

MMO Economic Board

Meeting of 24 February 2015

- o The 4th meeting of the Milk Market Observatory's Economic Board took place on 24 February 2015, with the participation of experts from the member organisations representing the various steps in the milk supply chain: CEJA (young farmers), COPA-COGECA (producers and cooperatives), ECVV (Via Campesina), EMB (European Milk Board), EDA (dairy industry), Eucolait (dairy trade) and Eurocommerce (retail).
- o The meeting was opened with 3 presentations by DG AGRI on the milk market situation, the development of exports following the Russian import ban and the short term outlook. The factual information material prepared by participants and exchanged during the meeting allowed to gather the following picture on the current milk market situation and short term perspectives.
- o Downward pressure on prices registered since early 2014 in a context of oversupply, exacerbated by the Russian ban (SMP -35%, WMP -24%, Cheddar -20%, Edam & Gouda -19%, butter -18%, whey powder -12% and Emmental -6% since early August) has been reversed for dairy commodities since the middle of January 2015 (SMP +17%, WMP + 12%, butter +11%, whey powder +10%, Cheddar +6%). The extent of the recovery and its suddenness have taken most market actors by surprise. The strong milk production slow down, weak € supporting exports and drought declaration in some part of NZ were mentioned as tentative explanations.
- o Farm gate milk prices experienced their strongest decrease in December 2014 (- 3.8%). The trend appears to be stabilising (expected -0.8% in January 2015) and the floor is announced as having been reached in some MS. The concomitance of low farm gate milk prices and heavy surplus levy in some MS was mentioned as generating cash flow difficulties for farmers.
- o The future remains uncertain, notably with regard to production reaction after 31 March 2015 (milk quota expiry), as the recent slowdown is considered to be more related to looming surplus levy, and only to a lesser extent to lower milk prices. In countries like France, milk production variations are framed by existing contracts and A/B price practices.
- o In the draft short-term outlook prepared by the Commission, EU milk collection is expected to increase again from 1 April 2015 onwards, total year cumulating with a 1.2% increase compared to 2014. The situation varies considerably from MS to MS, some of them recording both increased cow slaughtering and fewer heifers which would logically not lead to increased milk production in the short run, while others record fewer old cows but increased heifer numbers, hinting at production growth potential.
- o The assessment of EU stock levels based on a residual approach (production + imports - consumption and exports) showed decreasing stocks for all dairy commodities in the last months of 2014 and the trend is expected to continue in January/February 2015. Quantities put under the private storage aid scheme in the last quarter of 2014 are assessed to have already found customers and not to weigh further on the market. PSA extension is nevertheless considered as appropriate to help spread out upcoming peak production without endangering the current fragile recovery.
- o Milk supply increased in key producing regions of the world in 2014, except for Argentina and Uruguay. Combined increased production proved higher than the estimated 2% increase in world demand each year. The EU achieved solid export growth, in particular for milk powder at the end of 2014 and some signs of recovery are signalled in China's buying. World stock levels are reported as higher than a year ago, but not at worrying levels.
- o Consumption data shared during the meeting did not show a general recovery in internal EU demand, but some products in some MS seem promising.
- o Uncertainties for the months to come are the development of milk production from 1 April onwards, the strength of China's buying and the end of the Russian import ban whose impact on cheese exports is more difficult to compensate with other destinations than for commodity products.

ANNEX 1

Milk Market Situation

European Commission



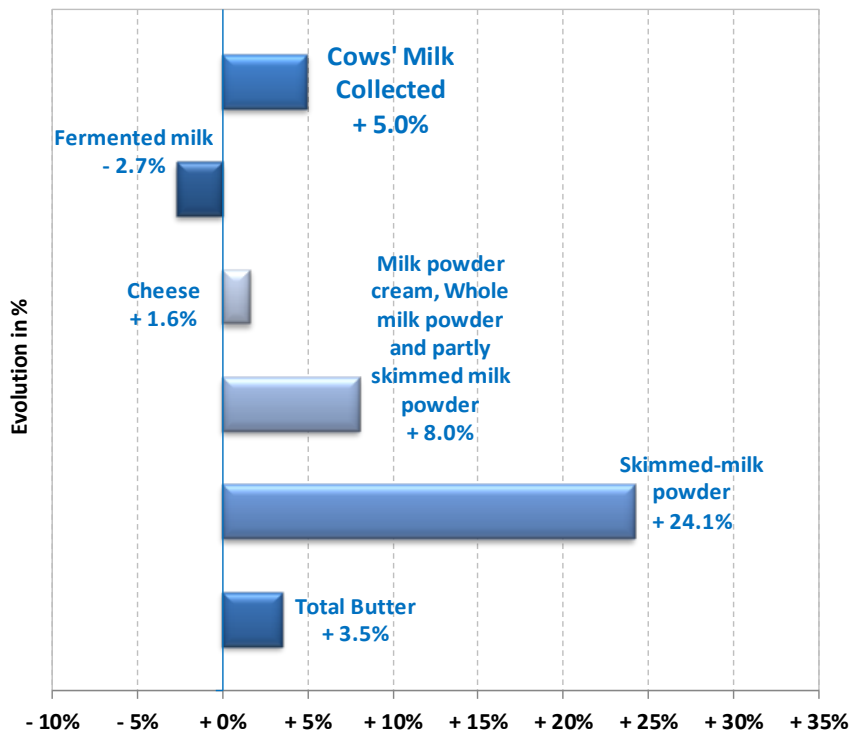
Milk Market Situation

Brussels, 24 February 2015

EU Productions



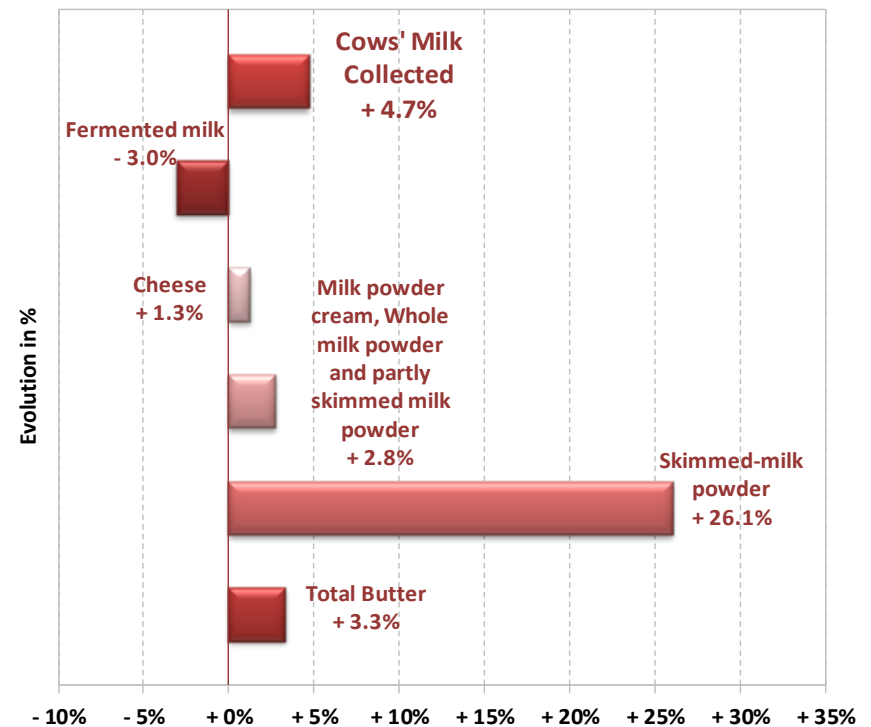
**EU-28 Deliveries/Productions development
(Jan - Nov 2014 compared to Jan - Nov 2013)**



Rem : DK : Nov data estimated (except Milk)

Source : MS' Communications to Eurostat, FEQA, AGEA

**EU-28 Deliveries/Productions development
(Apr 2014 - Nov 2014 compared to Apr 2013 - Nov 2013)**



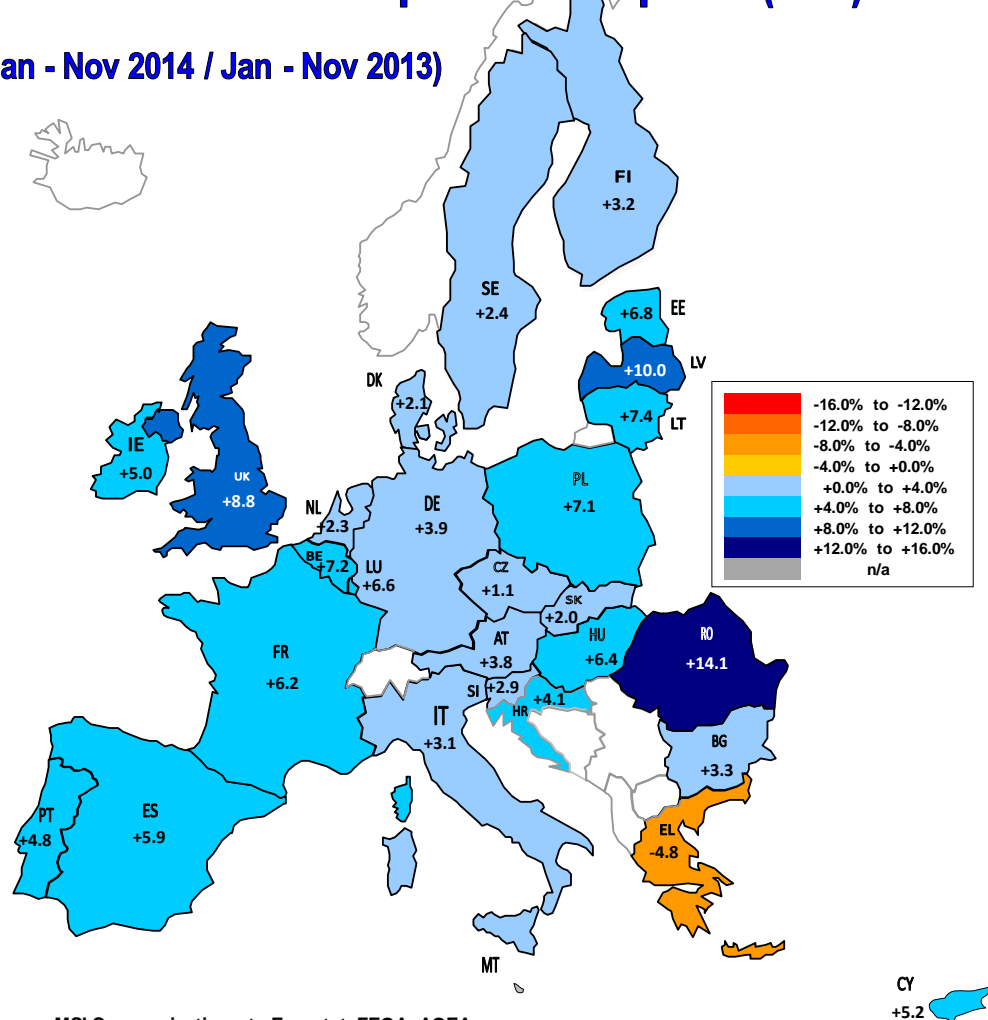
Rem : DK : Nov data estimated (except Milk)

Source : MS' Communications to Eurostat, FEQA, AGEA

!!! Data from some Member States are confidential and are NOT included in this table !!!

EU Milk Deliveries compared to last period (in %)

(Jan - Nov 2014 / Jan - Nov 2013)



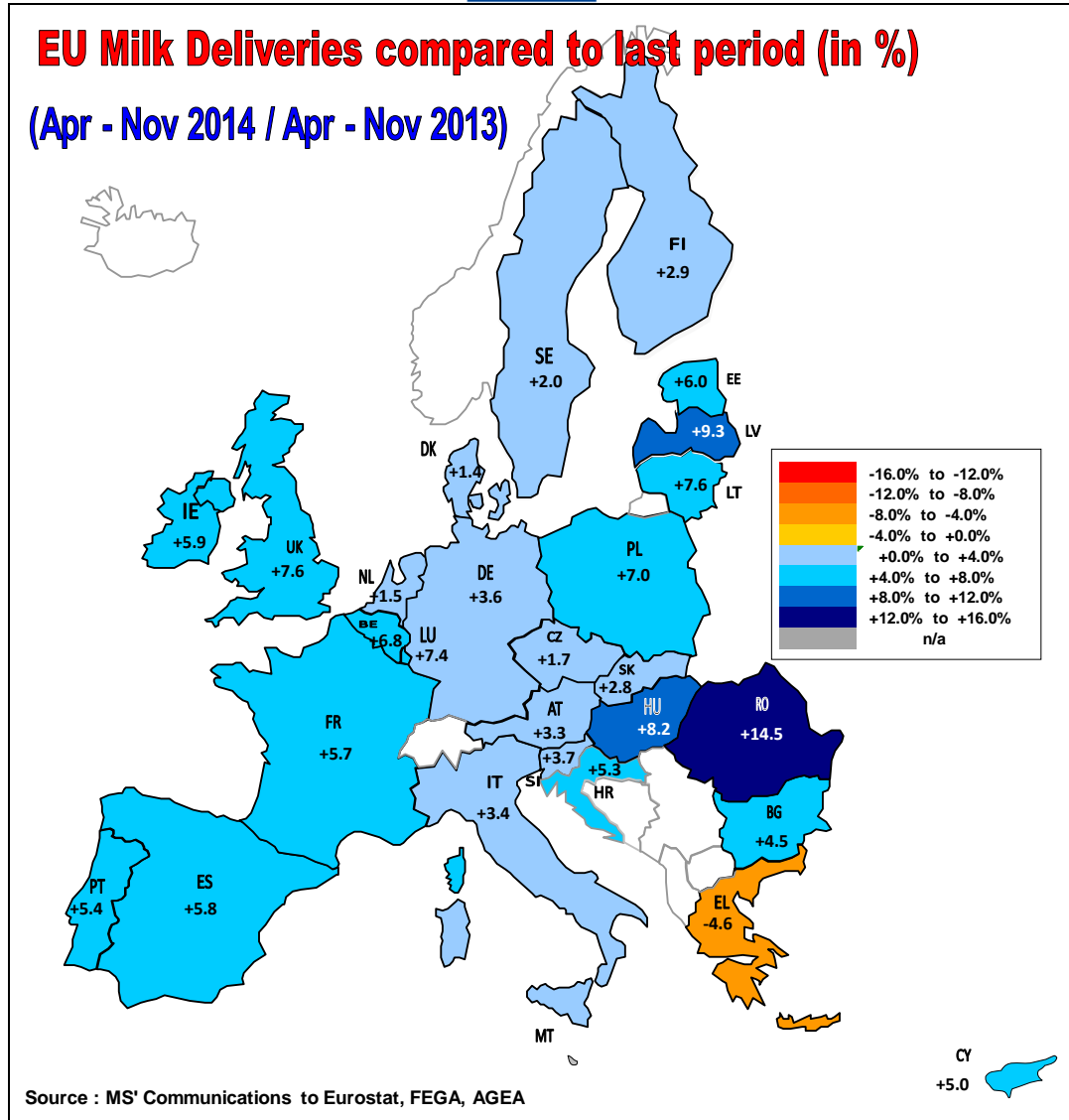
Source : MS' Communications to Eurostat, FEGA, AGEA



European
Commission

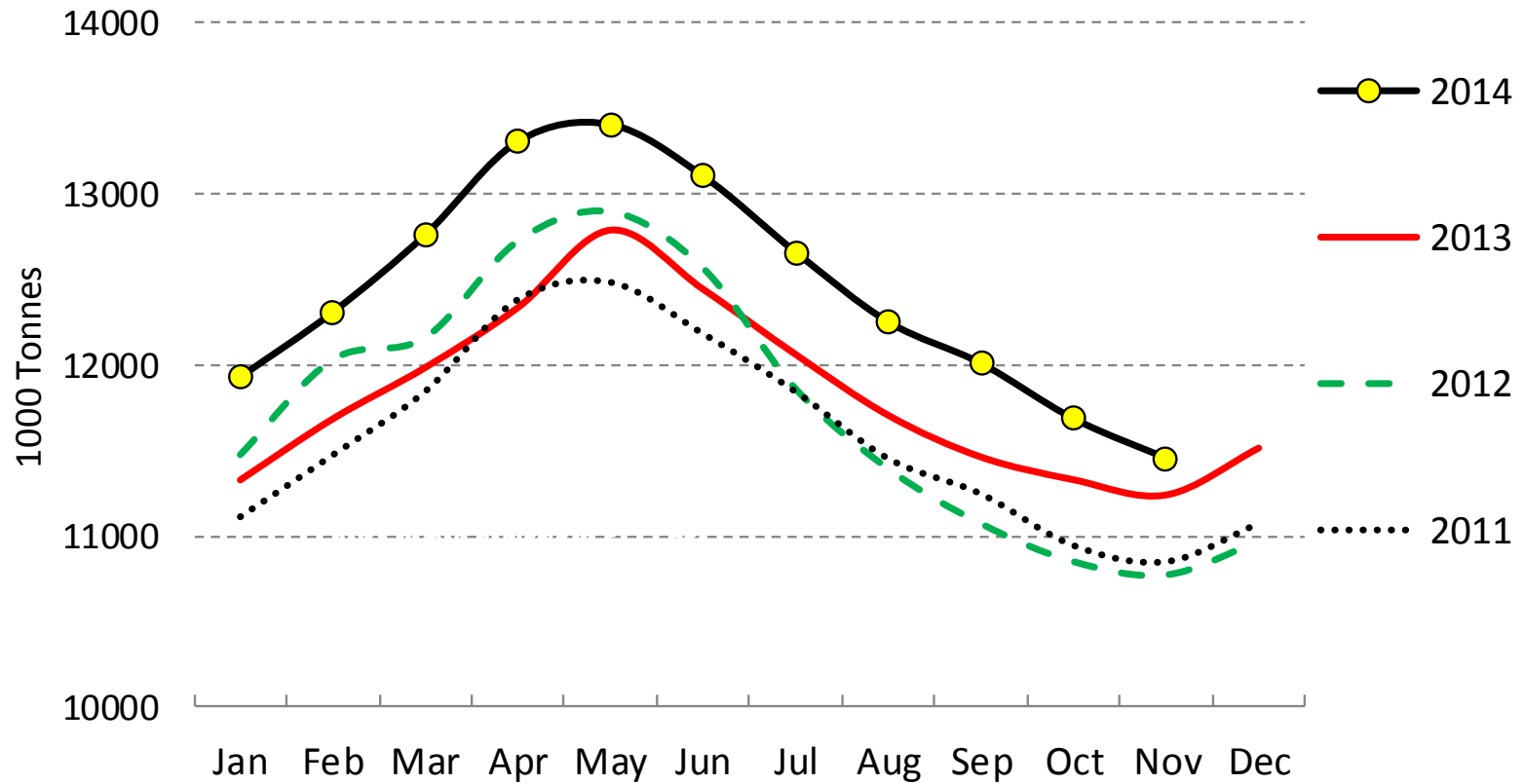
EU Milk Deliveries compared to last period (in %)

(Apr - Nov 2014 / Apr - Nov 2013)



Source : MS' Communications to Eurostat, FEQA, AGEA

EU - Cows' milk collected (30d ajusted months)

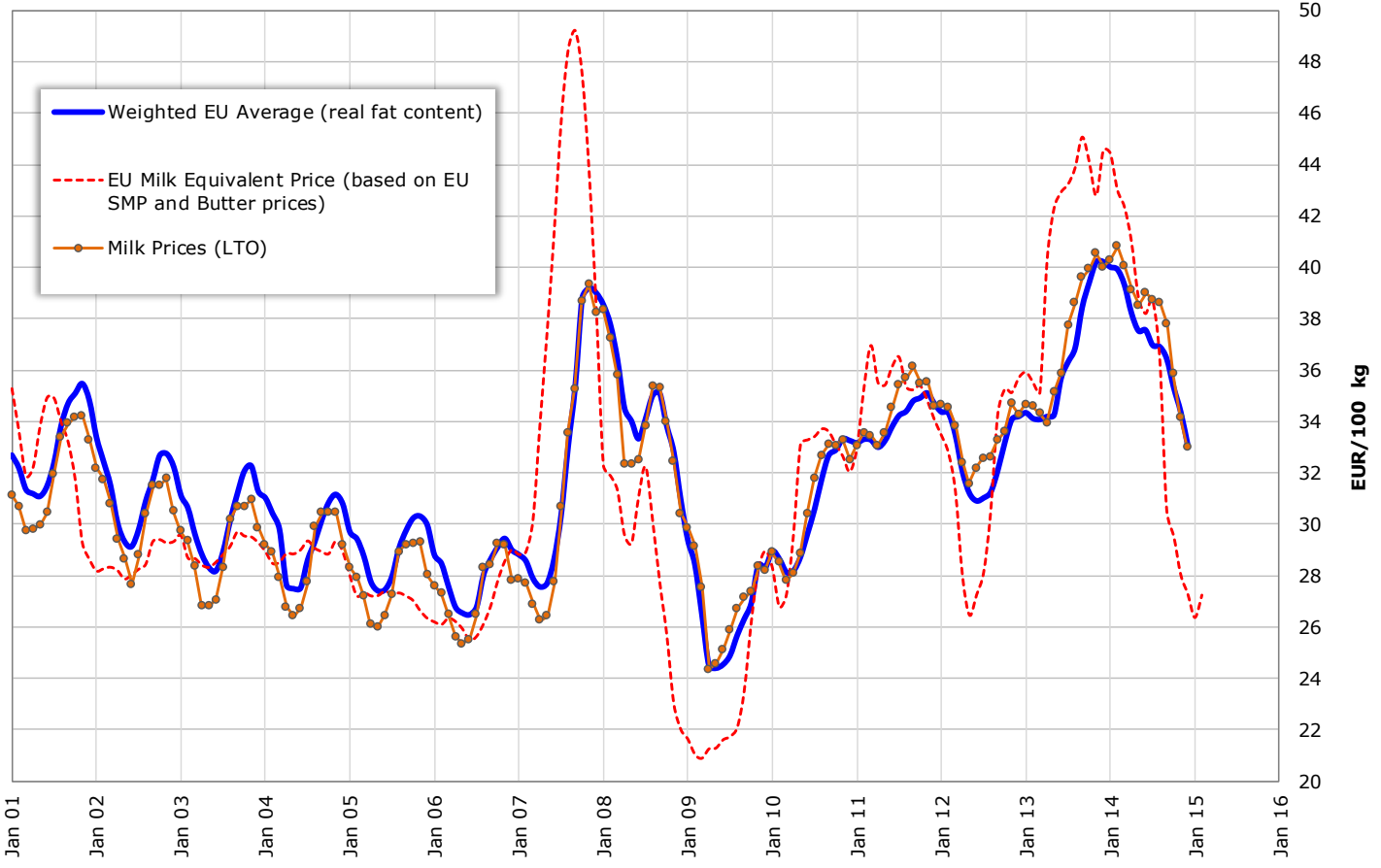


Source : Estat - Newcronos

Last Update : Jan-Nov

EU Raw Milk Prices Evolution (up to December 14)

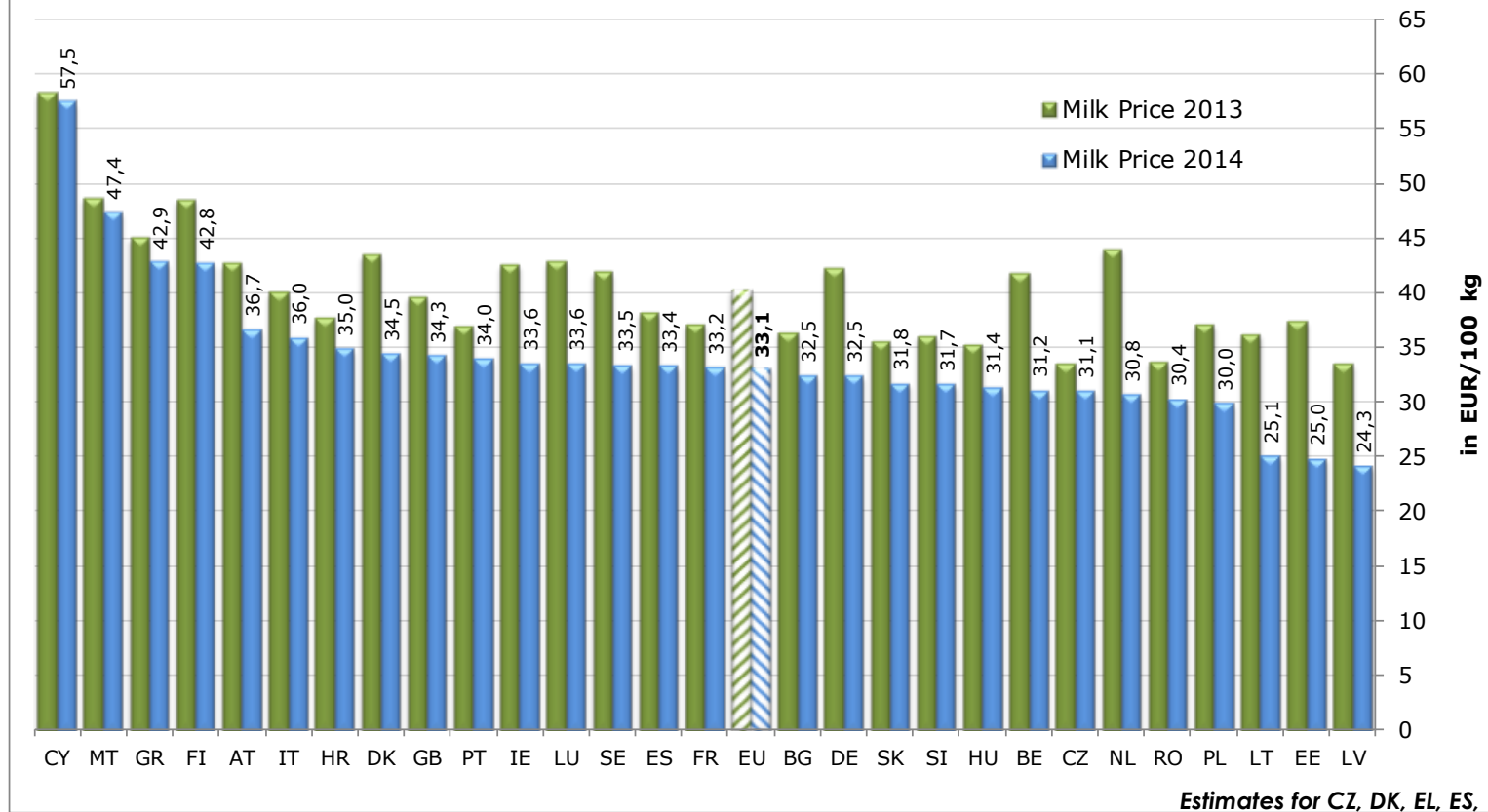
* : provisional prices



Source :MS' communications under reg. 562/2005 & 479/2010 + LTO : Land- en Tuinbouworganisatie Nederland (<http://www.milkprices.nl/>)

