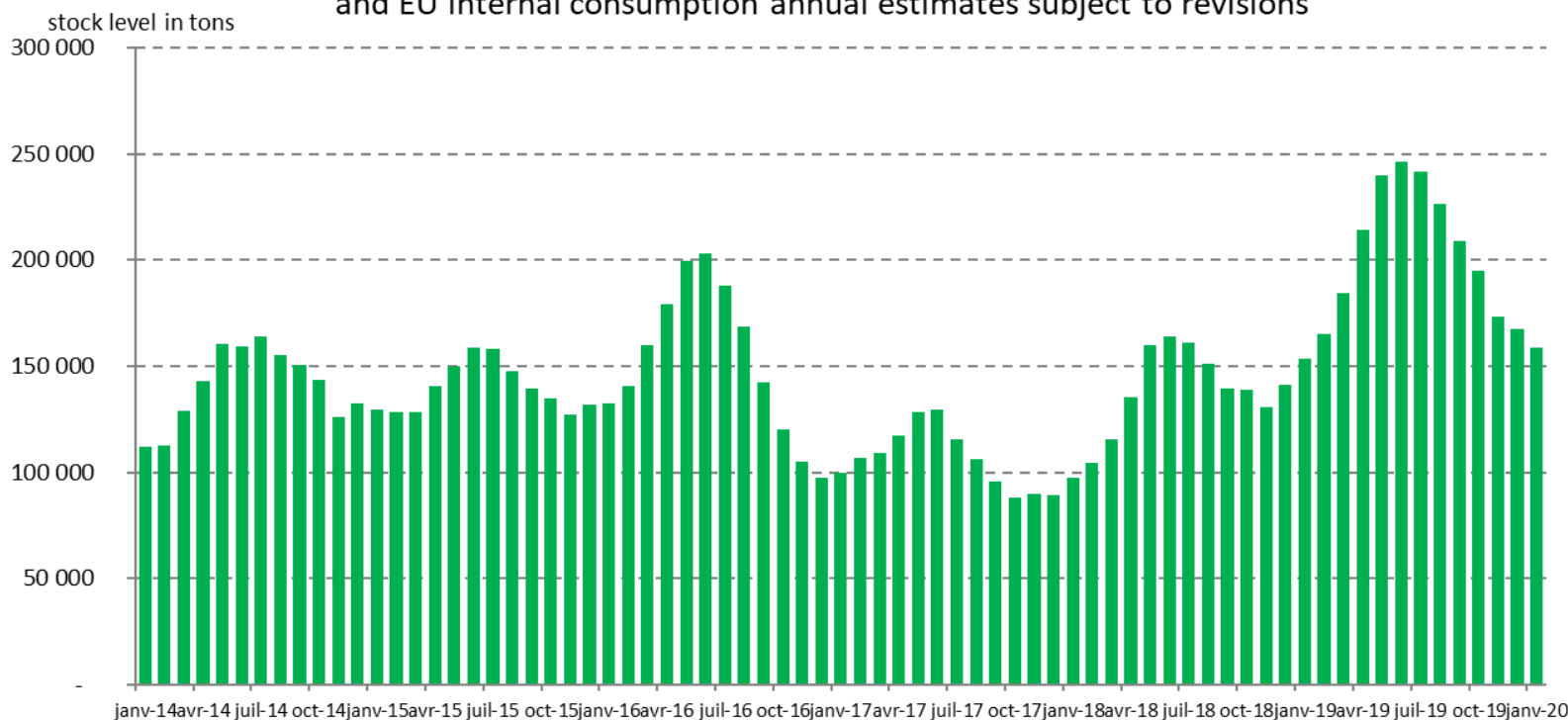
Calculations based on Eurostat production, export and import statistics and EU internal consumption annual estimates subject to revisions



At the end of January 2020, the European butter stocks have decreased back to a normal level for the period. The large volumes exported during the 2nd half of 2019 explain this situation.

European stock level estimates - Butter - January 2020

Calculations based on Eurostat production, export and import statistics and EU internal consumption annual estimates subject to revisions



At the end of January 2020, the European cheese stocks are back to a normal level for the period, 10 000 tons higher than the level of one year ago. Strong exports in December 2019 and January 2020 are the main factor for this good stock situation.

European stock level estimates - Cheese

Calculations based on Eurostat production, export and import statistics and EU internal consumption annual estimates subject to revisions