EU MILK PRICES (Dec 2014 vs Dec 2013)

Source : Member States (Reg. 479/2010)



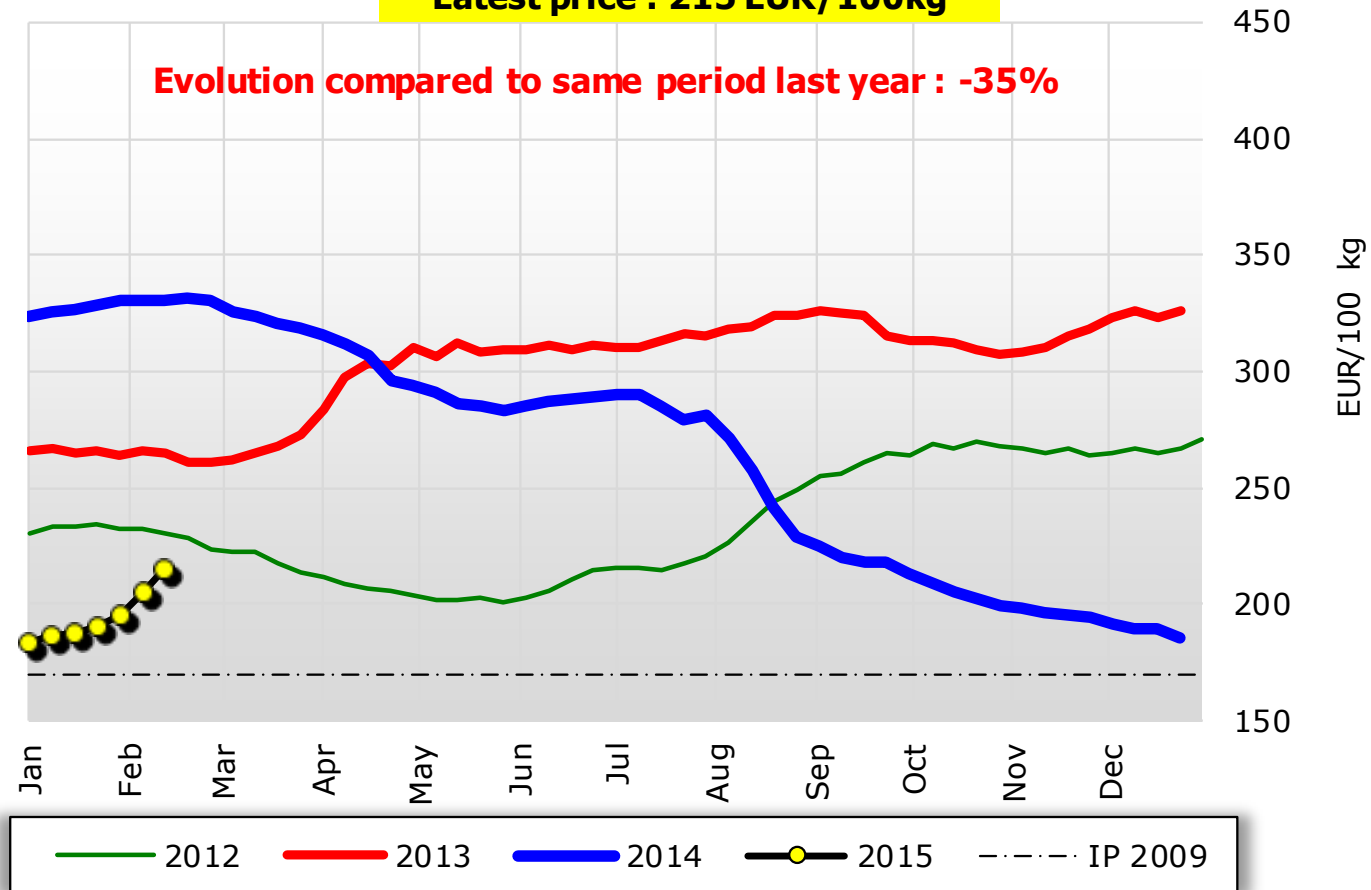
NB: The above national price averages are of mixed nature, some relate to standardised milk, others to milk with real fat and protein content, pending harmonisation under reg. 479/2010

Source: MS' communications under Reg. 479//2010

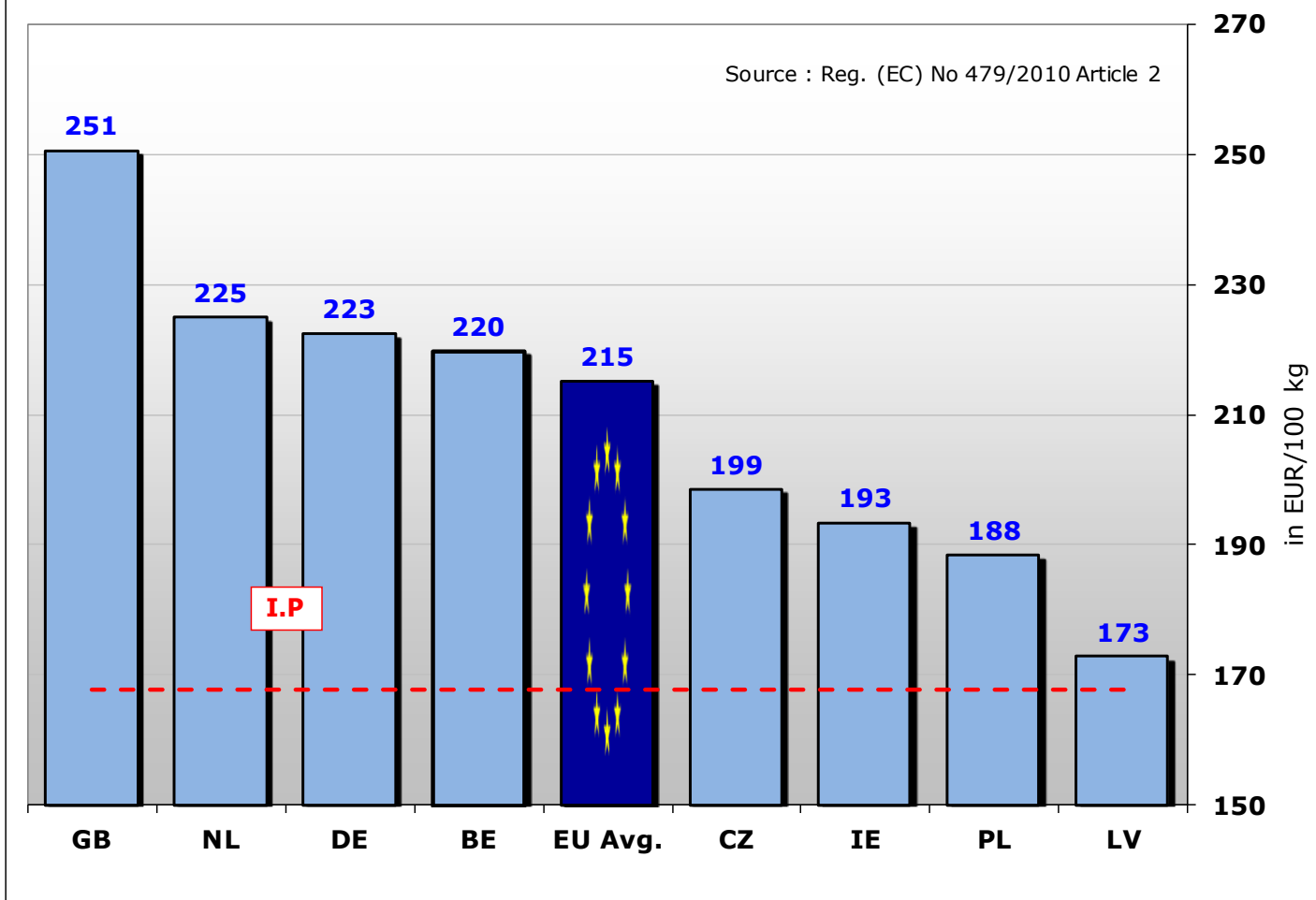
Weekly EU SMP Prices

Latest price : 215 EUR/100kg

Evolution compared to same period last year : -35%



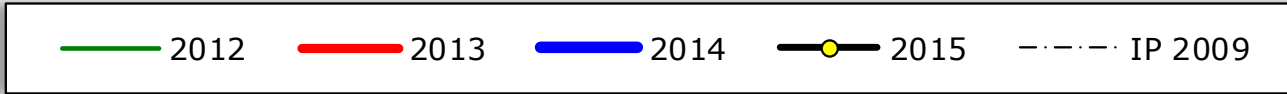
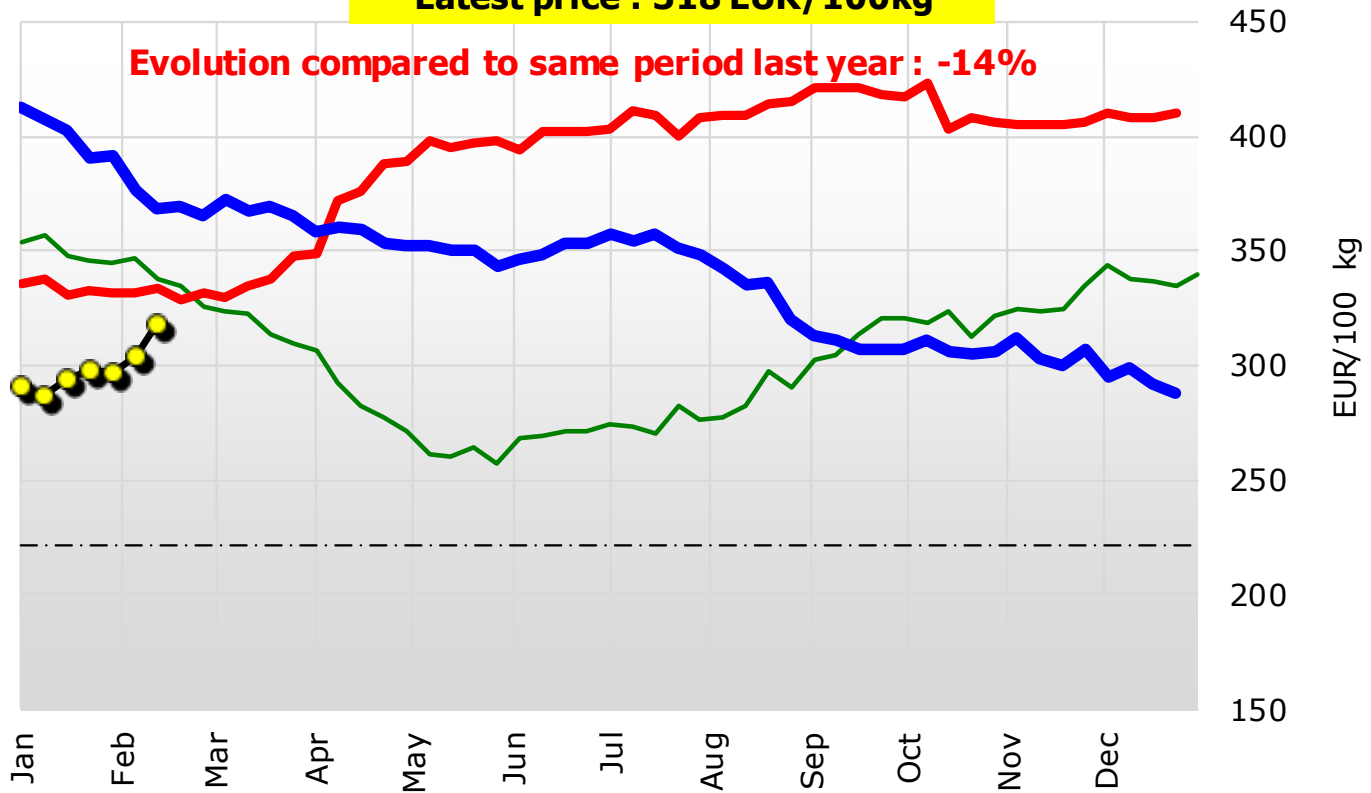
EU S.M.P. Prices (up to 15.02.2015)



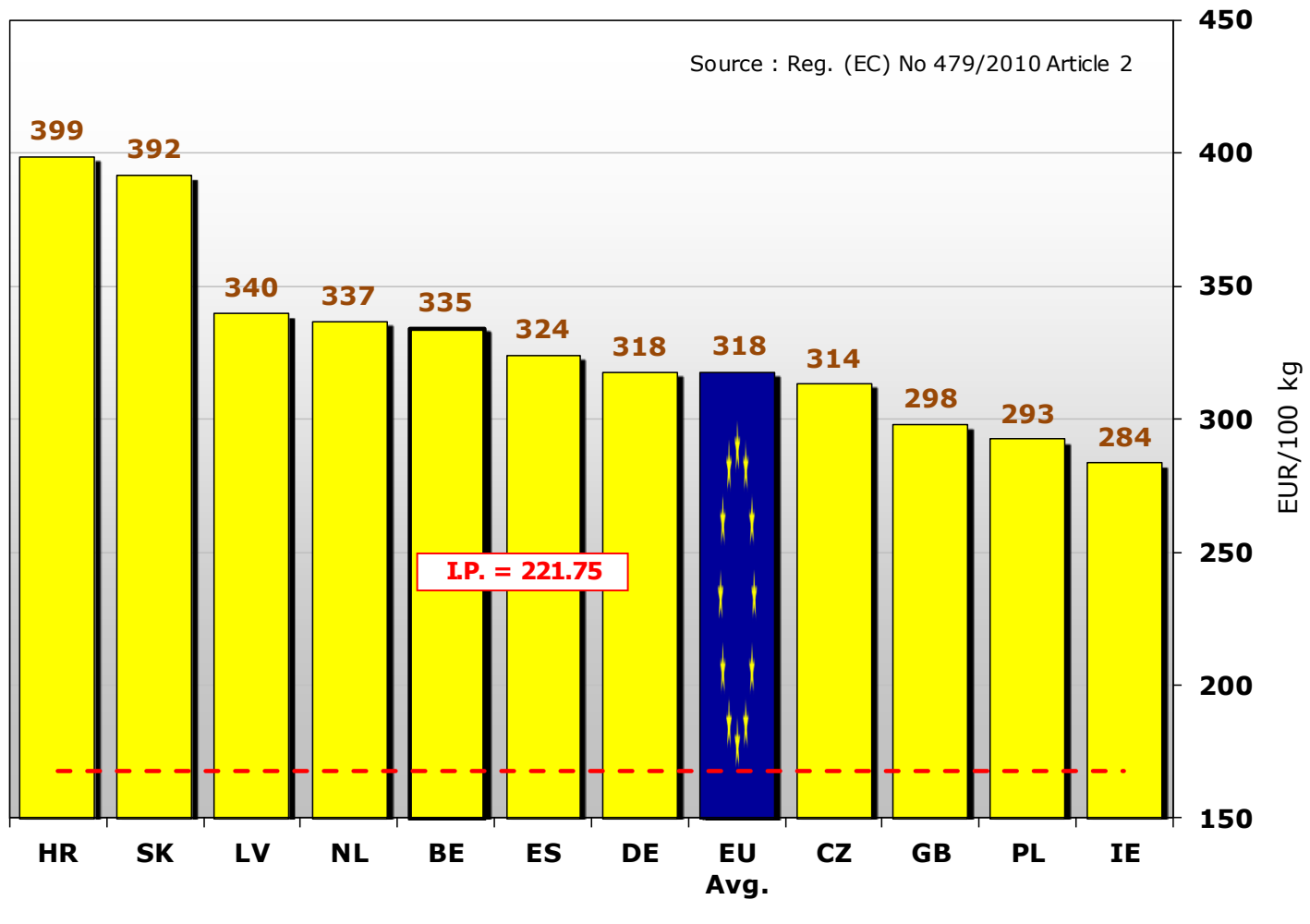
Weekly EU BUTTER Prices

Latest price : 318 EUR/100kg

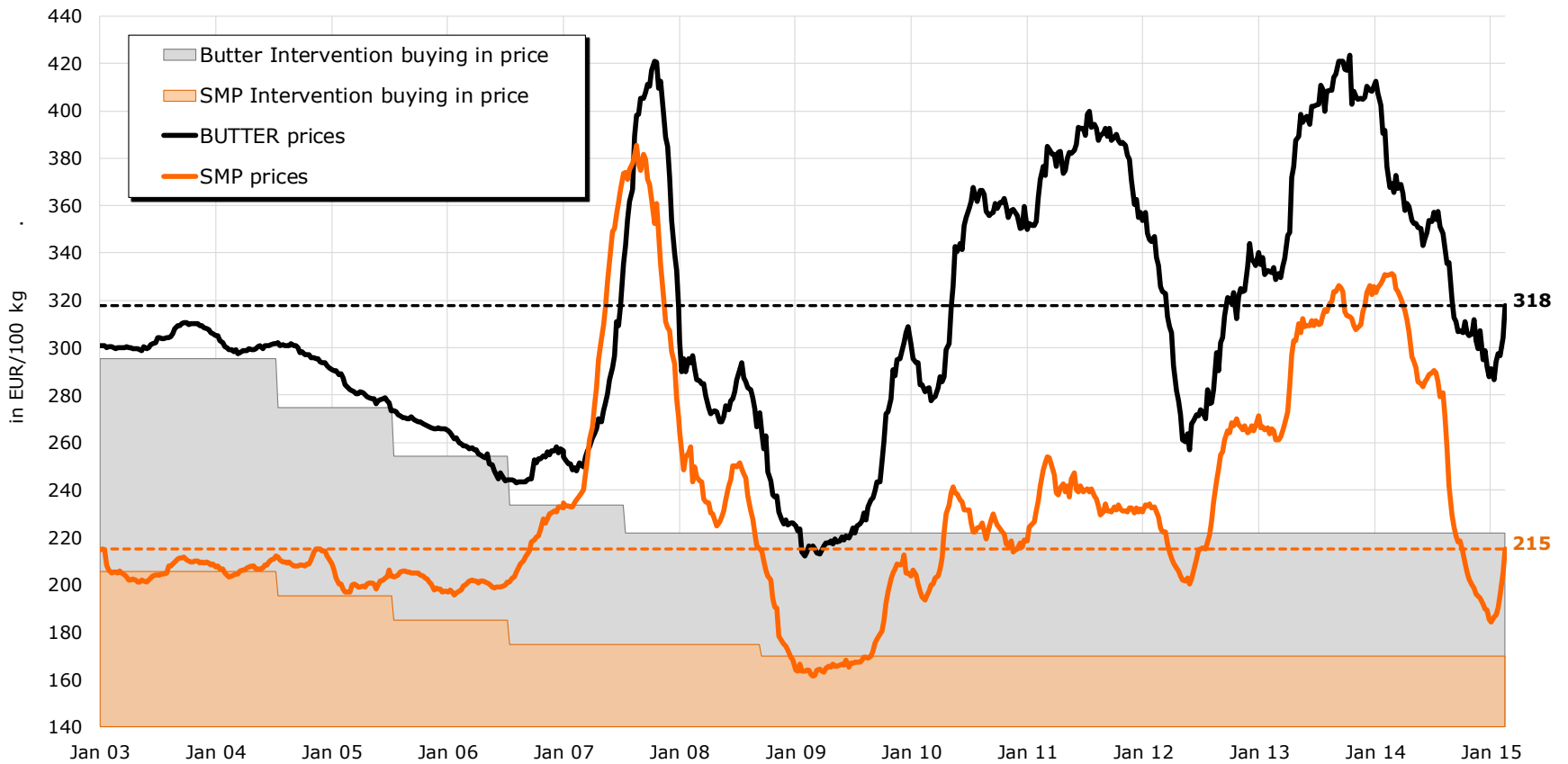
Evolution compared to same period last year : -14%



EU BUTTER Prices (up to 15.02.2015)



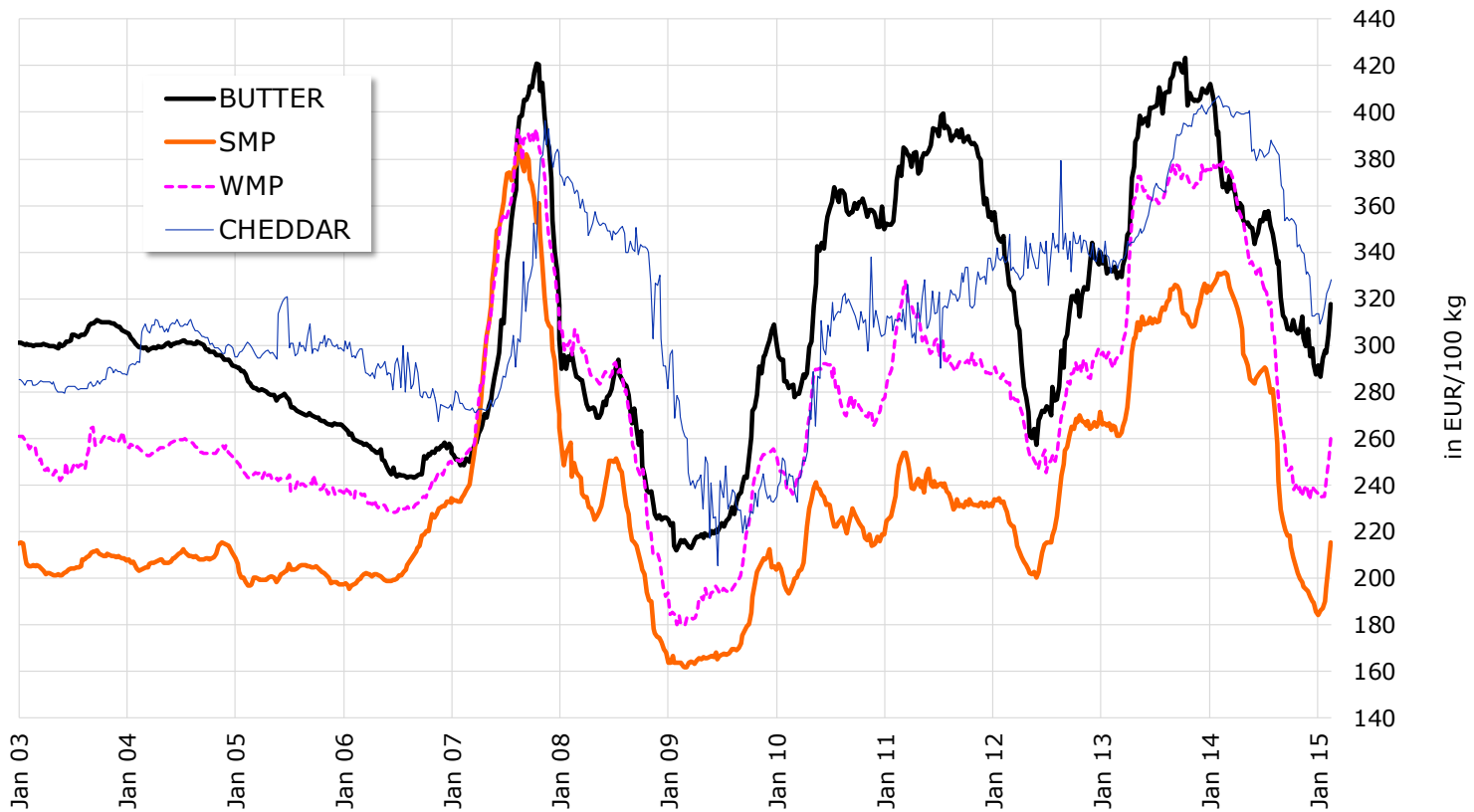
EU Quotations of Butter and SMP (EU average based on MS communication and weighted by production)



Source: MS communications under reg. 562/2005 and 479/2010

EU Dairy Quotations

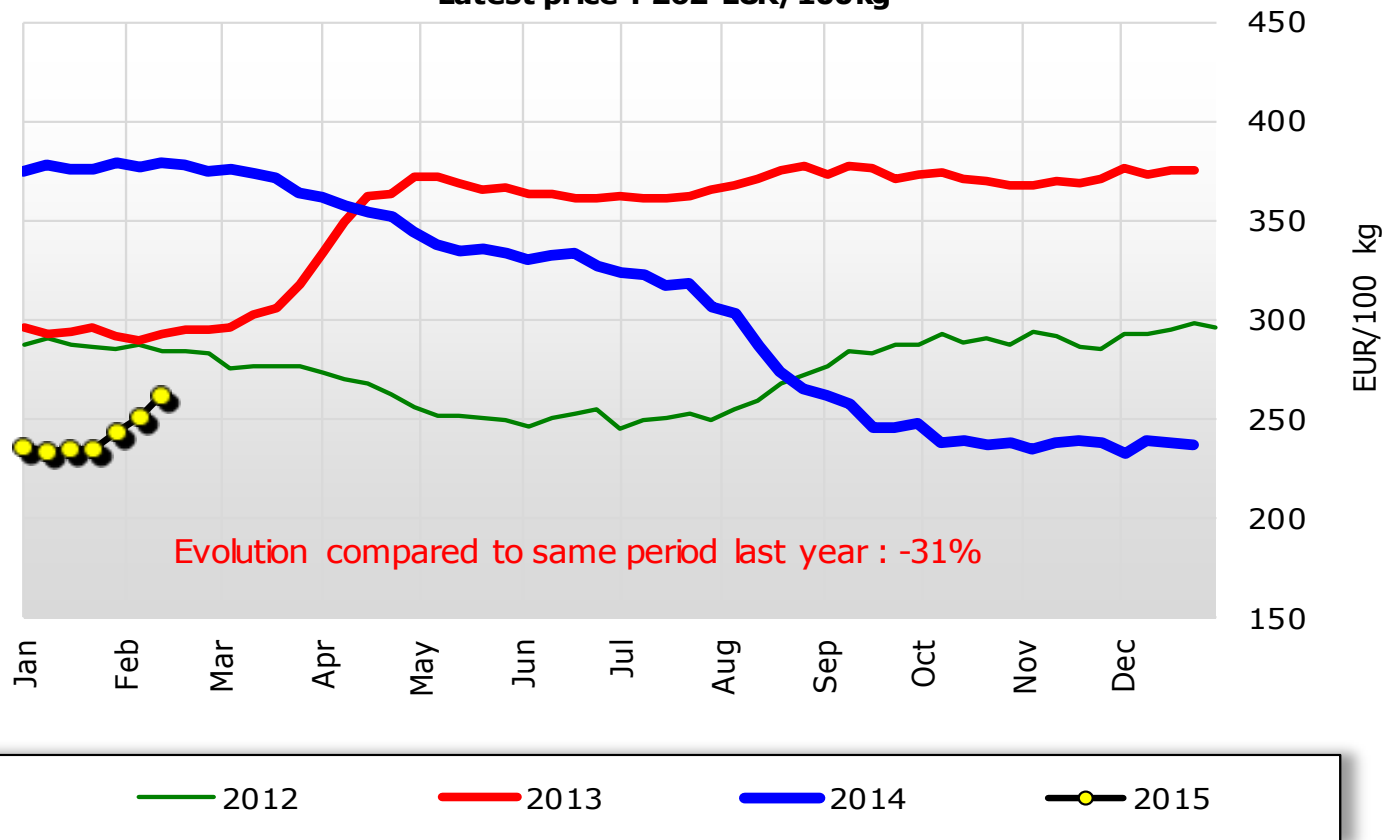
(EU Average Prices based on MS communication and weighted by production)



Source: MS' communications under reg. 562/2005 and 479/2010

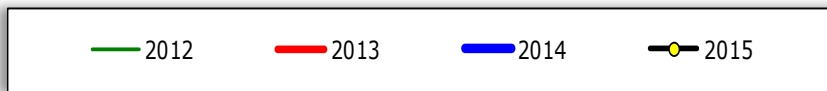
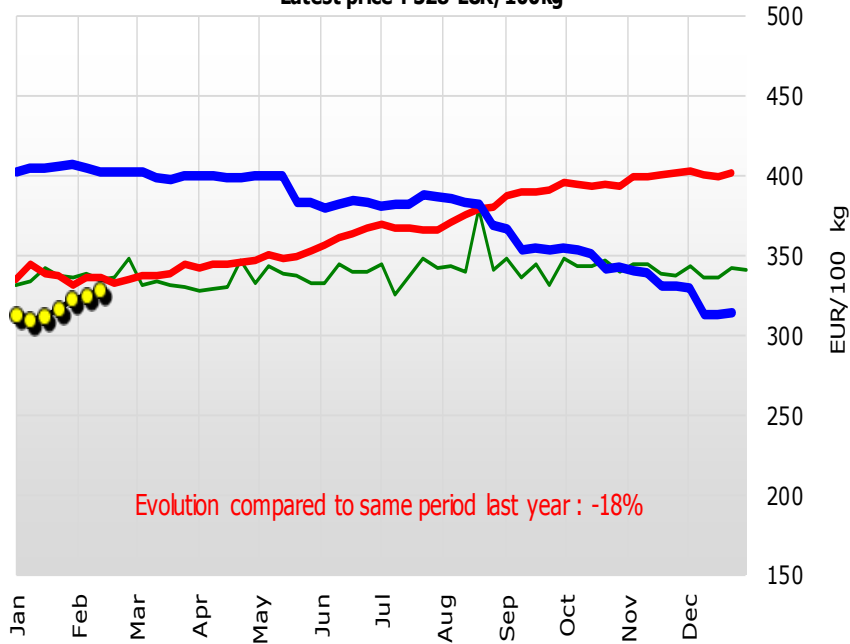
Weekly EU WMP Prices

Latest price : 262 EUR/100kg



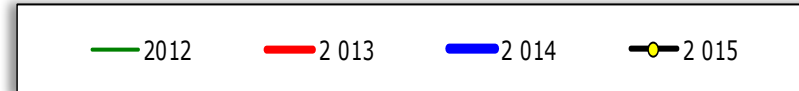
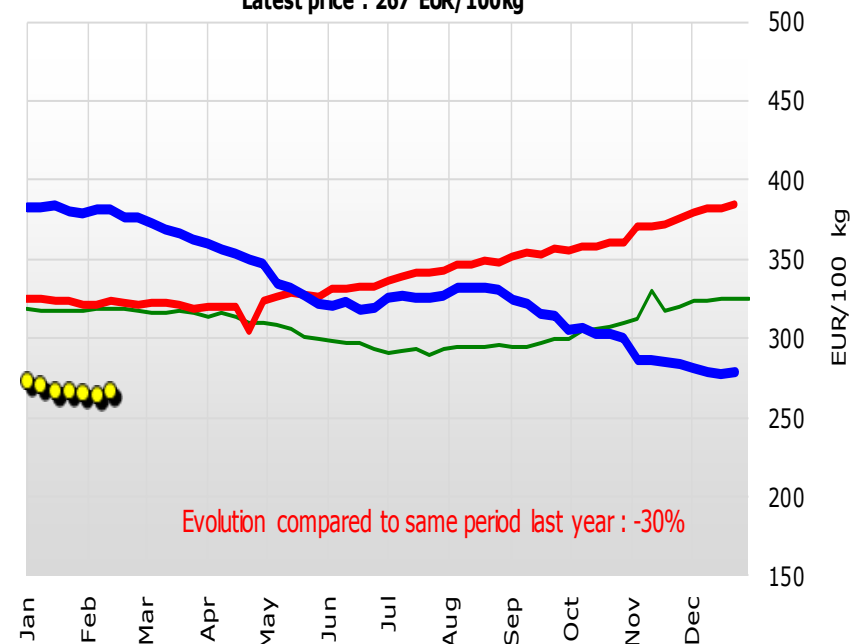
Weekly EU CHEDDAR Prices

Latest price : 328 EUR/100kg



Weekly EU EDAM Prices

Latest price : 267 EUR/100kg



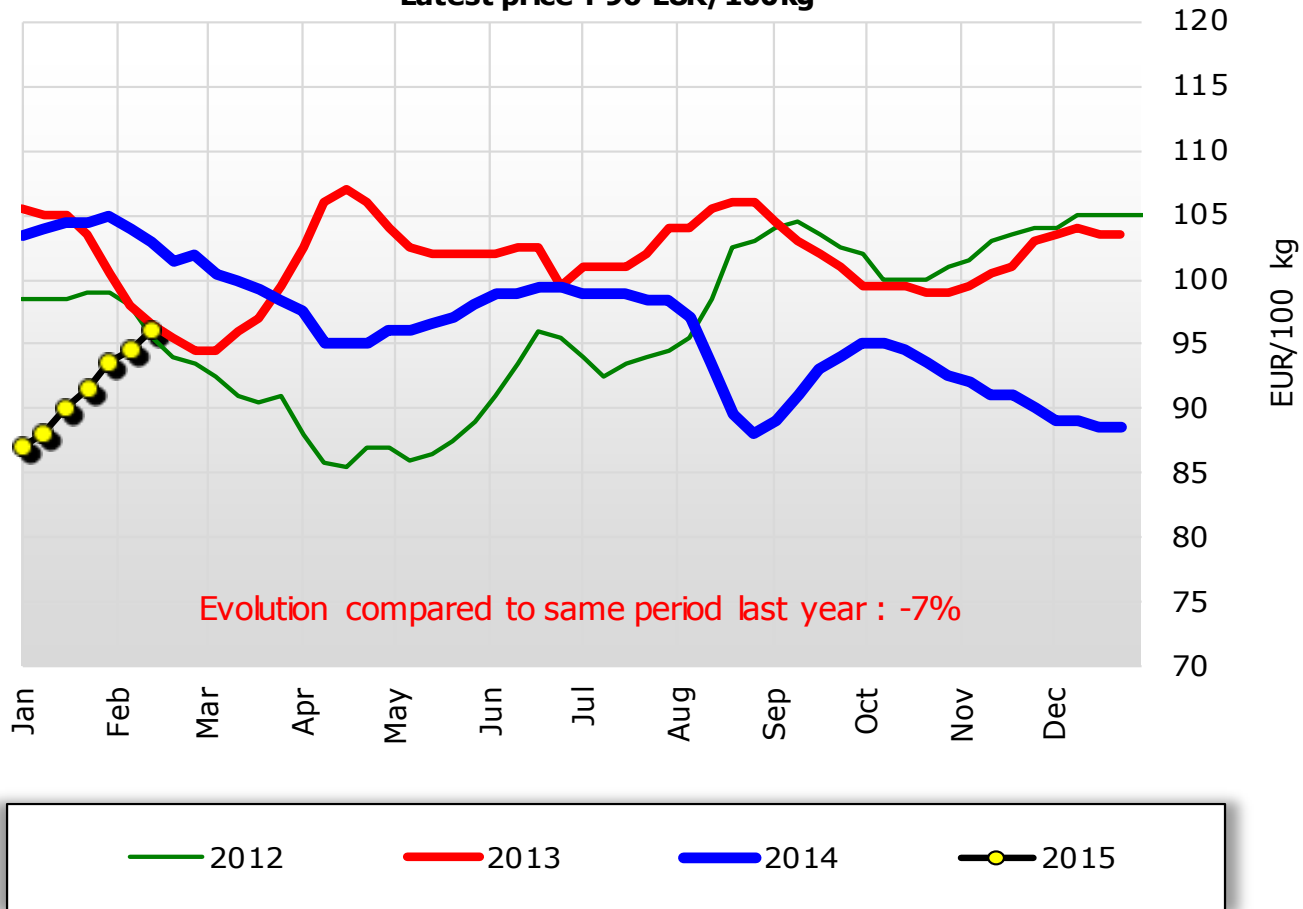
Source: MS' communications under Regs. 562/2005 and 479/2010



European

Weekly EU WheyPowder Prices

Latest price : 96 EUR/100kg



Source: MS' communications under Regs. 562/2005 and 479/2010

US Dollar



Latest (20 February 2015): **EUR 1 = USD 1.1298** -0.0089 (-0.8%)

Change from 20 February 2014 to 21 February 2015

Minimum (23 January 2015): **1.1198** - Maximum (8 May 2014): **1.3953** - Average: **1.2991**

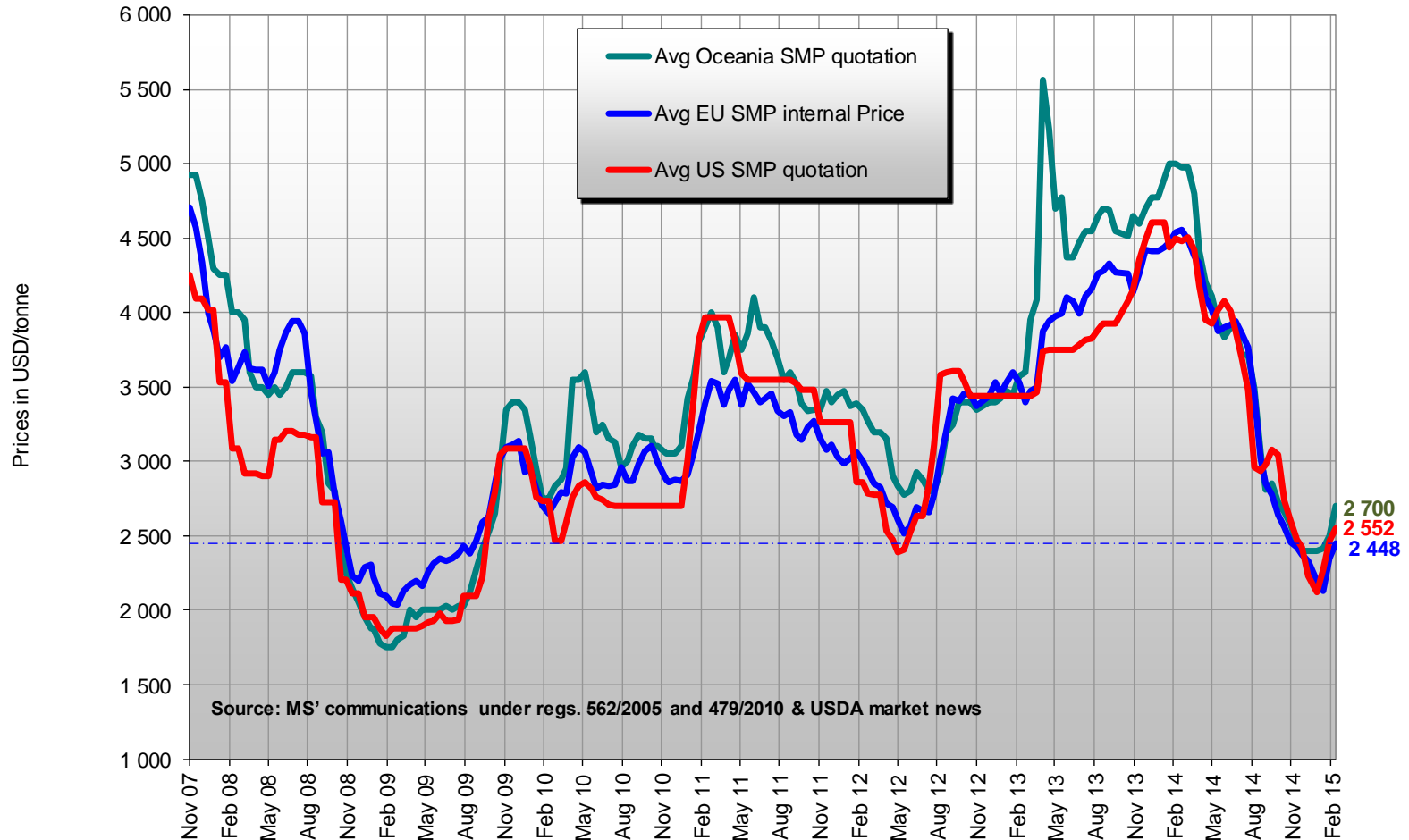
Select: EUR vs. USD ▼

From: 20-02-2014 to: 21-02-2015

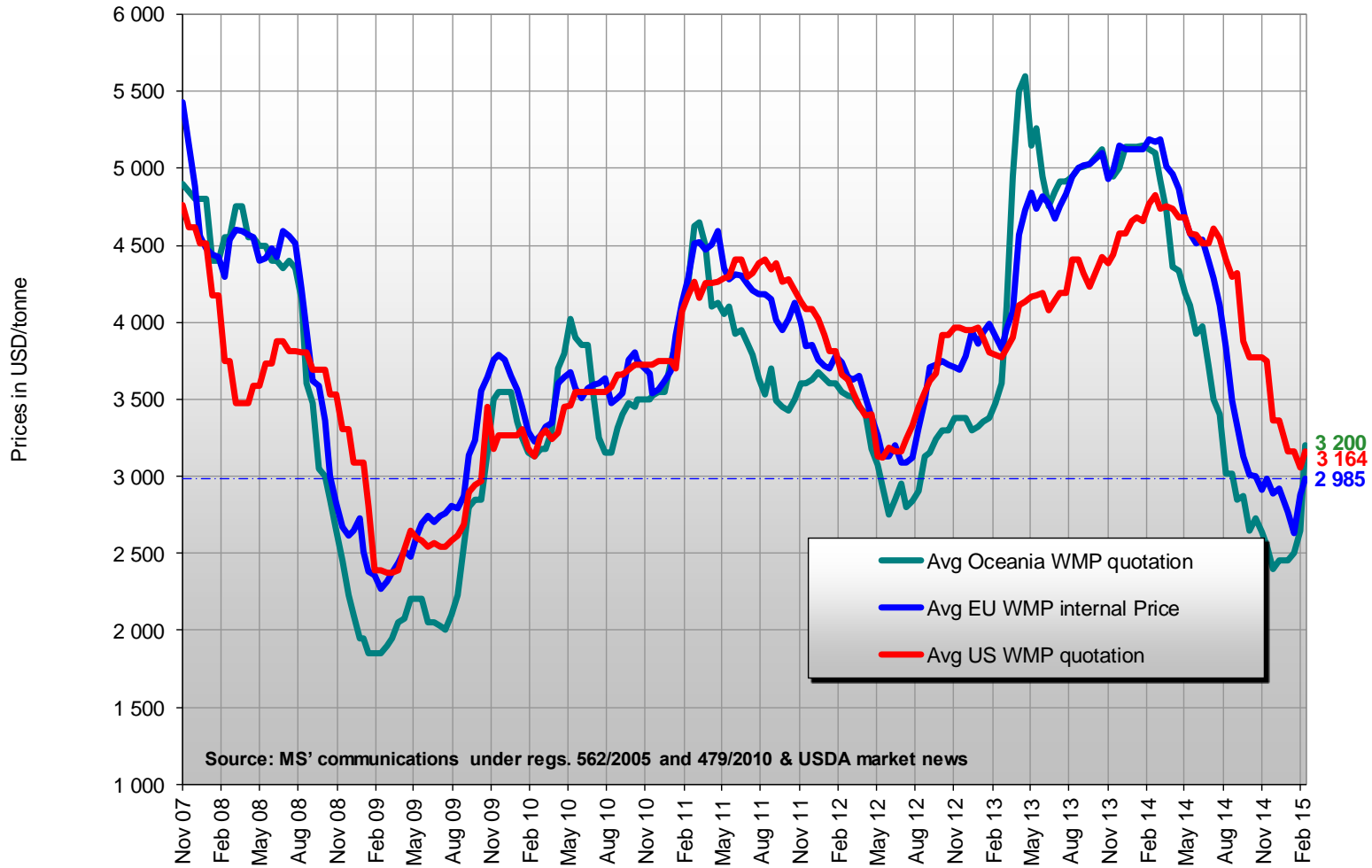
Zoom: 1m 3m 6m 1y 2y 5y 10y all



EU/US/Oceania Quotations of SMP



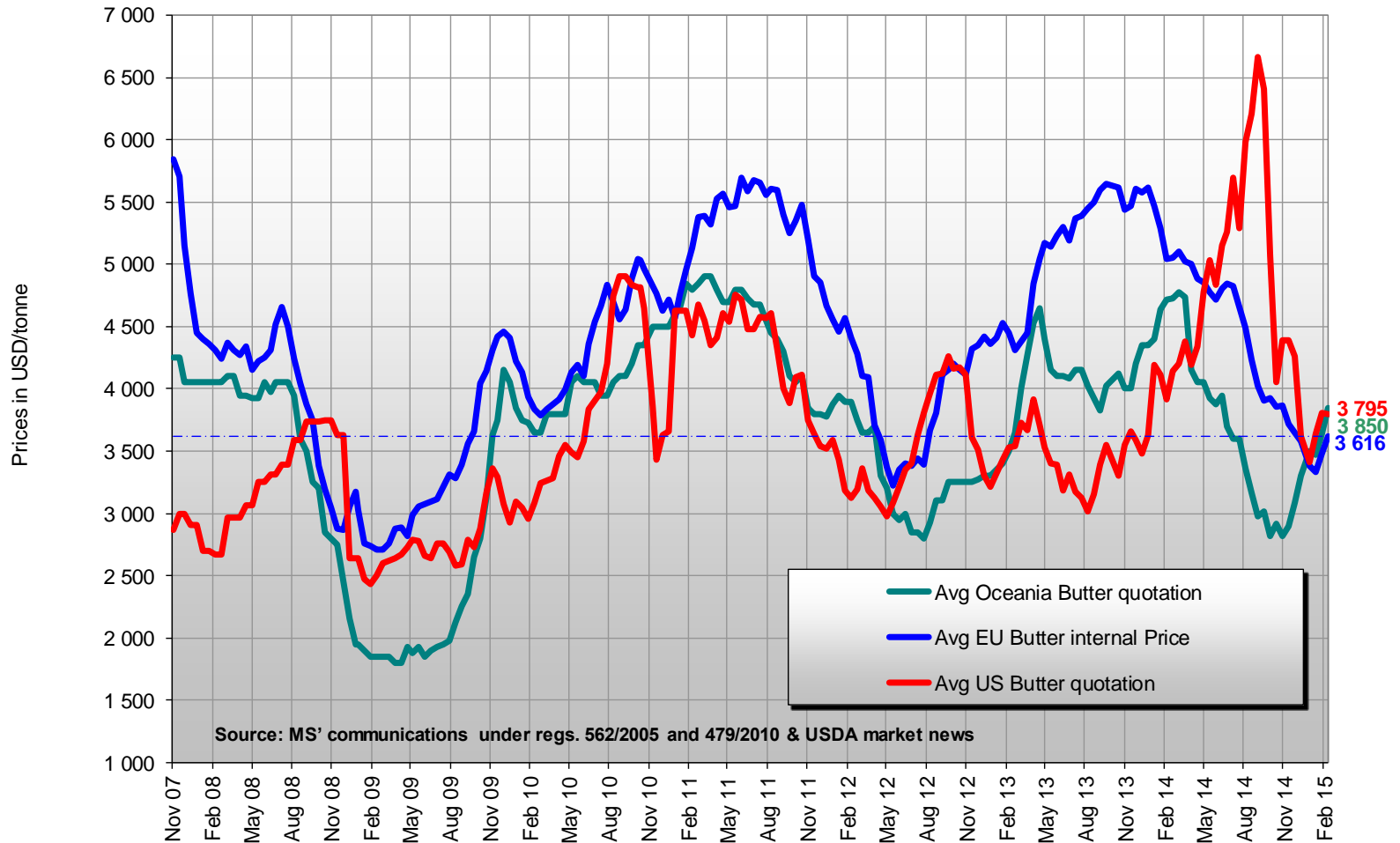
EU/US/Oceania Quotations of WMP





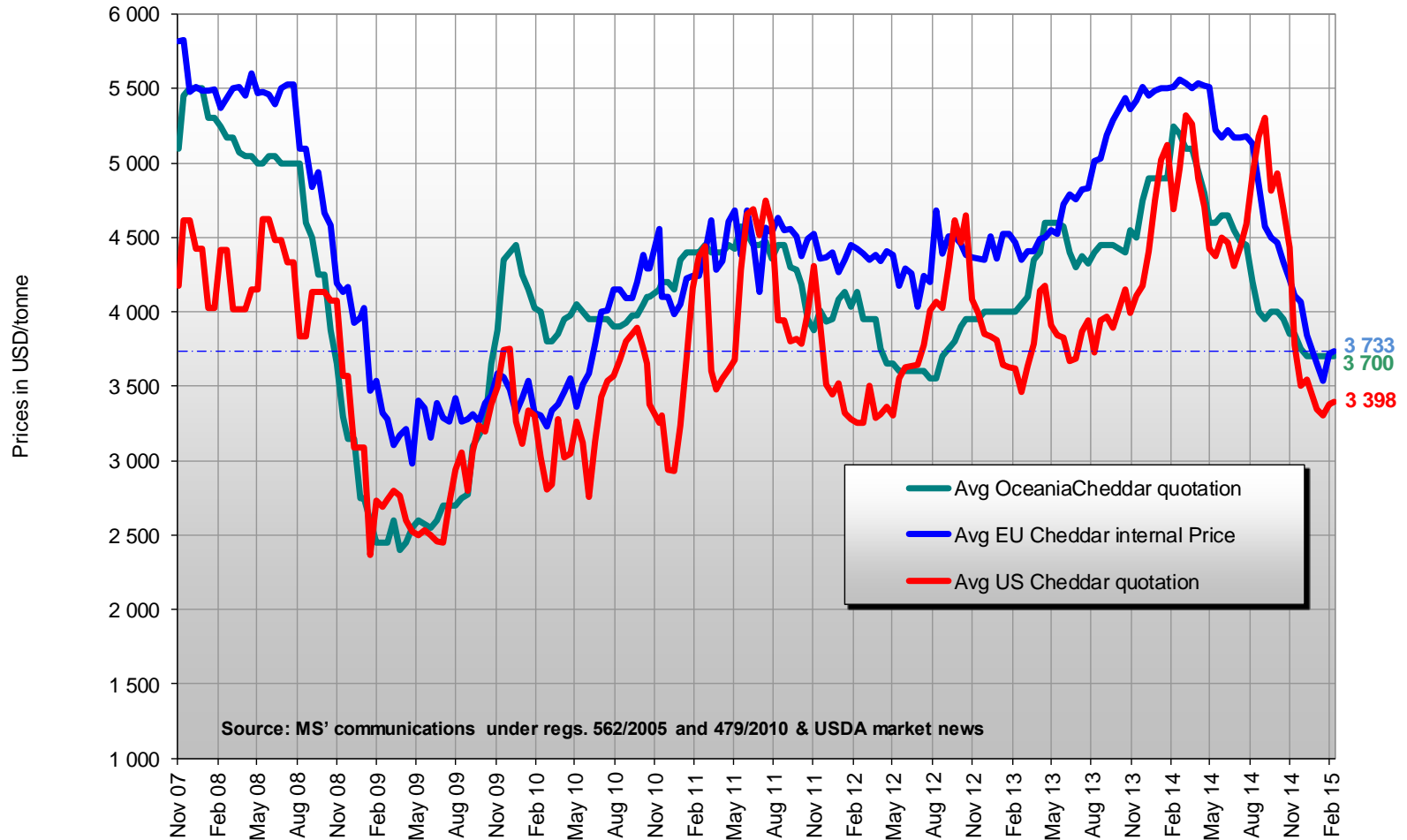
European
Commission

EU/US/Oceania Quotations of Butter



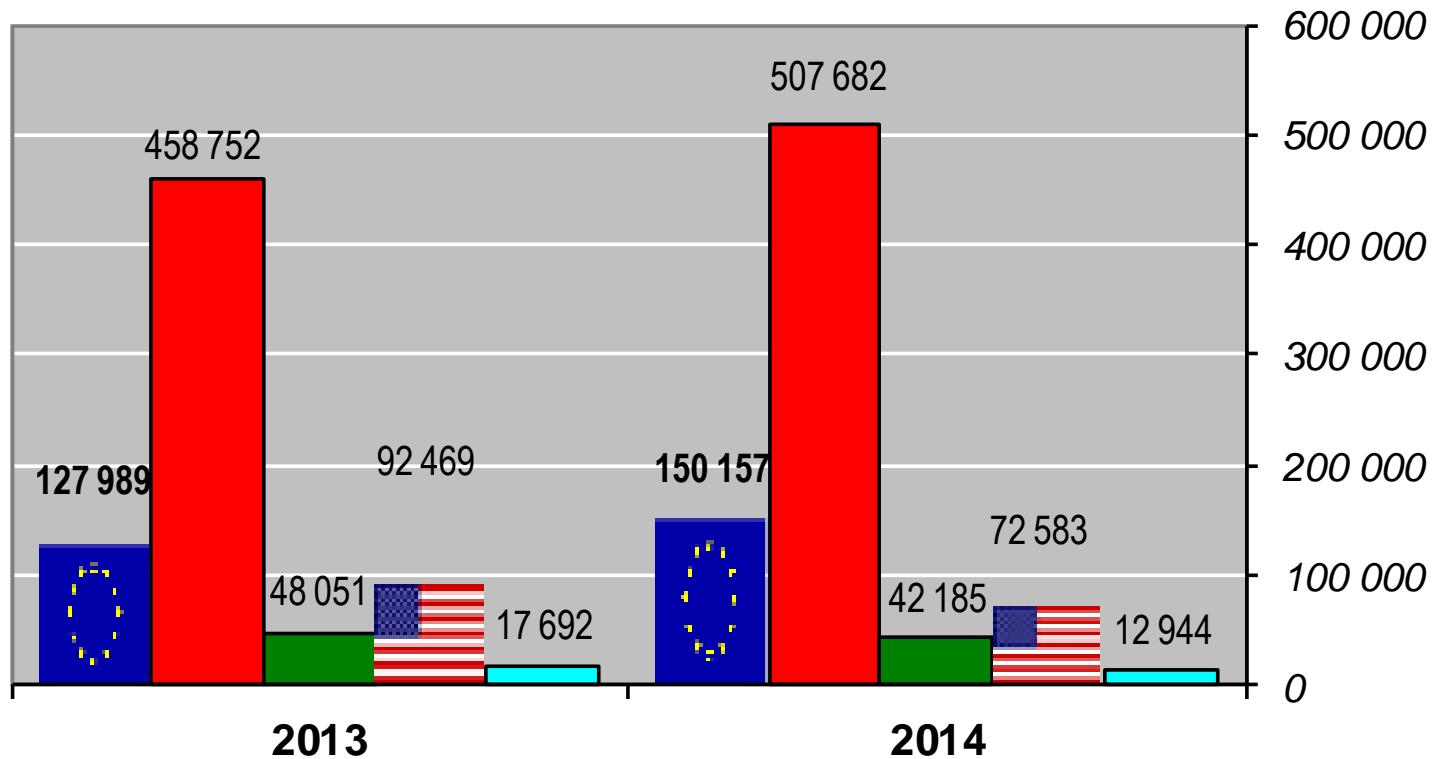
Source: MS' communications under regs. 562/2005 and 479/2010 & USDA market news

EU/US/Oceania Quotations of Cheddar



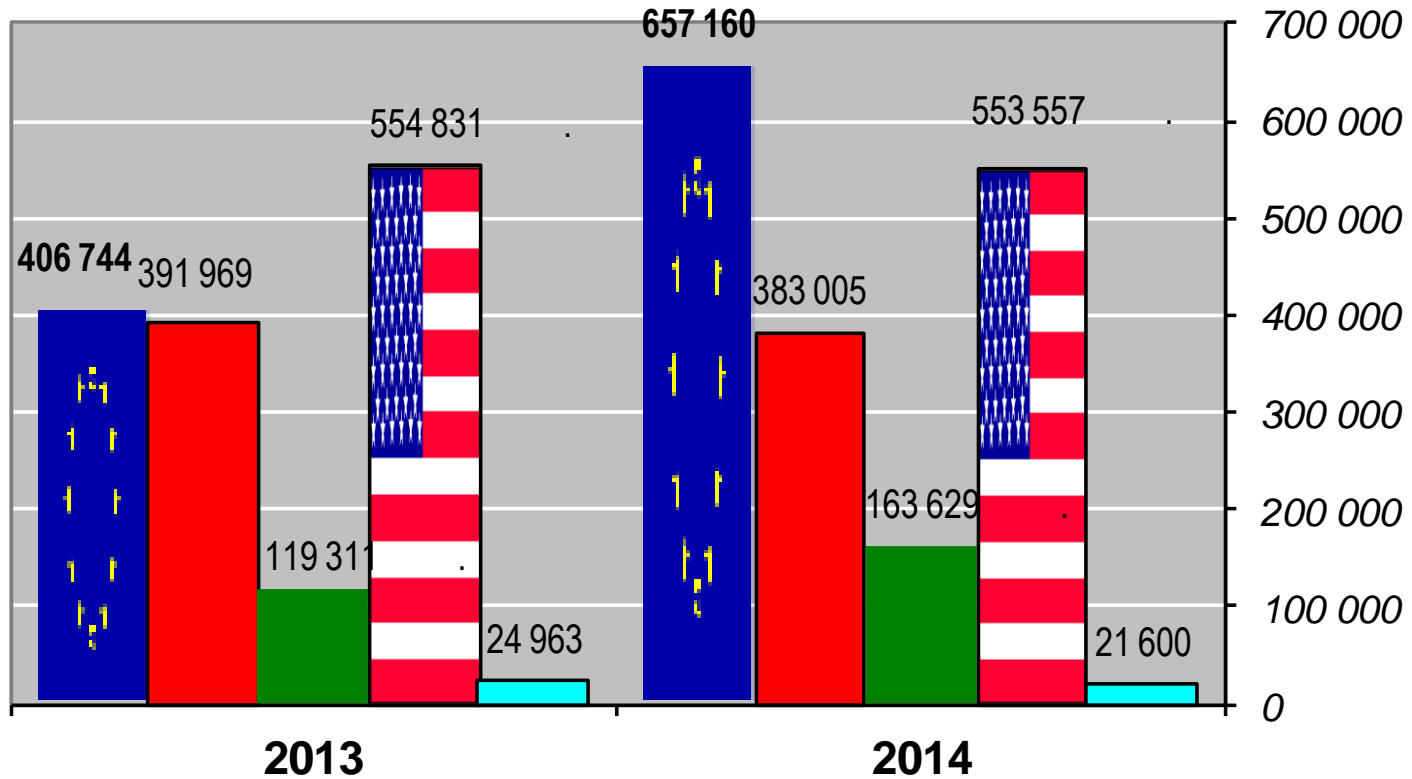
BUTTER & Butteroil Exports

- EU-28 (up to Dec)
- New Zealand (up to Dec)
- Australia (up to Dec)
- United States (up to Dec)
- Argentina (up to Dec)



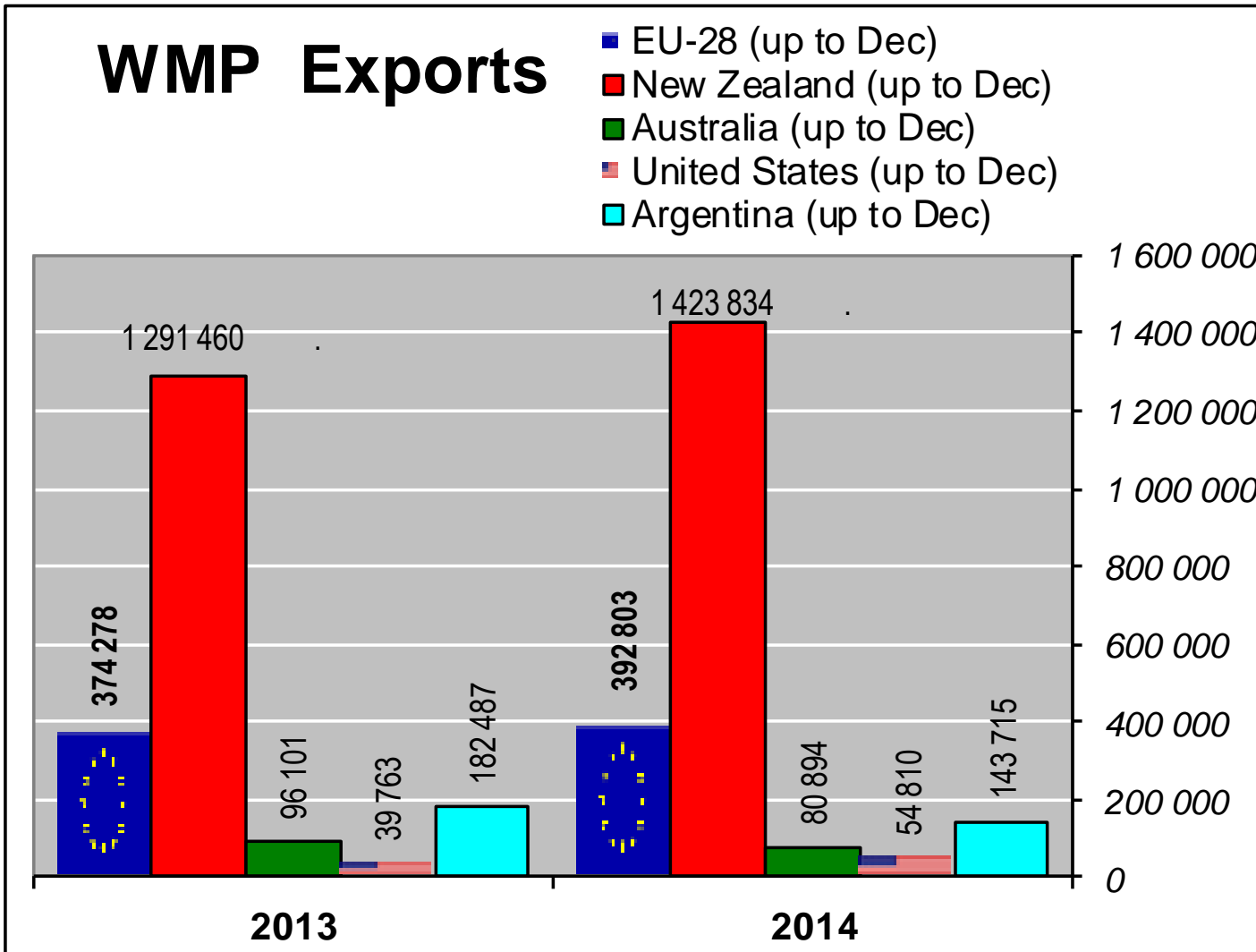
SMP Exports

- EU-28 (up to Dec)
- New Zealand (up to Dec)
- Australia (up to Dec)
- United States (up to Dec)
- Argentina (up to Dec)



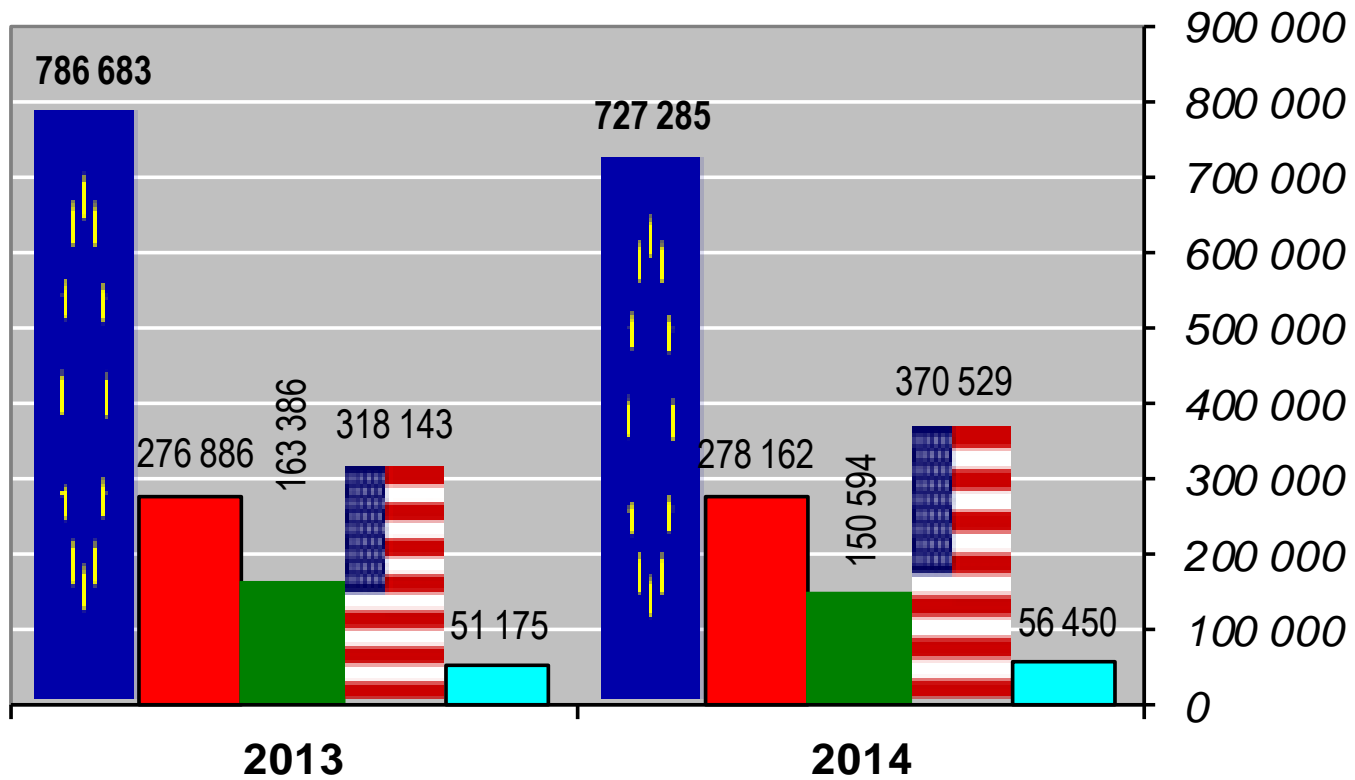
WMP Exports

- EU-28 (up to Dec)
- New Zealand (up to Dec)
- Australia (up to Dec)
- United States (up to Dec)
- Argentina (up to Dec)



CHEESE Exports

- EU-28 (up to Dec)
- New Zealand (up to Dec)
- Australia (up to Dec)
- United States (up to Dec)
- Argentina (up to Dec)

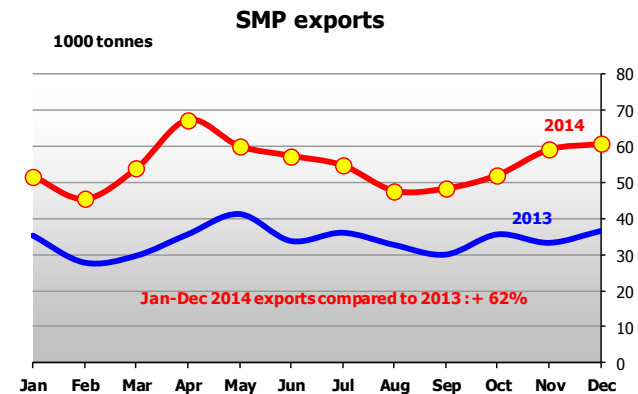
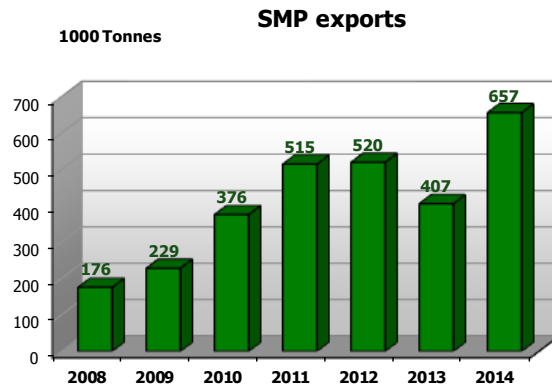
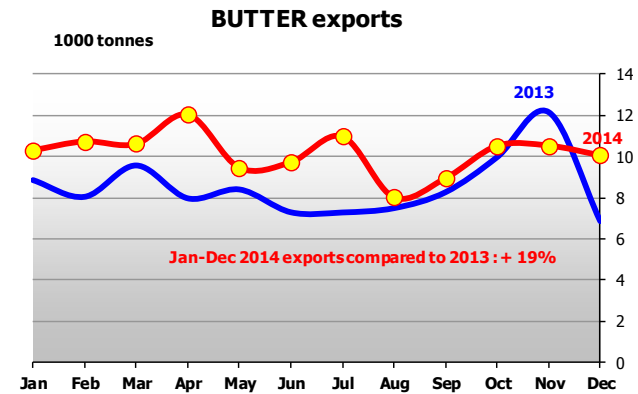
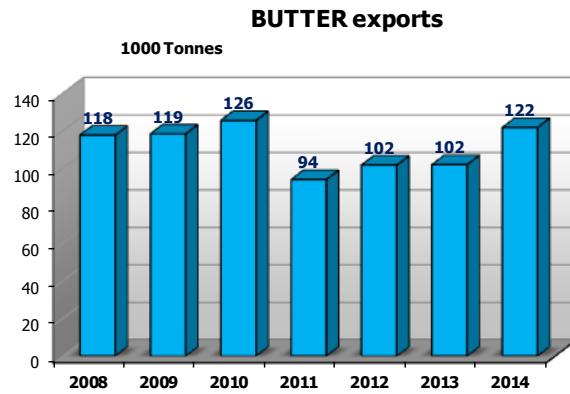




European Commission

EU-28 Exports (1/2)

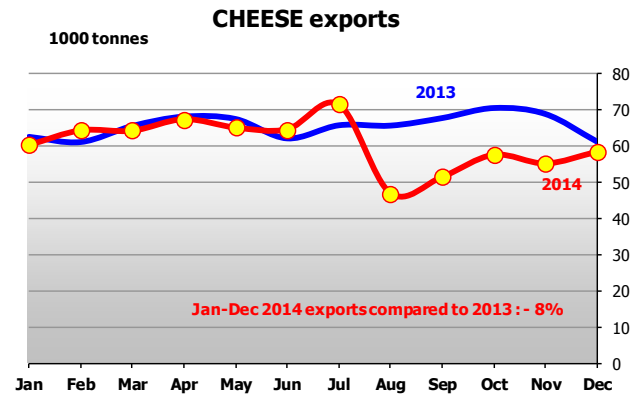
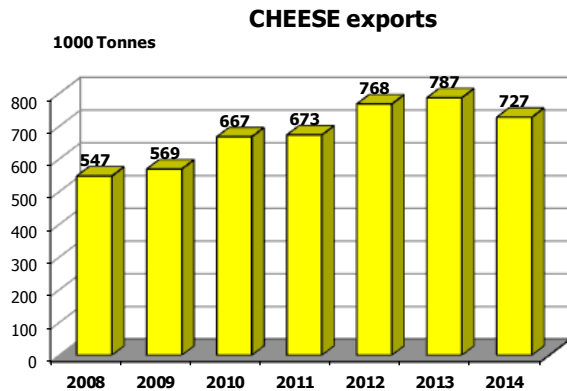
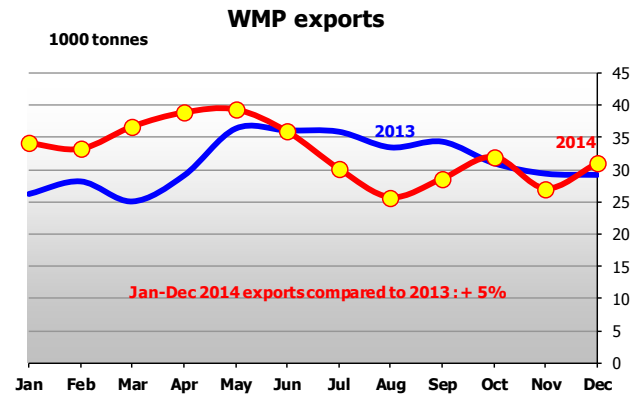
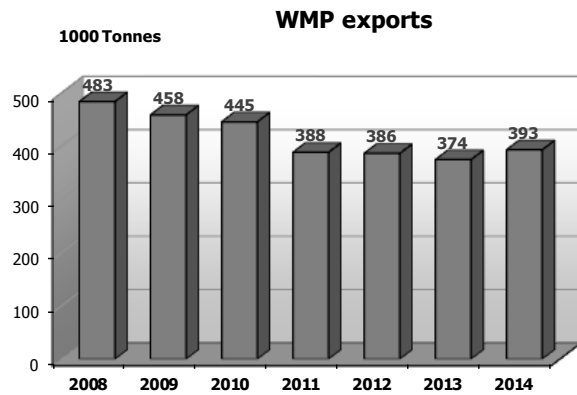
Source : Eurostat (COMEXT)





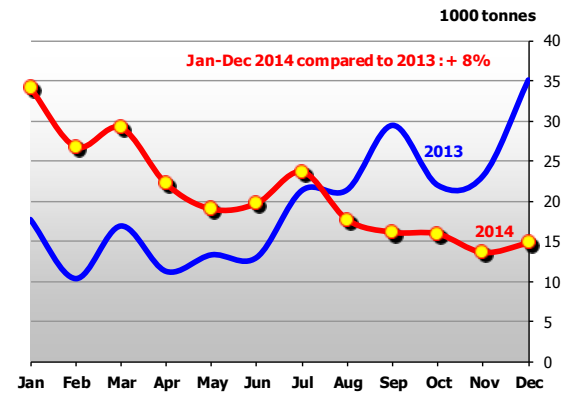
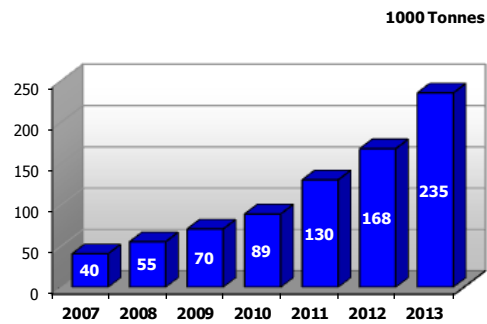
European
Commission

EU-28 Exports (2/2)

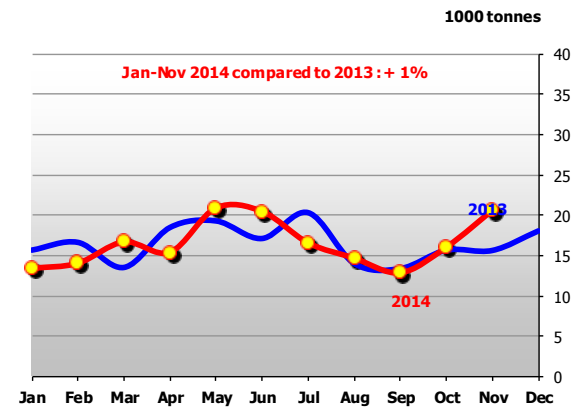
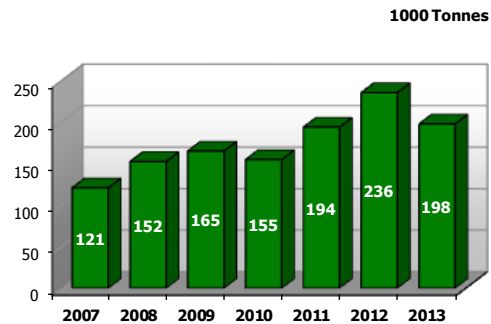


Main Dairy Importers (S.M.P. - 1/2)

China



Mexico

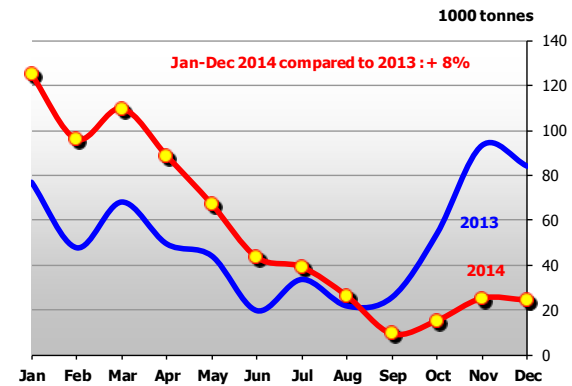
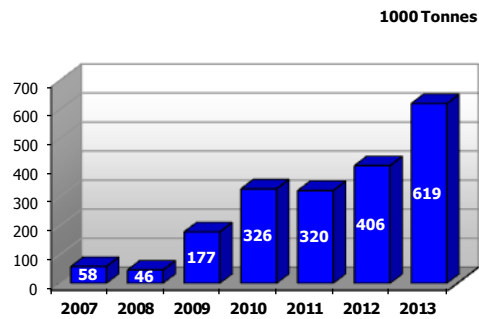




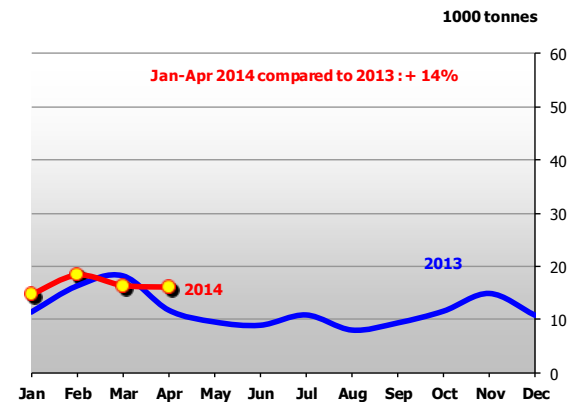
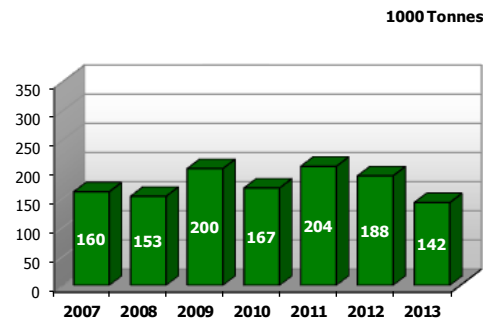
European
Commission

Main Dairy Importers (W.M.P. 1/2)

China

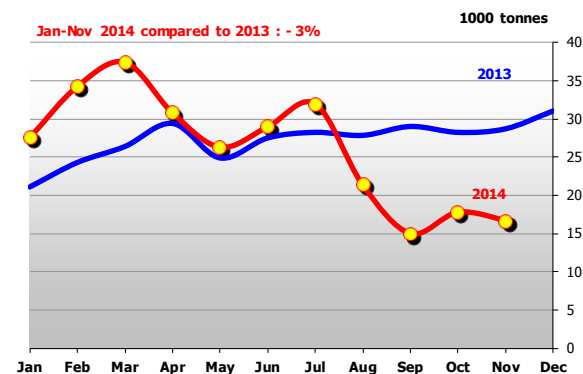
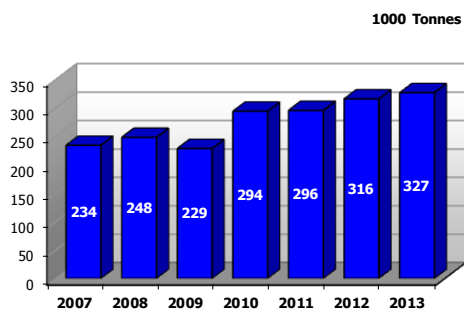


Algeria

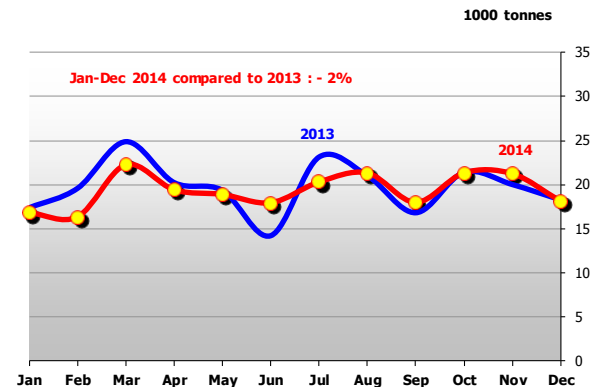
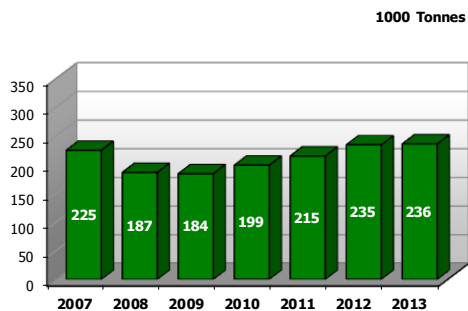


Main Dairy Importers (Cheese - 1/2)

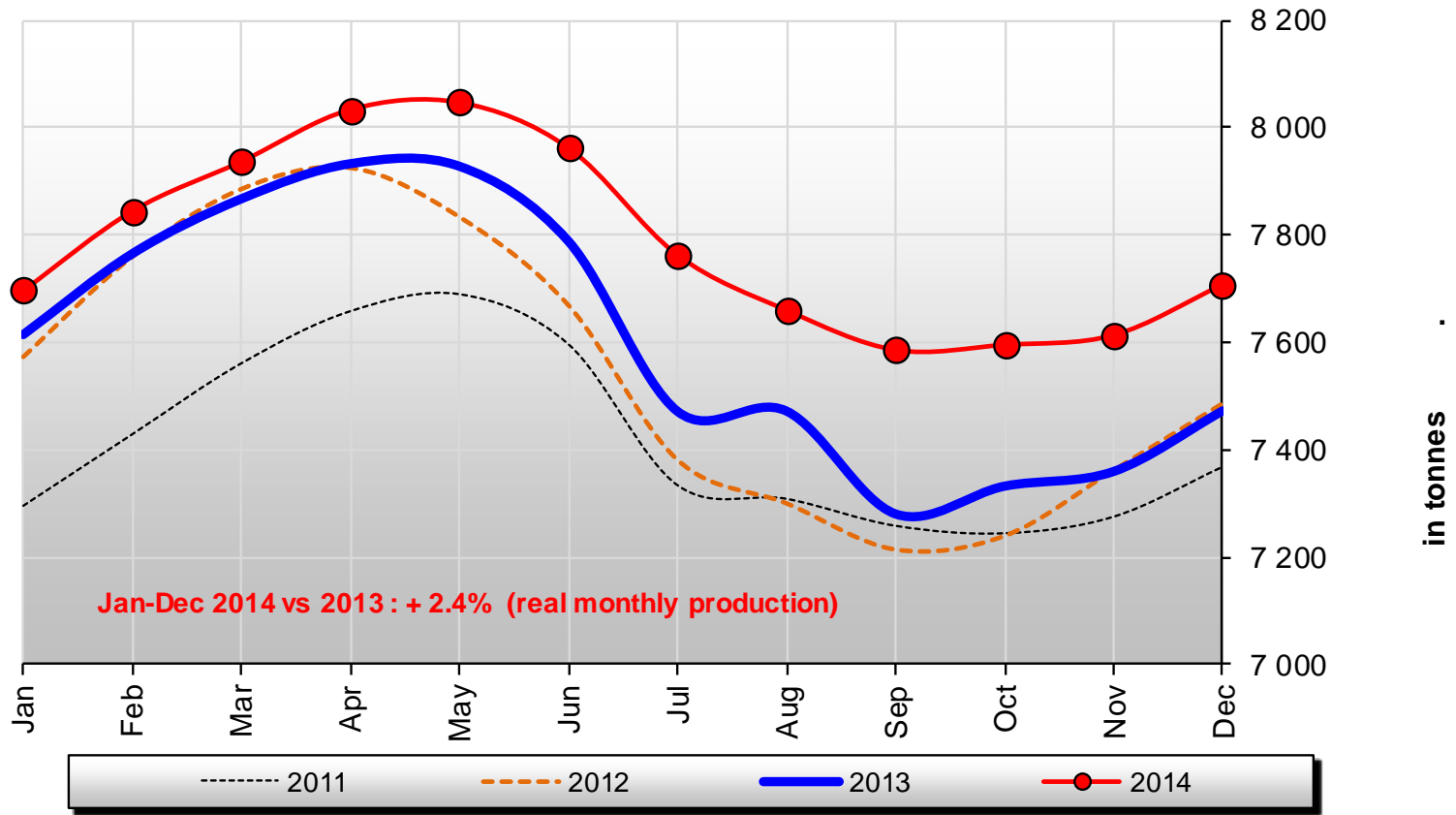
Russia



Japan

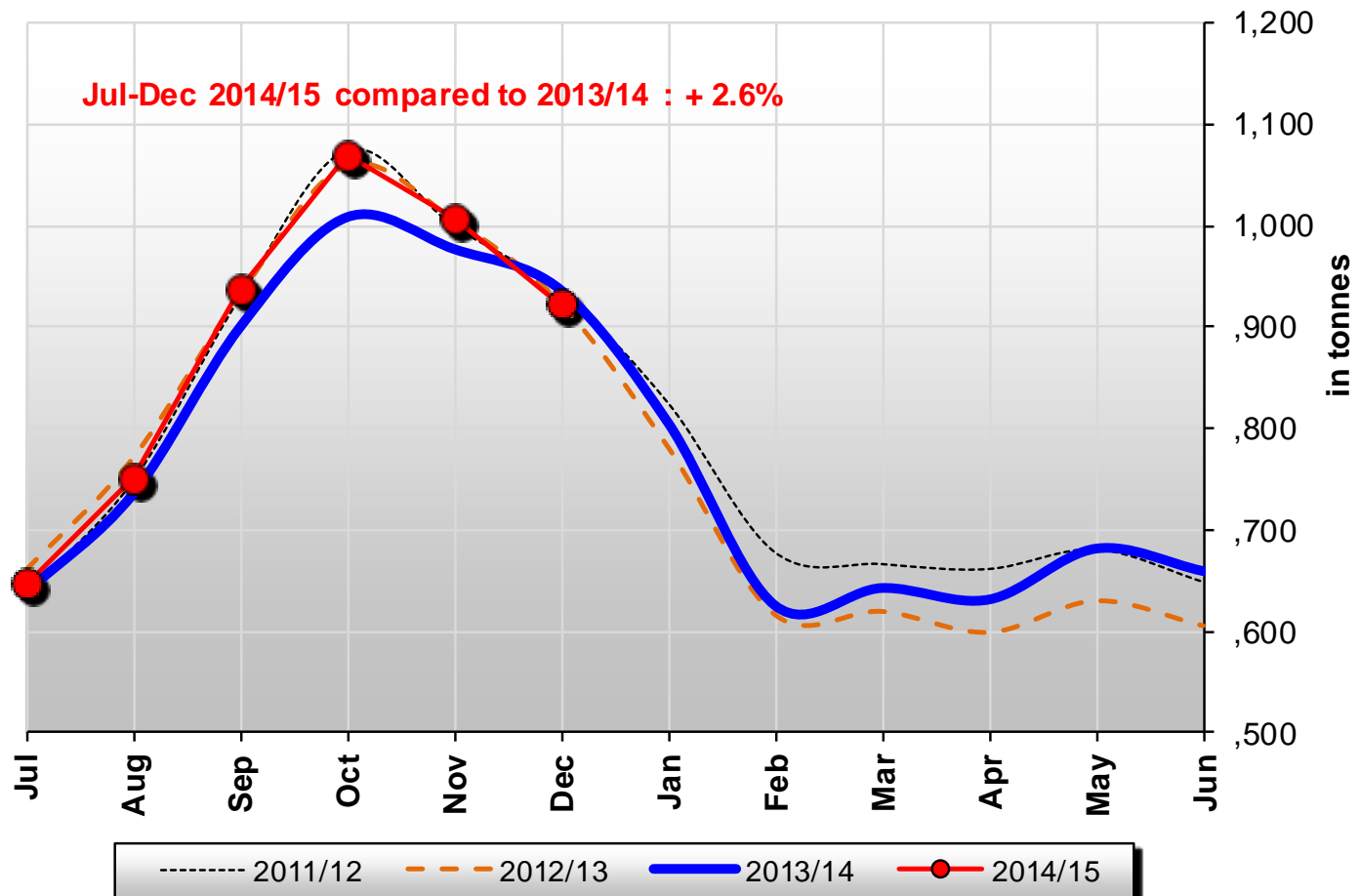


Adjusted U.S. milk production (months of constant length)

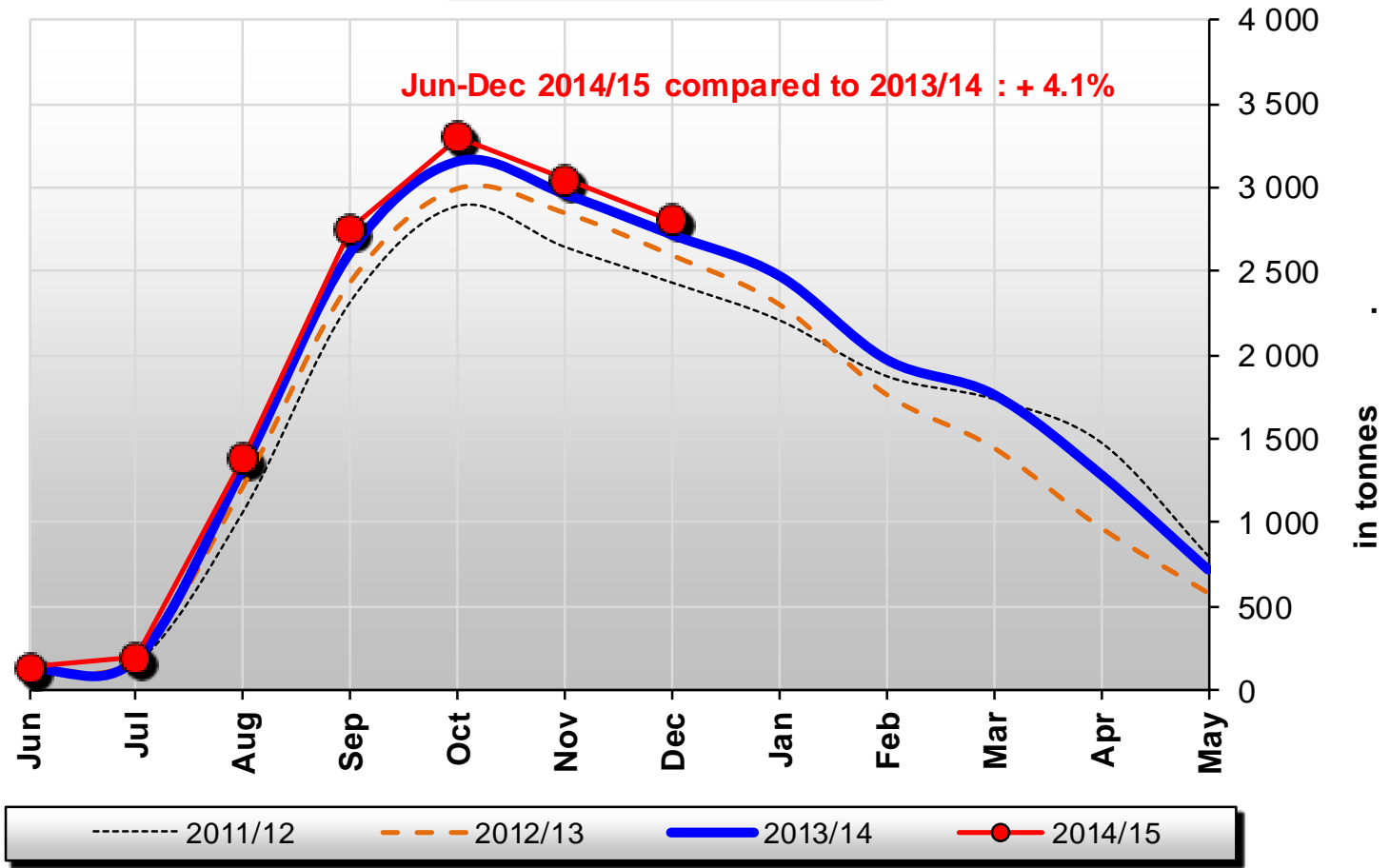


Source:USDA

Australian milk production



NZ milk production



Source: DCANZ - Fonterra

Results of the GDT event 134 of 17.02.2015

Prices in US\$/t							Weighted average price	% change	% change by contract from previous auction					
	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15			Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
AMF	n.a.	4 281	4 326	4 335	4 359	4 388	4 314	+ 6.1%		+ 6.0%	+ 5.9%	+ 6.0%	+ 7.0%	+ 5.3%
Butter	n.a.	3 795	3 826	3 835	3 940	n.a.	3 823	+ 1.1%		- 1.6%	+ 1.2%	+ 5.2%	+ 5.2%	
BMP	n.a.	2 675	2 670	n.a.	n.a.	n.a.	2 674	+ 9.7%		+ 11.8%	- 0.6%			
Cheeses	n.a.	2 997	3 064	3 111	n.a.	n.a.	3 054	+ 15.9%		+ 15.8%	+ 15.0%	+ 16.8%		
Rennet Casein	n.a.	8 902	8 902	8 884	n.a.	n.a.	8 897	+ 1.4%		+ 0.2%	+ 1.1%	+ 2.8%		
Lactose	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.							
SMP	n.a.	2 719	2 761	2 706	2 848	2 842	2 744	+ 5.6%		+ 5.9%	+ 5.0%	+ 4.8%	+ 6.7%	+ 6.0%
WMP	n.a.	3 242	3 262	3 244	3 342	3 412	3 272	+ 13.9%		+ 13.1%	+ 13.9%	+ 11.8%	+ 15.2%	+ 18.3%

Source : GlobalDairyTrade (<http://www.globaldairytrade.info/>)

17 Feb 2015

1 € = 1.1297 \$ (ECB rate)

in €/t	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Weighted average price
AMF		3 790	3 829	3 837	3 858	3 884	3 818
Butter		3 359	3 387	3 395	3 488		3 384
BMP		2 368	2 363				2 367
Cheese		2 653	2 712	2 754			2 704
MPC70							
Rennet Casein		7 880	7 880	7 864			7 875
Lactose							7 769
SMP		2 407	2 444	2 395	2 521	2 515	2 429
WMP		2 870	2 887	2 871	2 959	3 020	2 897

ANNEX 2

The effects of the Russian ban on the EU dairy exports.

European Commission



The effects of the Russian ban on the EU dairy exports.

Milk Market Observatory meeting

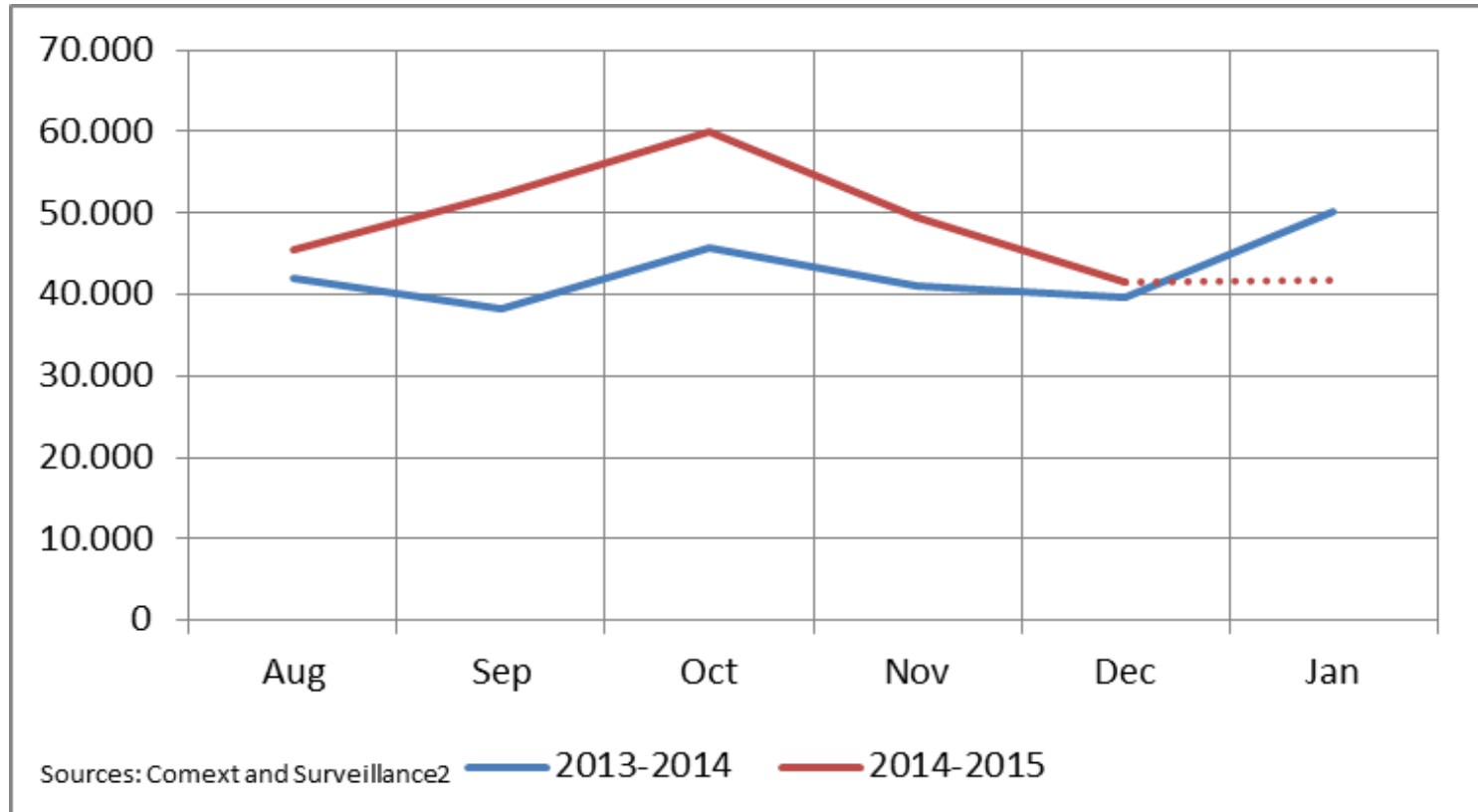
Brussels 24/02/2015

Methodology

EUROSTAT - Comext data

*January 2015 estimations based on TAXUD -
Surveillance data*

EU28 exports to Third Countries of HS 0401 Milk and cream (1000€)

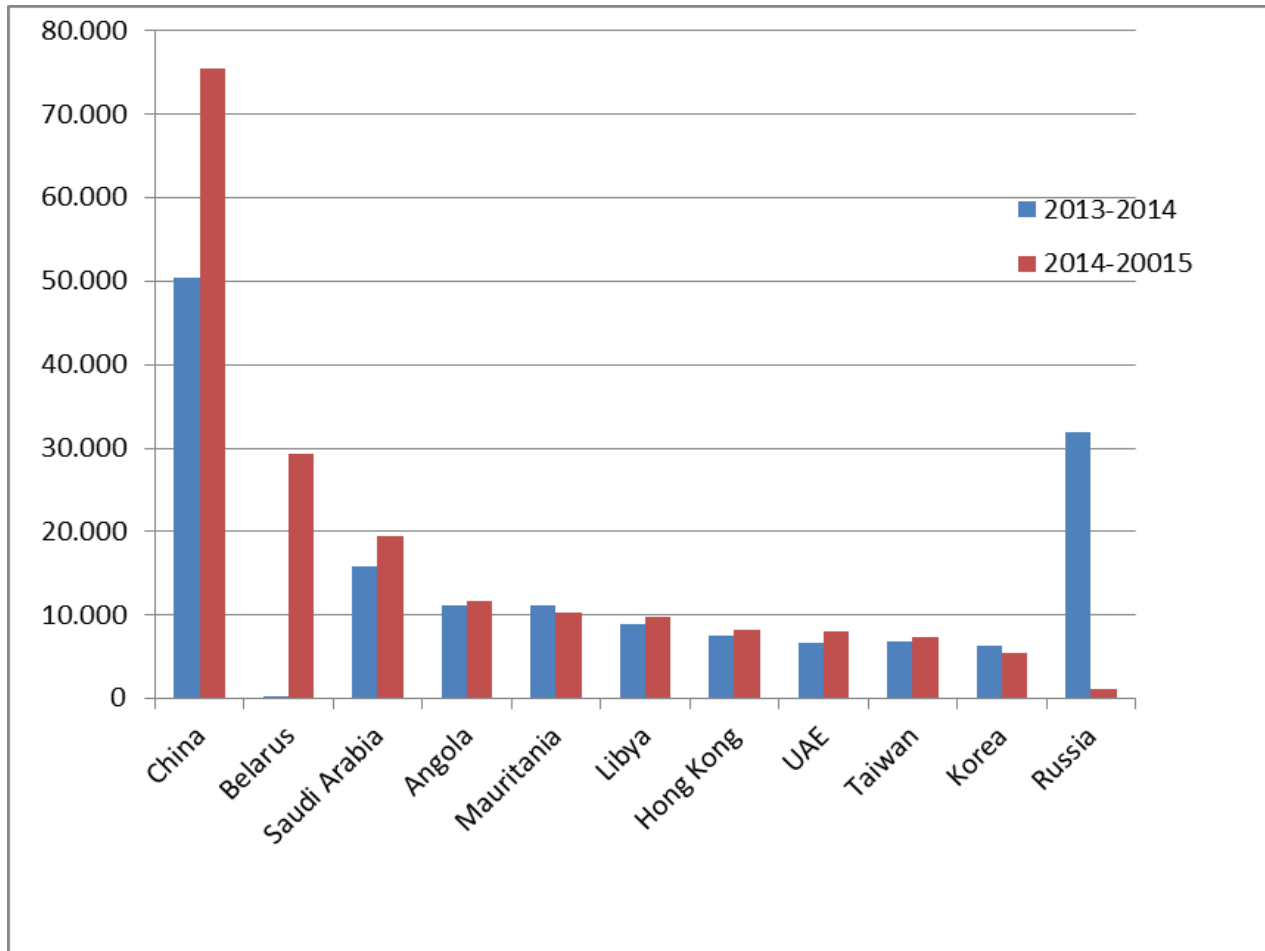


+1% Jan. 2015 on Dec.2014

-17% Jan. 2015 on Jan. 2014

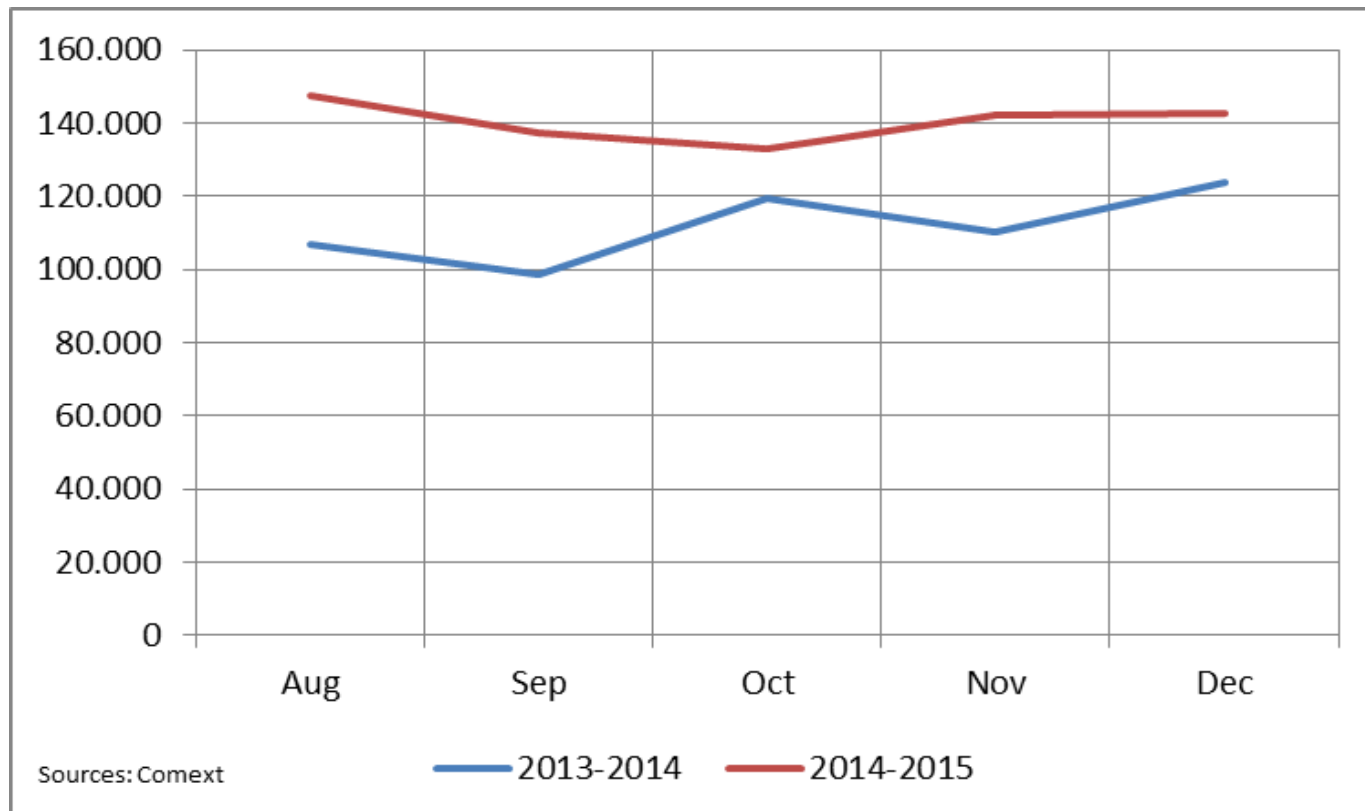
+13% on the total period (Aug. 2014-Jan. 2015 on Aug. 2013-Jan. 2014)

Increase of EU28 exports to Third Countries of Milk HS 0401



China +50%
 Belarus +++
 Saudi Arabia +22%
 Angola 5%
 Mauritania -8%
 Lybia +10%
 Hong Kong +10%
 UAE +22%
 Taiwan +6%
 Korea -13%
 Russia -96%

EU28 exports to Third Countries of HS 0402 10 SMP(1000€)



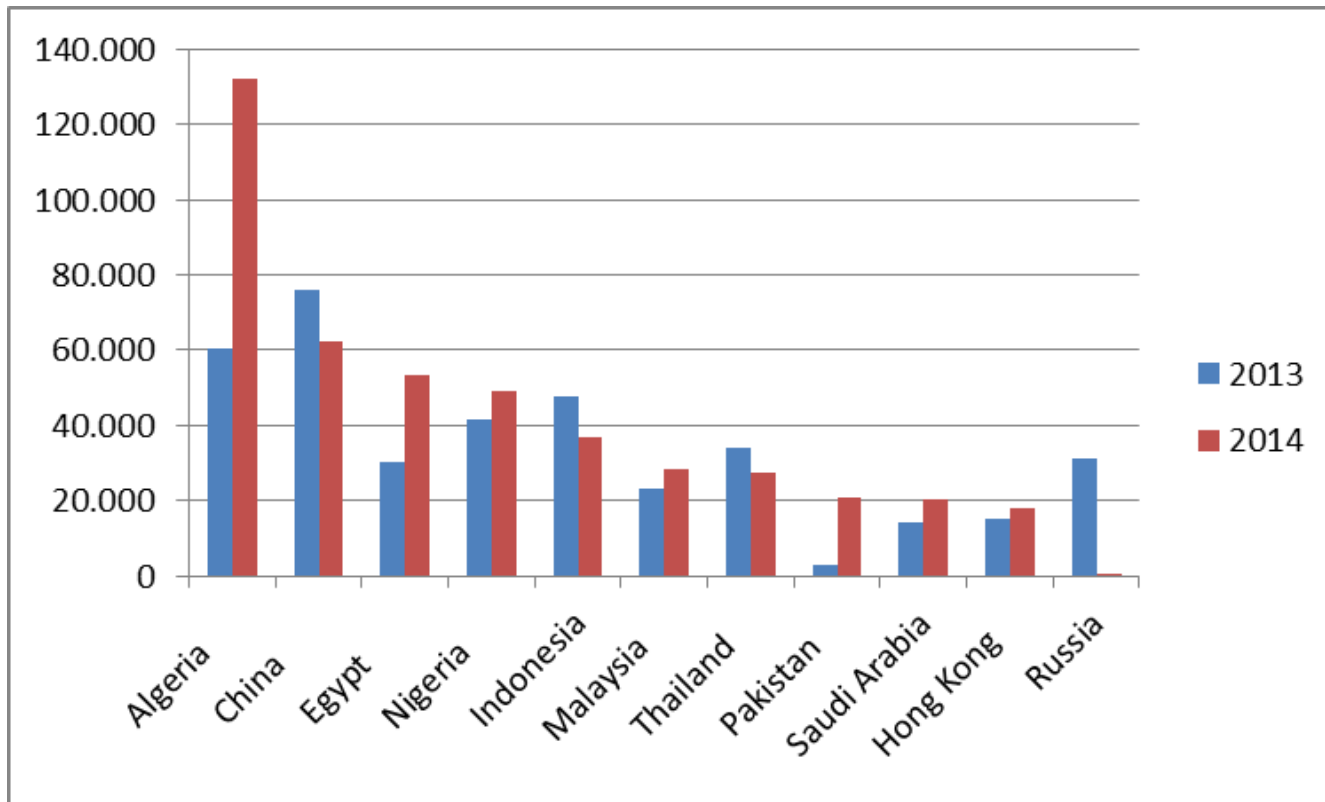
+0% Dec.2014 on Nov. 2014

+15% Dec.2014 on Dec.2013

+26% on the total period (Aug. 2014-Dec. 2014 on Aug. 2013- Dec 2013)

Untill Dec 2014 only

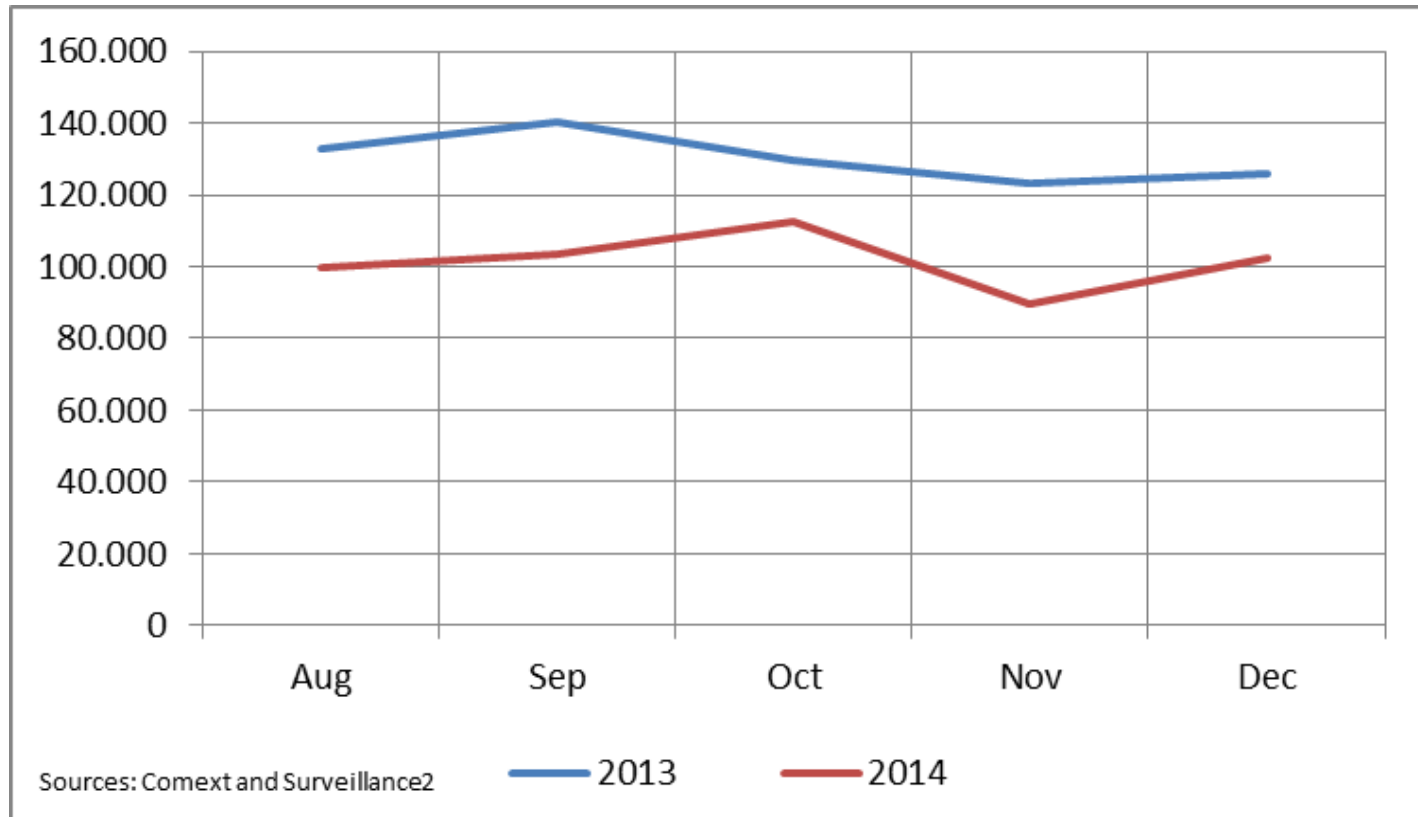
Increase of EU28 exports to Third Countries of SMP HS 0402 10



Algeria +119%
 China -18%
 Egypt +76%
 Nigeria +19%
 Indonesia -23%
 Malaysia +22%
 Thailand -19%
 Pakistan +638%
 SA +41%
 Hong Kong +20%
 Russia -96%

Worth mentioning
 Bangladesh,
 Mexico and Syria

EU28 exports to Third Countries of HS 0402 21 and 0402 29 WMP (1000€)



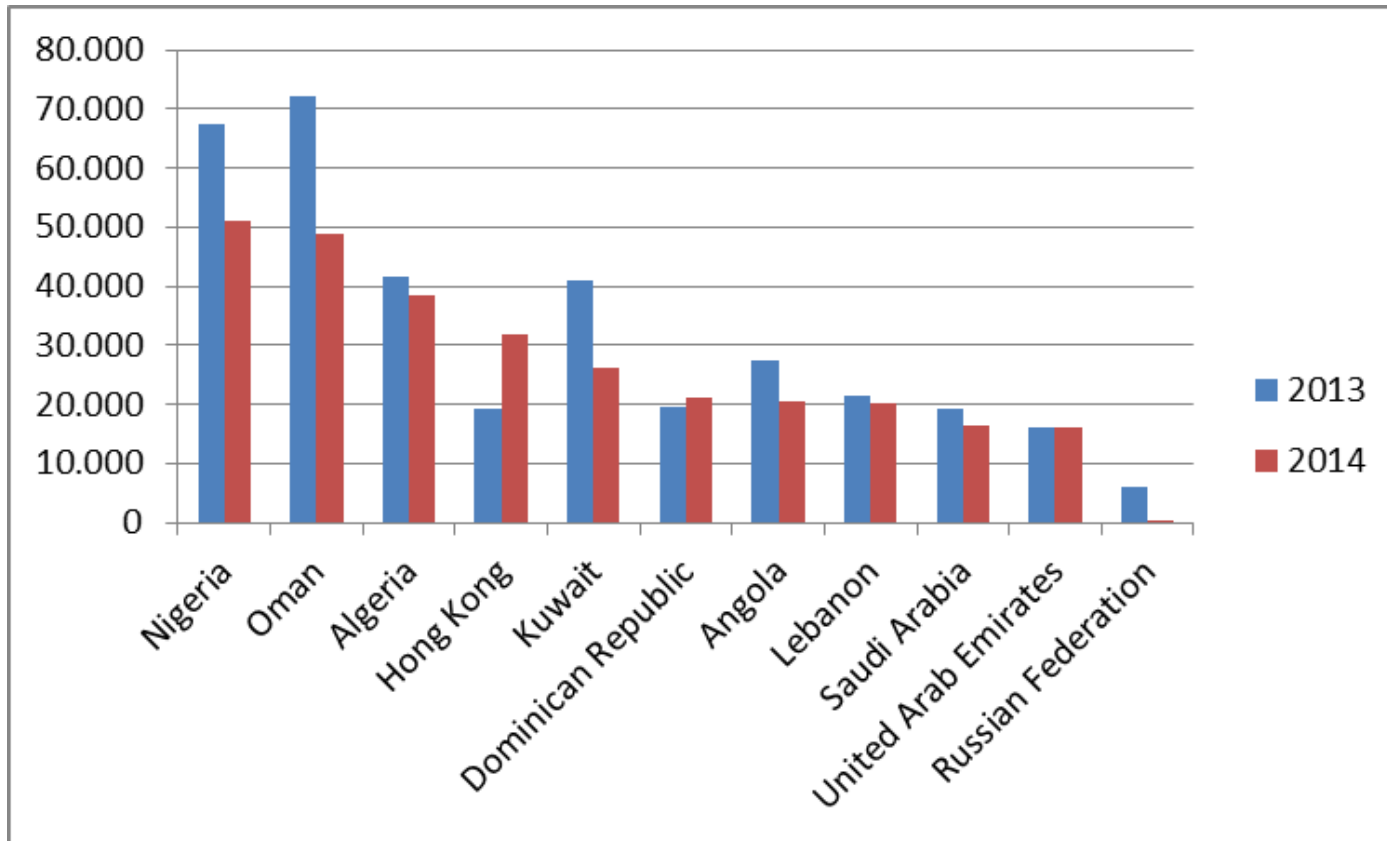
+15% Dec.2014 on Nov. 2014

-19% Dec.2014 on Dec.2013

-22% on the total period (Aug. 2014-Dec. 2014 on Aug. 2013- Dec 2013)

Untill Dec 2014 only

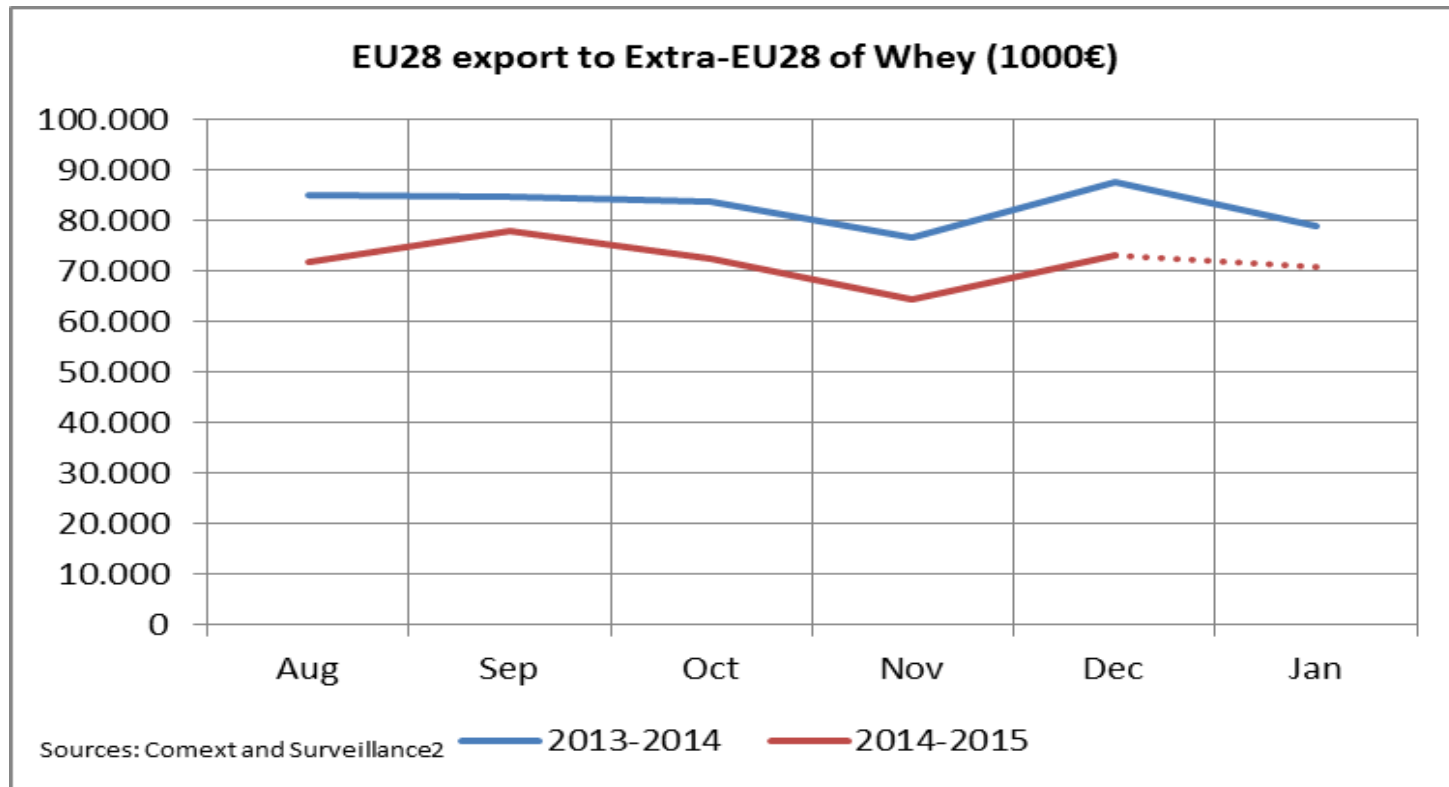
Increase of EU28 exports to Third Countries of WMP



Nigeria -24%
 Oman -33%
 Algeria -8%
 Hong Kong +65%
 Kuwait -36%
 Dominican Republic +8%
 Angola -25%
 Lebanon -6%
 SA -15%
 UAE 0%
 Russia -100%

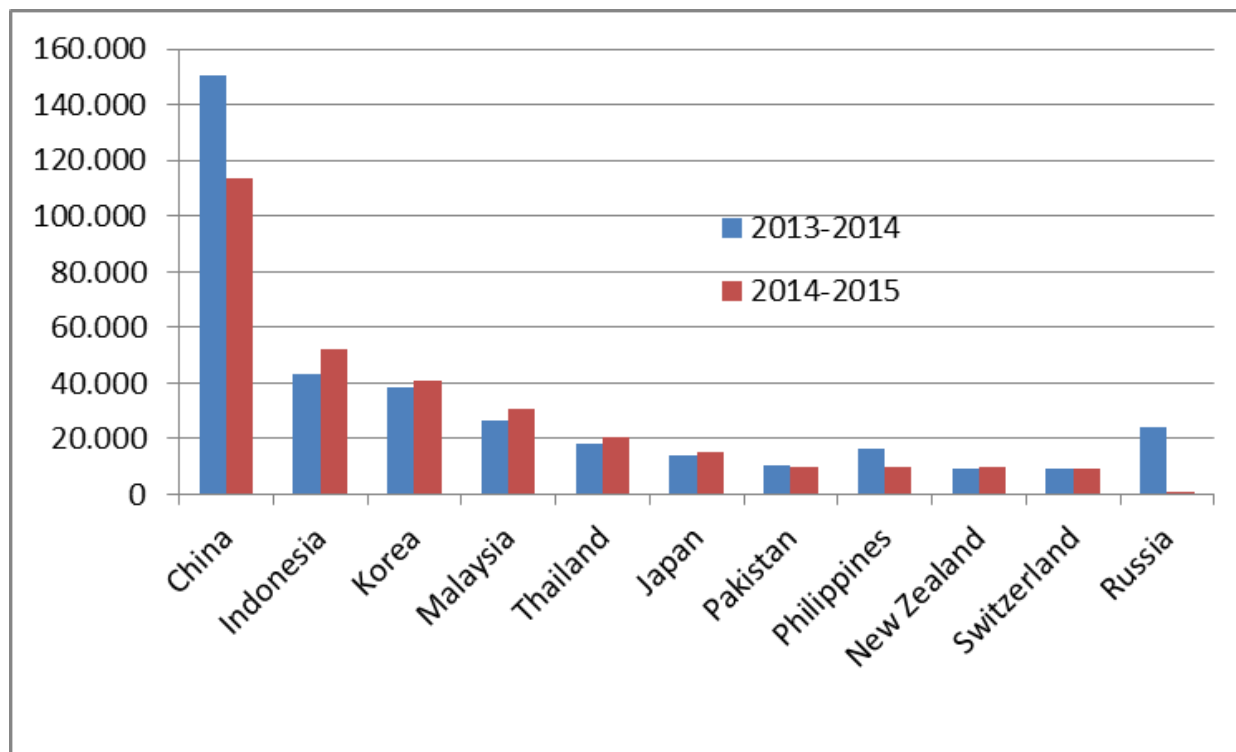
Worth mentioning
 China -60%

EU28 exports to Third Countries of HS 0404 Whey (1000€)



- 3% Jan. 2015 on Dec.2014
- 10% Jan. 2015 on Jan. 2014
- 33% on the total period (Aug. 2014-Jan. 2015 on Aug. 2013-Jan. 2014)

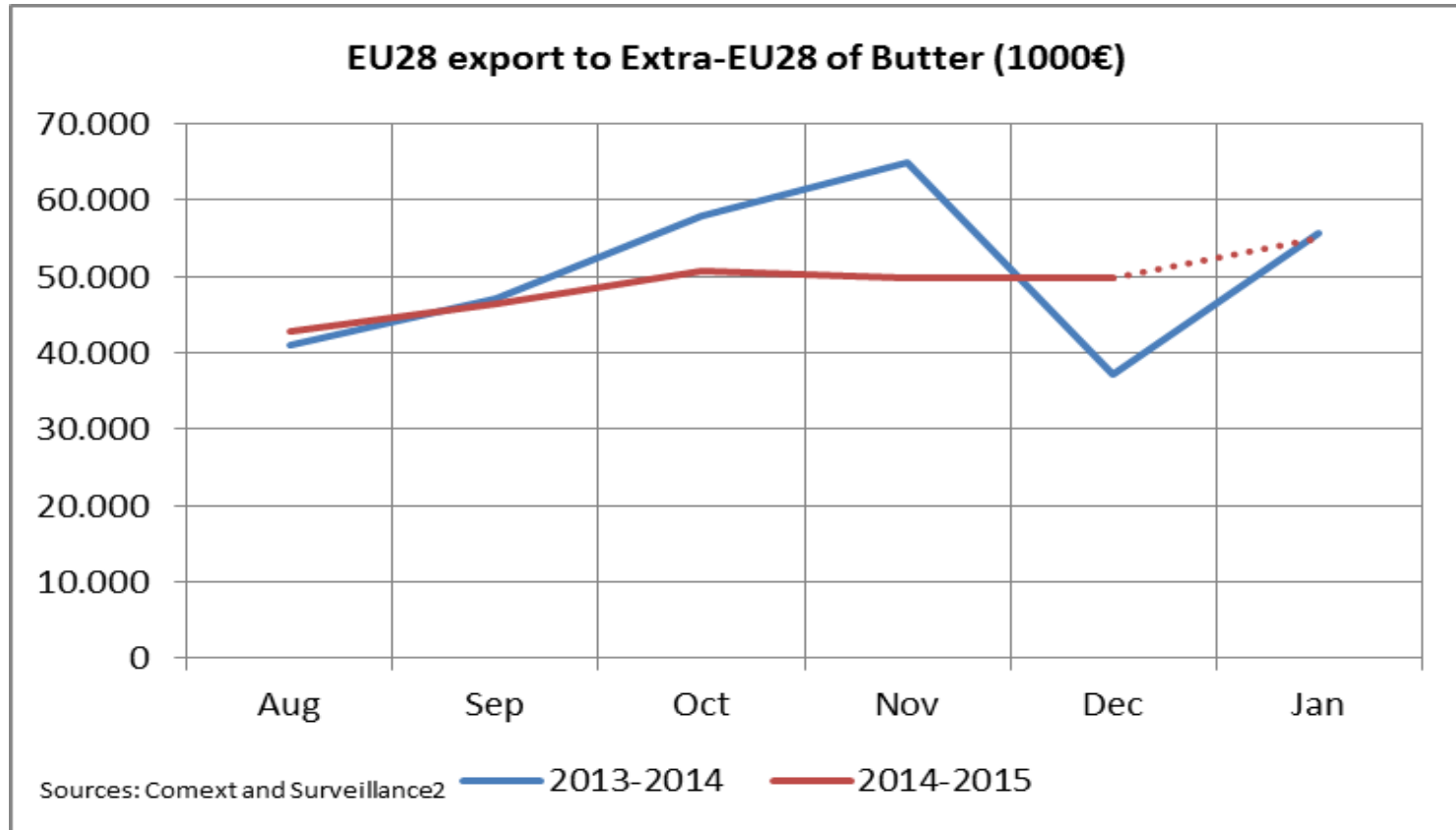
Increase of EU28 exports to Third Countries of Whey (1000€)



China -24%
 Indonesia +21%
 Korea +5%
 Malaysia +14%
 Thailand +13%
 Japan +11%
 Pakistan -2%
 Philippines -40%
 New Zealand +3%
 Switzerland 0
 Russia -100%

Worth mentioning
 Morocco-58%

EU28 exports to Third Countries of HS 0405 Butter (1000€)

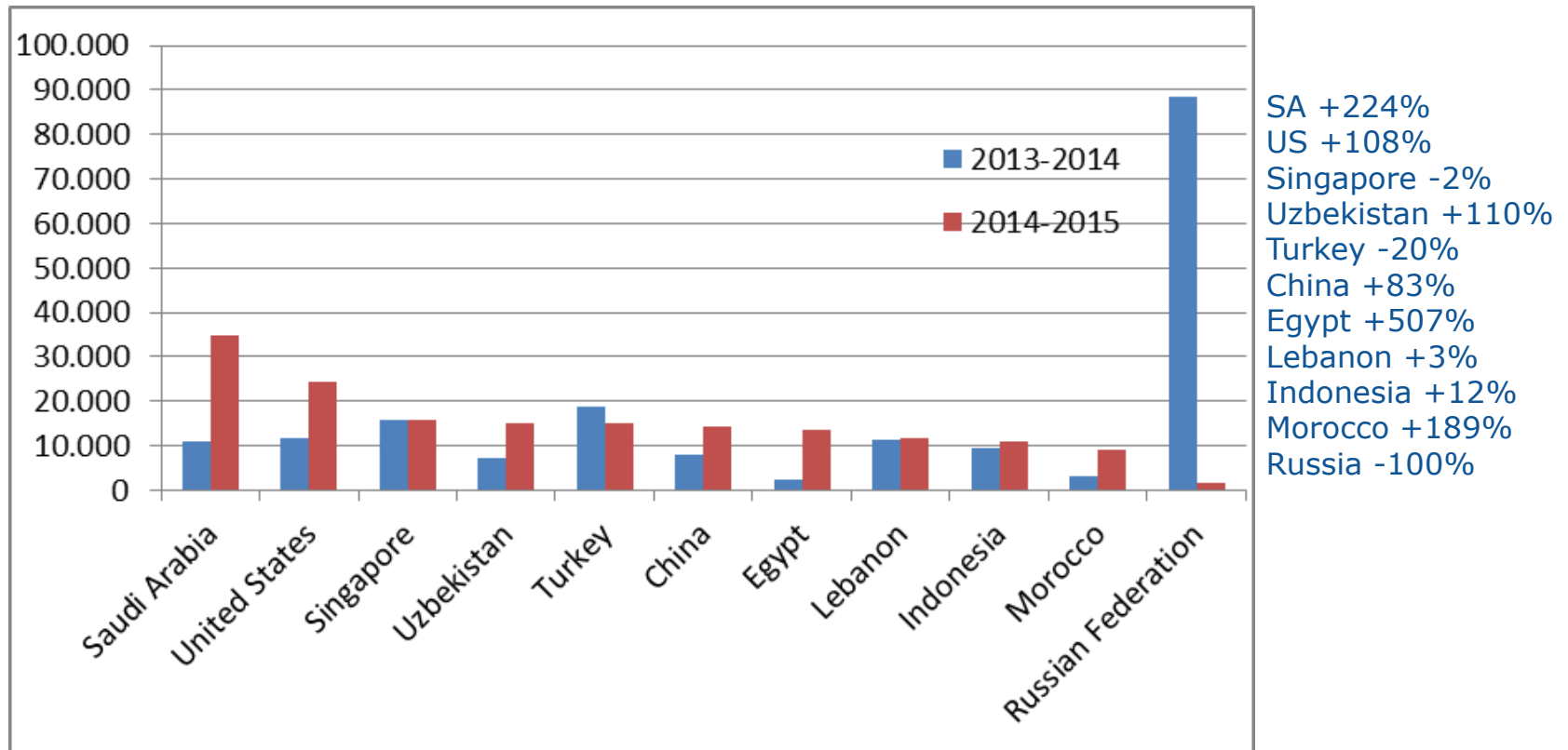


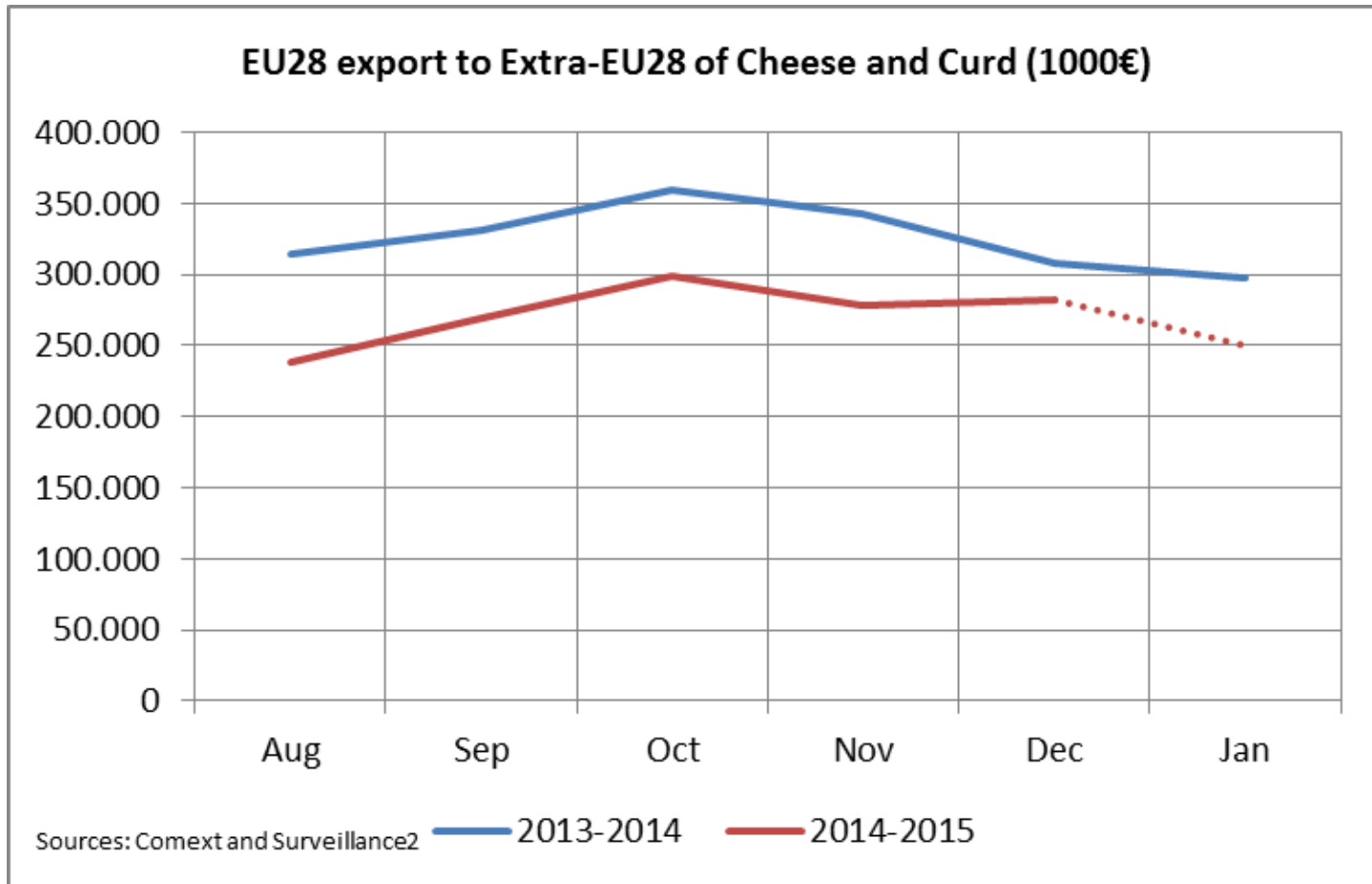
11% Jan. 2015 on Dec.2014

-1% Jan. 2015 on Jan. 2014

-3% on the total period (Aug. 2014-Jan. 2015 on Aug. 2013-Jan. 2014)

Increase of EU28 exports to Third Countries of Butter (1000€)





- 11% Jan. 2015 on Dec.2014**
- 16% Jan. 2015 on Jan. 2014**
- 17% on the total period (Aug. 2014-Jan. 2015 on Aug. 2013-Jan. 2014)**

ANNEX 3

Draft short-term prospects for EU dairy markets

EUROPEAN COMMISSION



Draft short-term prospects for EU dairy markets

*Milk market observatory
24 February 2015*

*Sophie H elaine
European Commission*

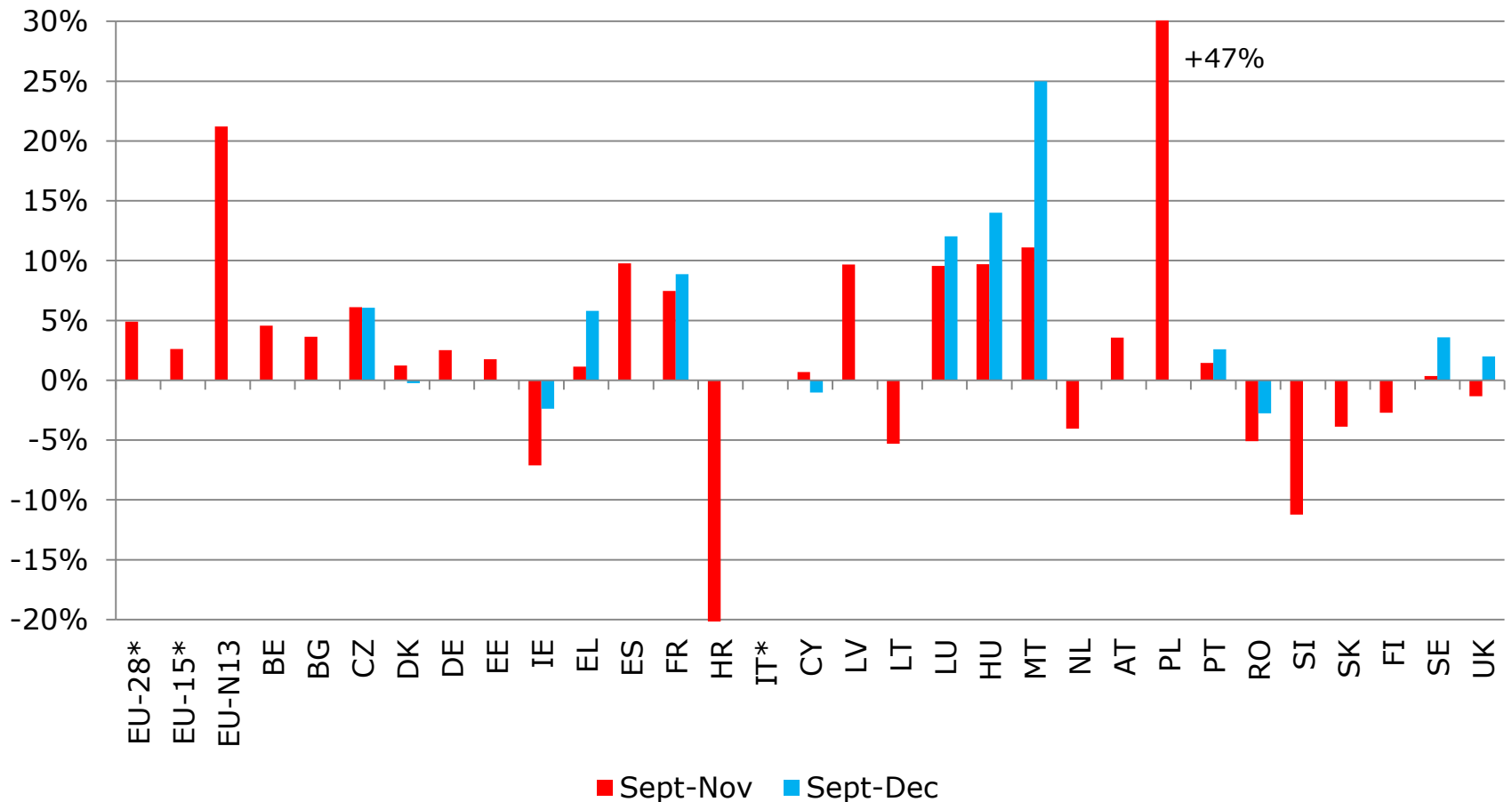
Outline

- Slaughtering and livestock survey
- The EU milk collection in the next months?
- 2015 and 2016 milk collection
- The balance sheets

The next STO is to be published
the second week of March

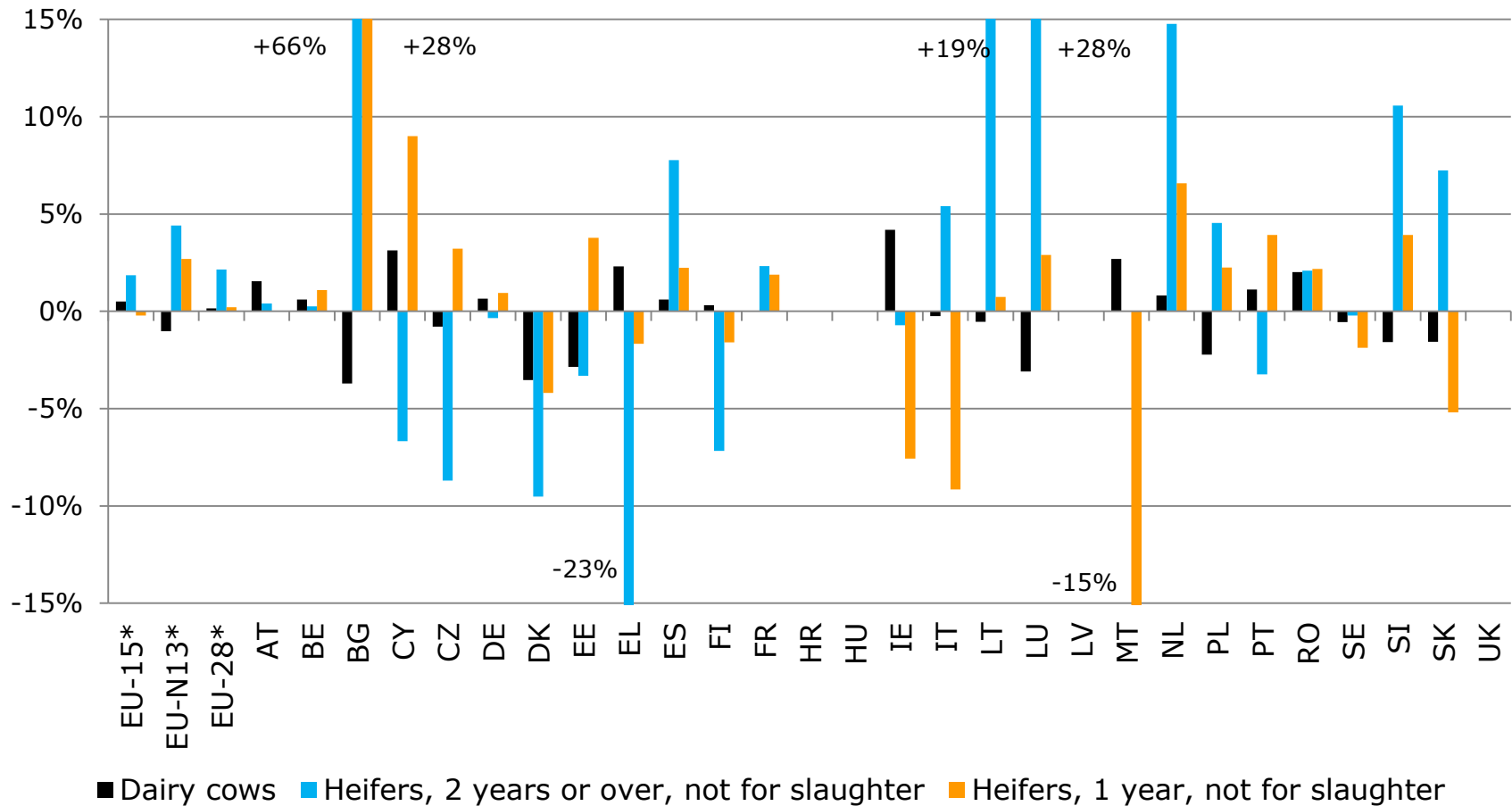
Cow slaughterings up especially in EU-N13!

Cumulated slaughterings since Sept 2014 vs 2013



Livestock survey

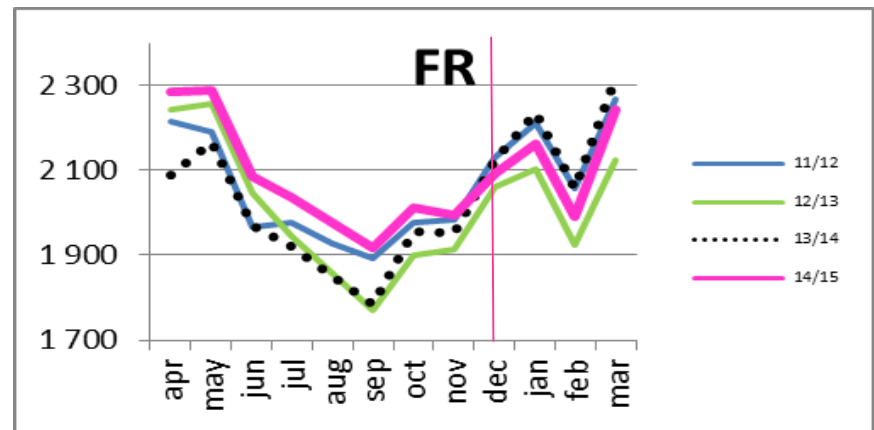
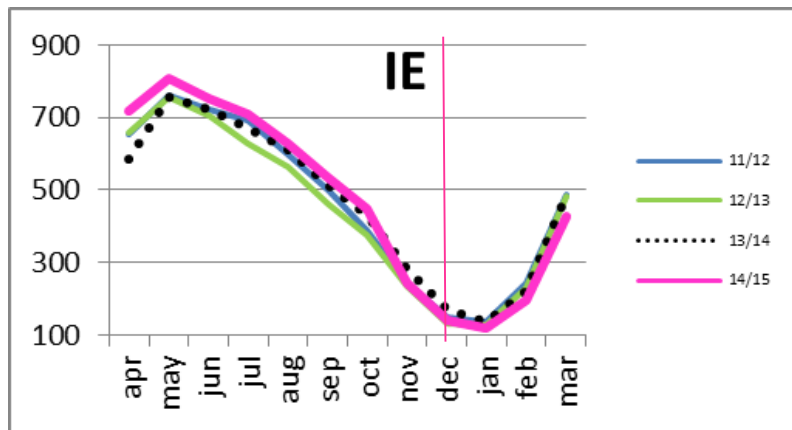
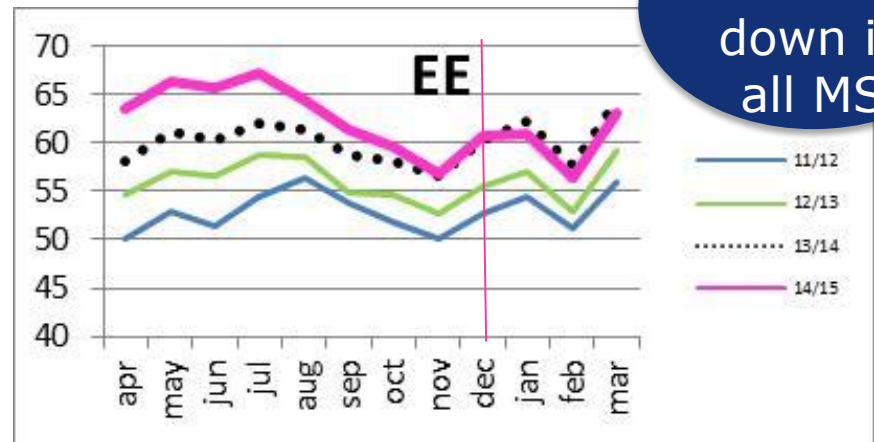
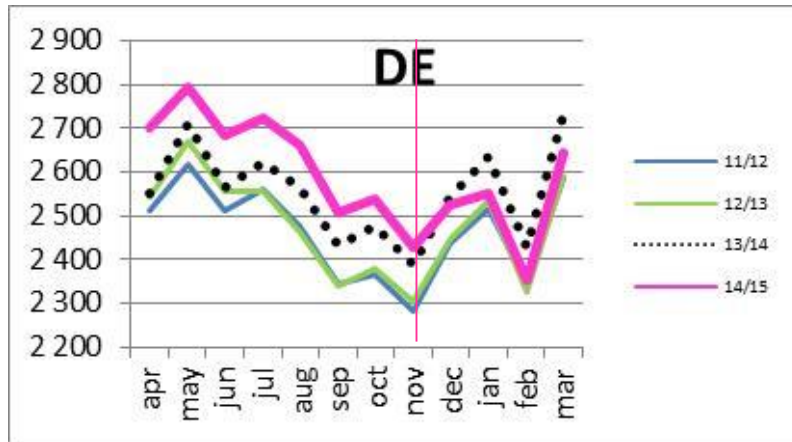
% change in animal numbers Dec 2014 vs 2013



Source: Livestock survey,
* average based on available data (UK, HU, HR, LV missing)

Huge break in deliveries not only in the countries still bound by quota

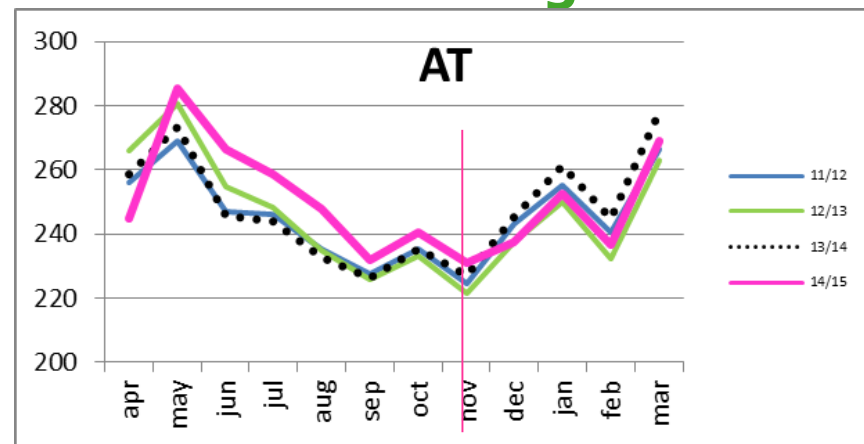
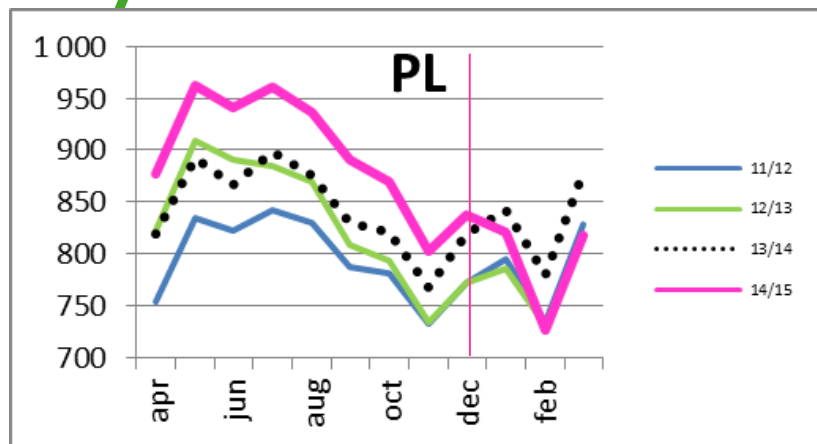
Fat content down in all MS



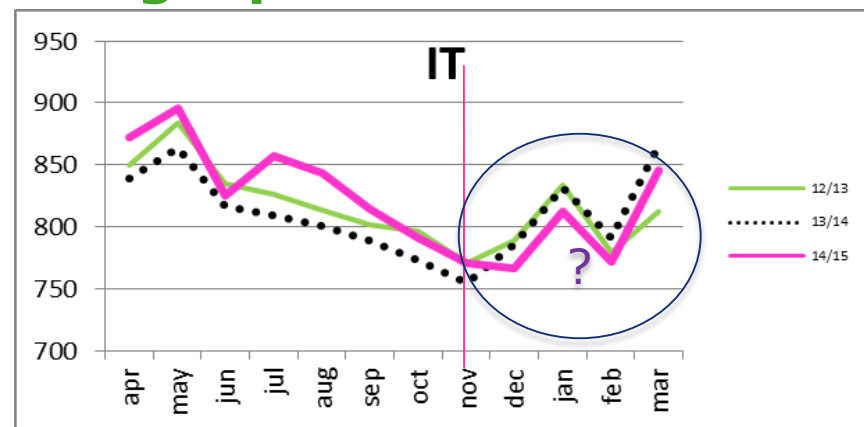
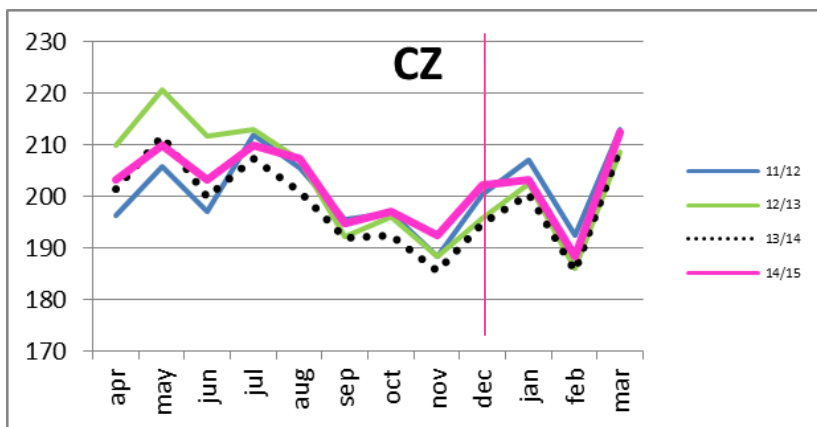
Unit: 1000 tonnes

Source: Eurostat, AGEA for IT and FEQA for ES and DG AGRI forecast from Nov/Dec 2014

Only a small break in countries with a risk of high overshoot



In other countries no break or huge question marks???



Unit: 1000 tonnes

Source: Eurostat, AGEA for IT and FEAGA for ES and DG AGRI forecast from Nov/Dec 2014

Which milk collection in 2015 and 2016?

- An estimated reduction of milk deliveries in the first quarter, quota and price driven: -3%
- Followed by an increase after quota is abolished compared to 2014 (around +2.5% between Apr-Dec) because:
 - Heifers are ready to enter into prod. in several MS
 - No risk of super-levy anymore
 - Willingness to take market shares
 - Commodity prices started to rise already and this should continue
 - Milk price to decrease further a few months before going up again
 - Dry weather in NZ and Australia: prod. forecast decreasing
 - Increase in US production for 2015 quite limited
 - Demand for dairy products...
- 2015 milk deliveries +1.2% compared to 2016
- What next? towards a stabilisation of markets, no further increase in milk deliveries

2014: exploding SMP production and exports but where did the fat go?

2014f	Prod.	2014/13	Exports	2014/13
Deliveries	147.6 Mt	+4.5%		
Cheese	9.8 Mt	+1.6%	721 000 t	-8%
Butter	2.2 Mt	+3.3%	137 000 t	+18%
SMP	1,37 Mt	+24%	647 000 t	+59%
WMP	780 000 t	+7.2%	389 000 t	+4%
Whey p.	2.1 Mt	+4.4%	570 000 t	-2%
FDP	47.3 Mt	+0.4%	730 000 t	+27%
Fat residual	+15% !!!	Protein residual		+9%
FFMP export	+23%	Food prep. for infant f.		+9%

Source: DG Agriculture and Rural Development forecast, publication in March at <http://ec.europa.eu/agriculture/markets-and-prices/short-term-outlook/>

2015: always more SMP

2015f	Prod.	2015/14	Exports	2015/14
Deliveries	149.3 Mt	+1.2%		
Cheese	9.9 Mt	+1.2%	757 000 t	+5%
Butter	2.3 Mt	+2.6%	149 000 t	+9%
SMP	1,47 Mt	+7.7%	744 000 t	+15%
WMP	798 000 t	+2.3%	397 000 t	+2%
Whey p.	2.2 Mt	+3.4%	570 000 t	0%
FDP	47.6 Mt	+0.6%	839 000 t	+15%
Fat residual	+3.2%	Protein residual		-1.6%

2016: towards a stabilisation of dairy markets

2016f	Prod. 2016/15	Exports 2015/14
Deliveries	+0.1%	
Cheese	+0.5%	+7%
Butter	+0.2%	+10%
SMP	+0.8%	+8%
WMP	-0.5%	-2.5%
FDP	+0.3%	+15%

Change in ending stocks???

	2014	2015	2016
Butter	+25	+20	-20
SMP	+18	+27	-30
Cheese	60	-40	-20

For further information

- STO

http://ec.europa.eu/agriculture/markets-and-prices/short-term-outlook/index_en.htm

- MTO

http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/index_en.htm

- OECD-FAO Outlook

<http://www.oecd.org/site/oecd-faoagriculturaloutlook/>

<http://www.compareyourcountry.org/chart?cr=ch&cr1=mk&lg=en&project=agricultural-outlook&page=1>

Thank you



ANNEX 4

EU dairy products monthly stock situation

EDA



EU dairy products monthly stock situation

Milk Market Observatory

Economic Board

February 24th, 2015

Gérard CALBRIX

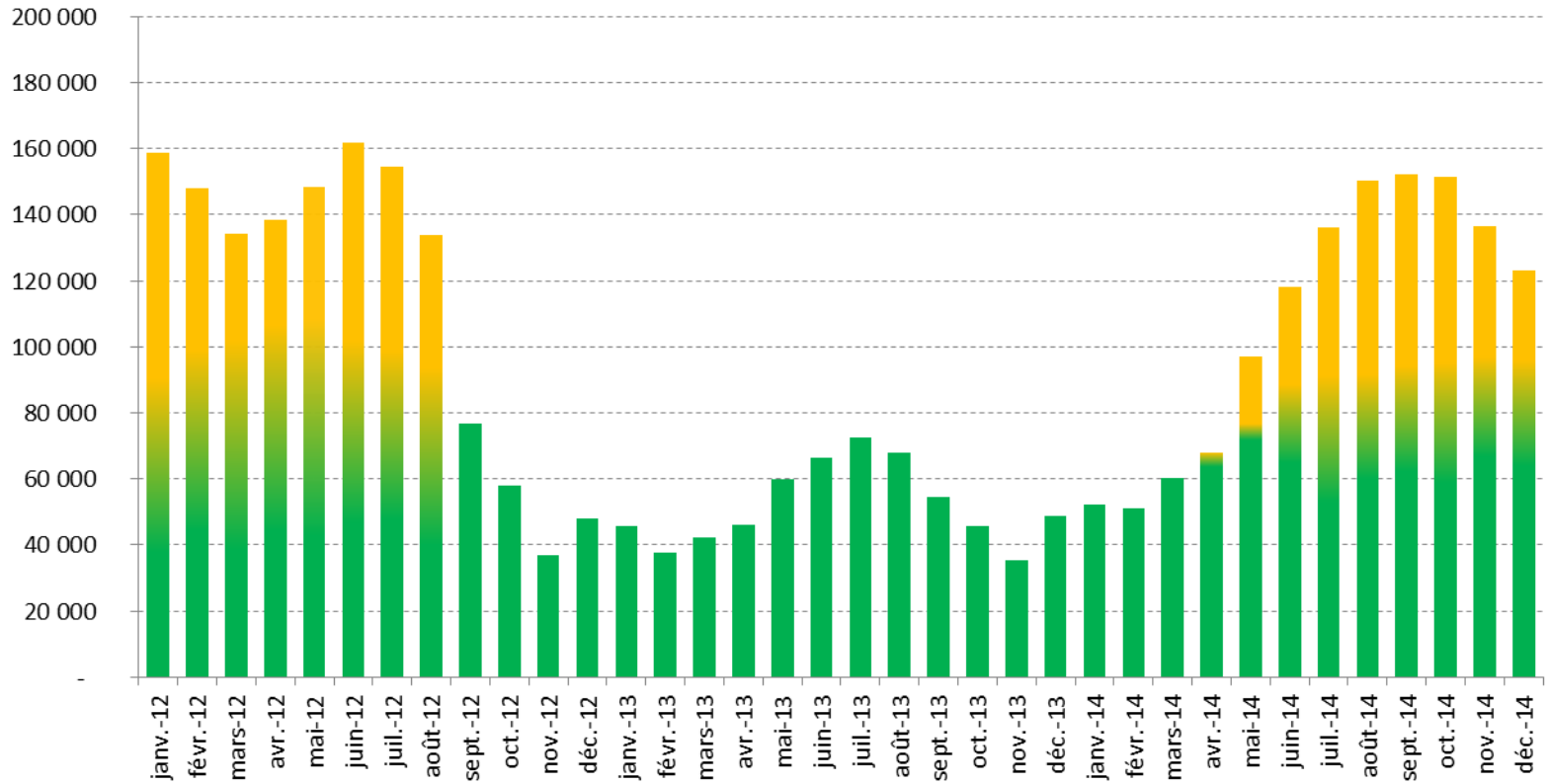
Director Economic Affairs

ATLA

European stock level estimates - SMP



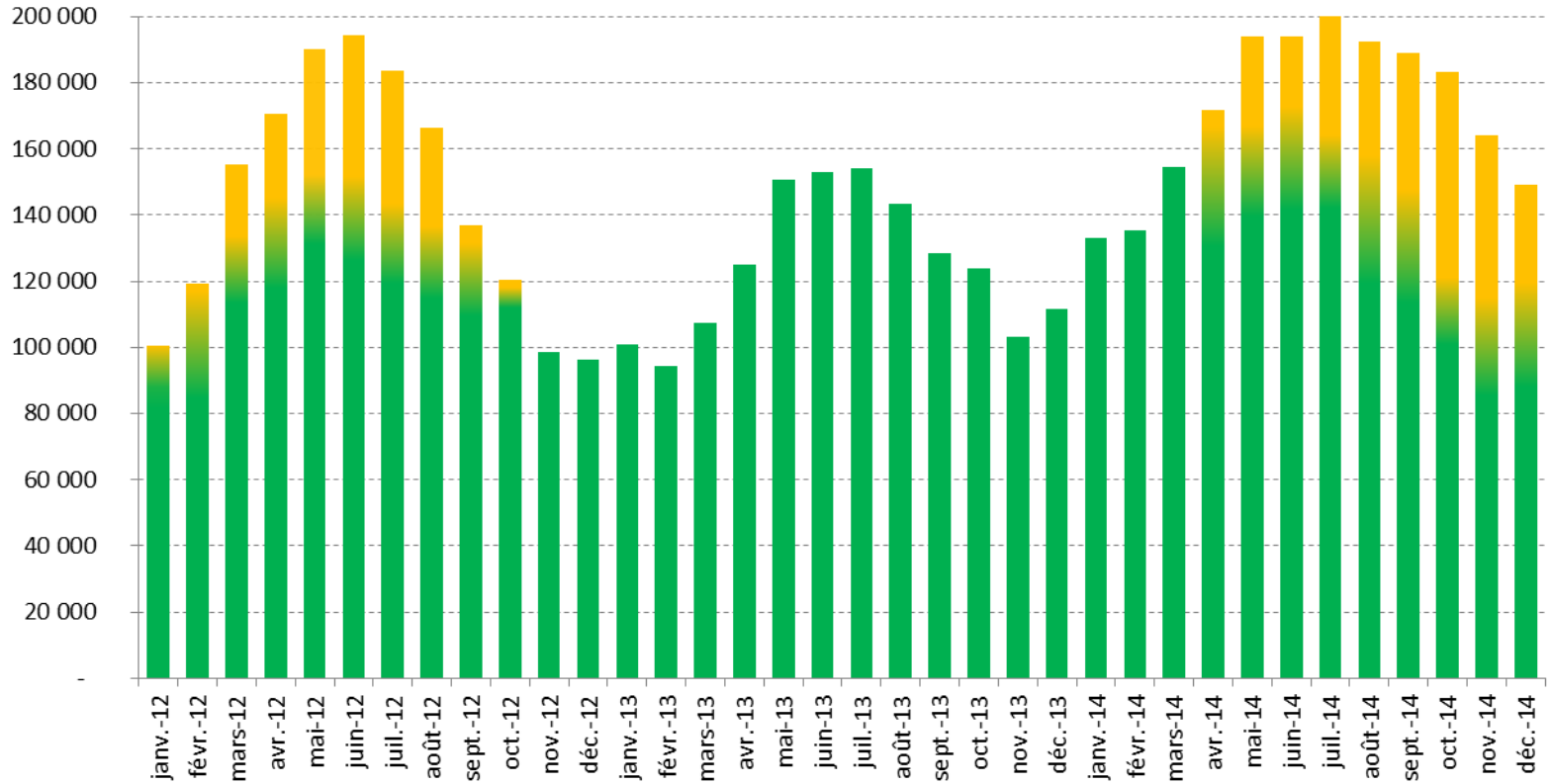
stock level
in tons



European stock level estimates - Butter



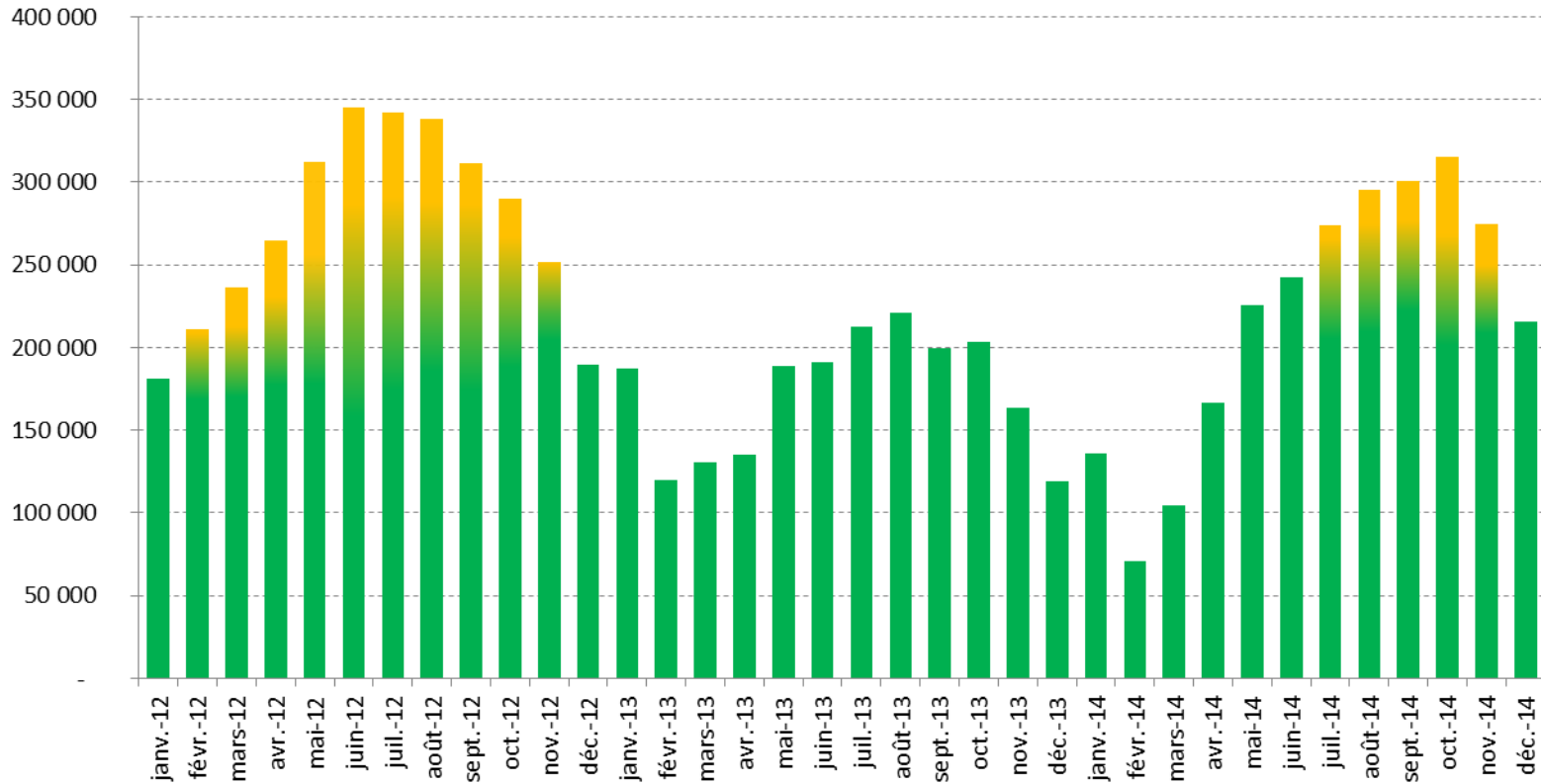
stock level
in tons



European stock level estimates - Cheese



stock level
in tons



ANNEX 5

Perspectives from the Dairy Trade

Eucolait



Perspectives from the Dairy Trade

Milk Market Observatory Meeting
24 February 2015



Outline



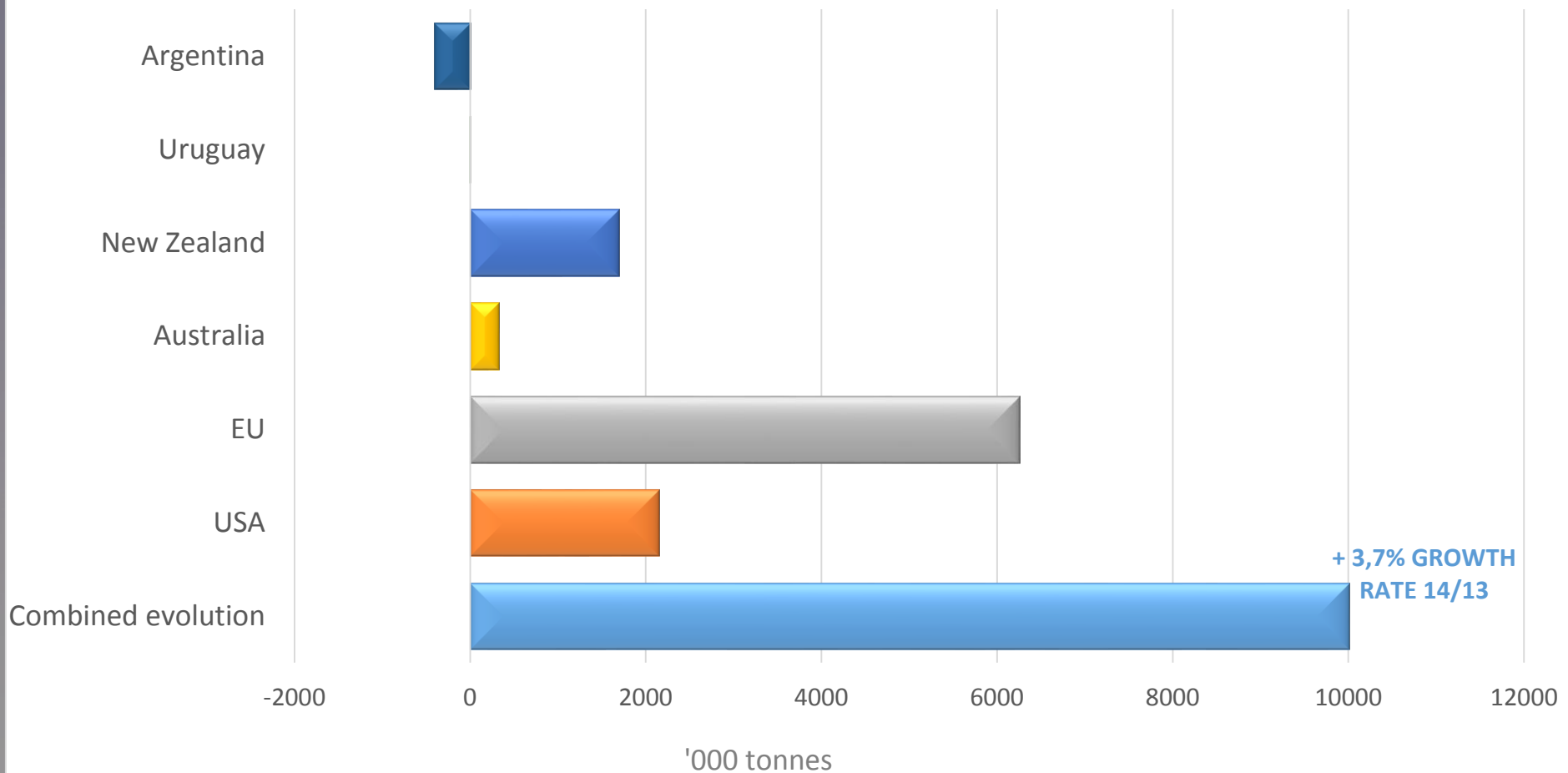
- **Global Supply**
- Global Exports
- Global Demand
- Global Stocks
- Conclusions



Global Supply



Comparing milk production in 2014 with 2013
January - December (partly estimated for Q4 - 2014 data)

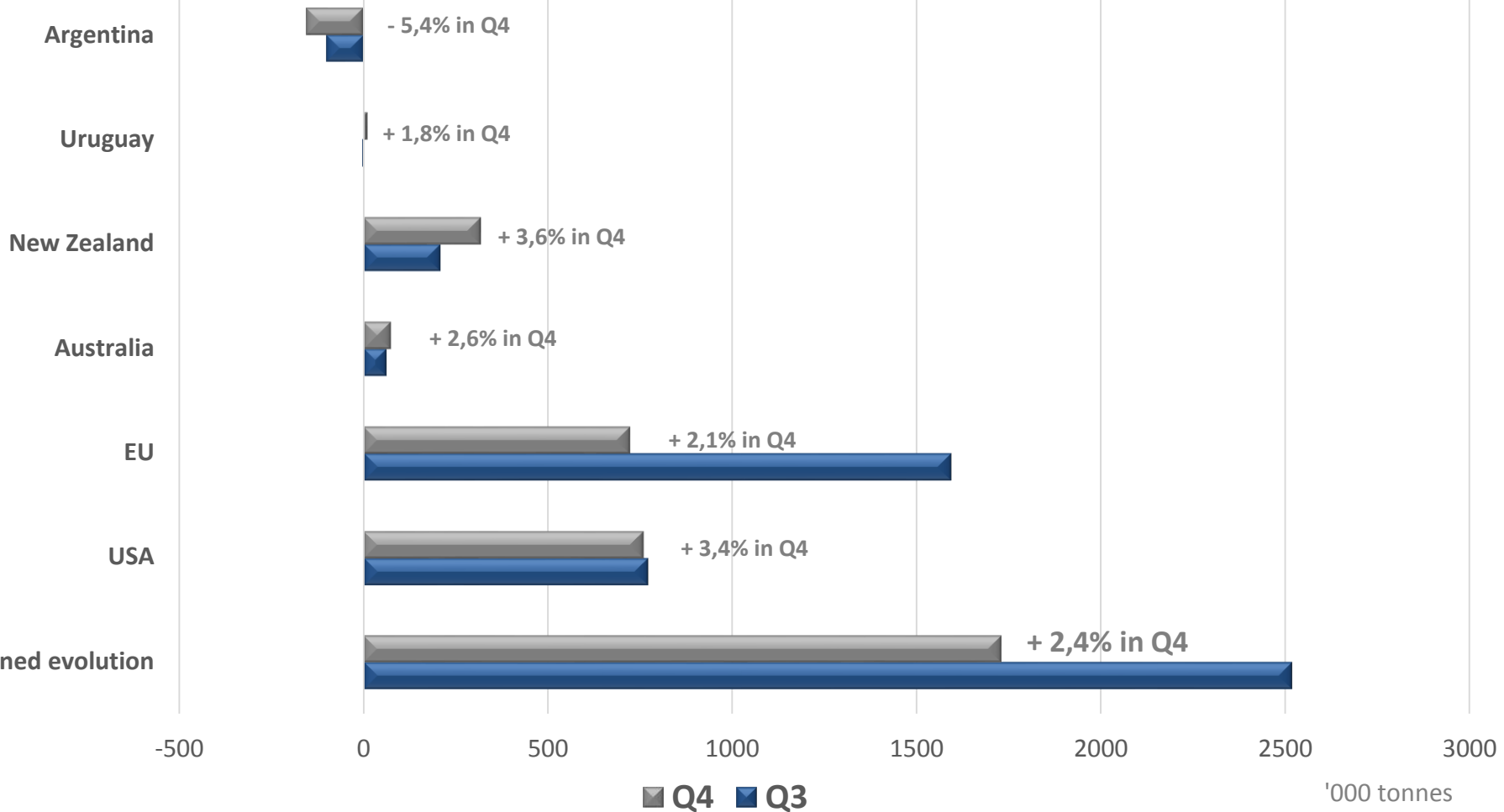




Global Supply



Comparing **Q4-2014** milk production with **Q4-2013** for the major dairy exporting countries (partly estimated for Q4 data)





Global Supply - Outlook



- **EU** milk production slowing down further in Q1 2015, perhaps on par with 2014 levels. What will happen after 1 April?
- **US** production continues strong, 2015 forecast +2,8%
- **NZ** production up 2,7% so far this season (June-January) but announced drought and lower milk price will have an impact
- **Australian** production up 2,6% (July-December), forecast for the whole season remains +2% due to hot and dry summer



Outline



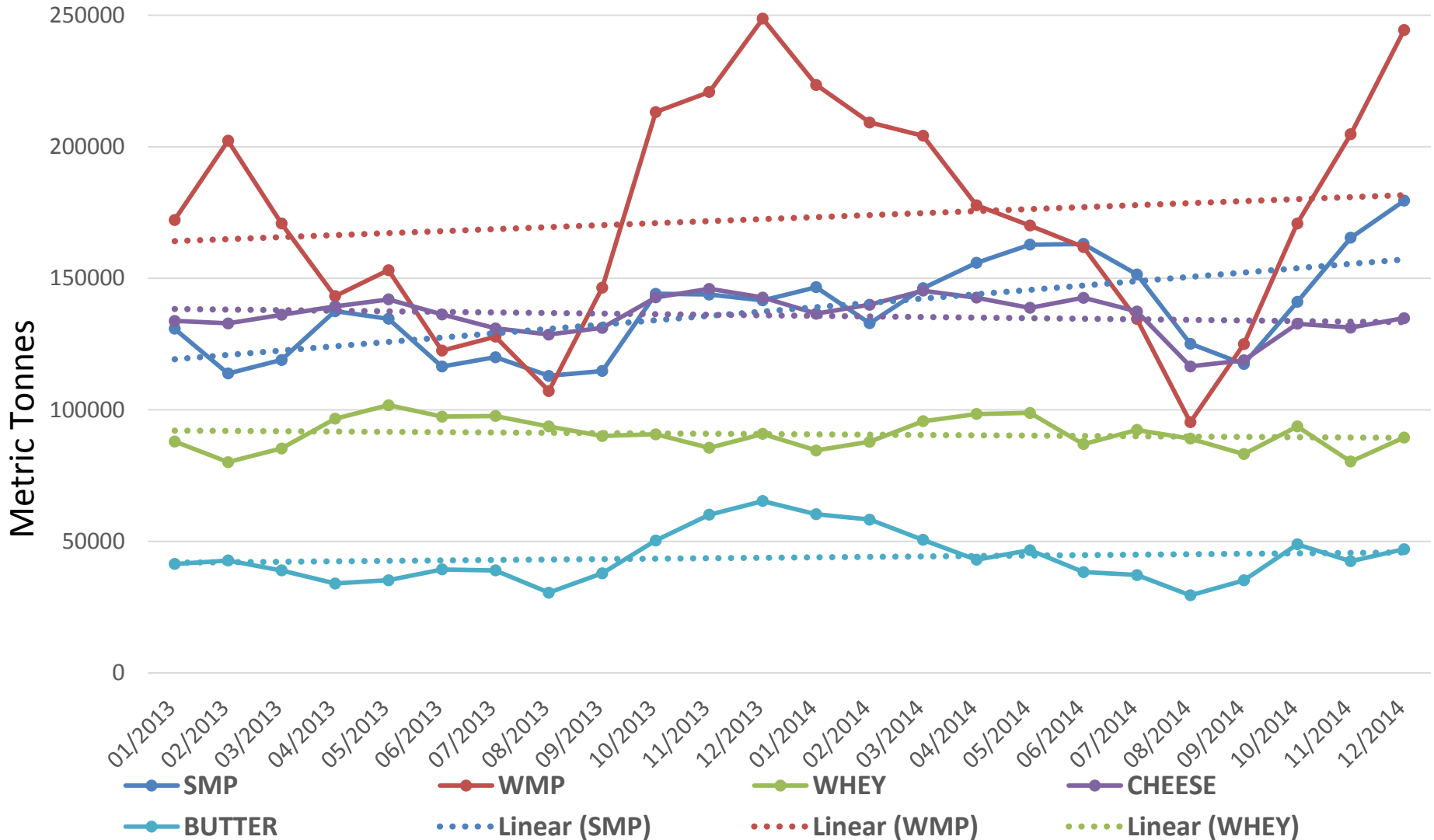
- Global Supply
- **Global Exports**
- Global Demand
- Global Stocks
- Conclusions



Global Exports



MONTHLY EXPORTS (EU+USA+NZ+AUS+ARG+URU)

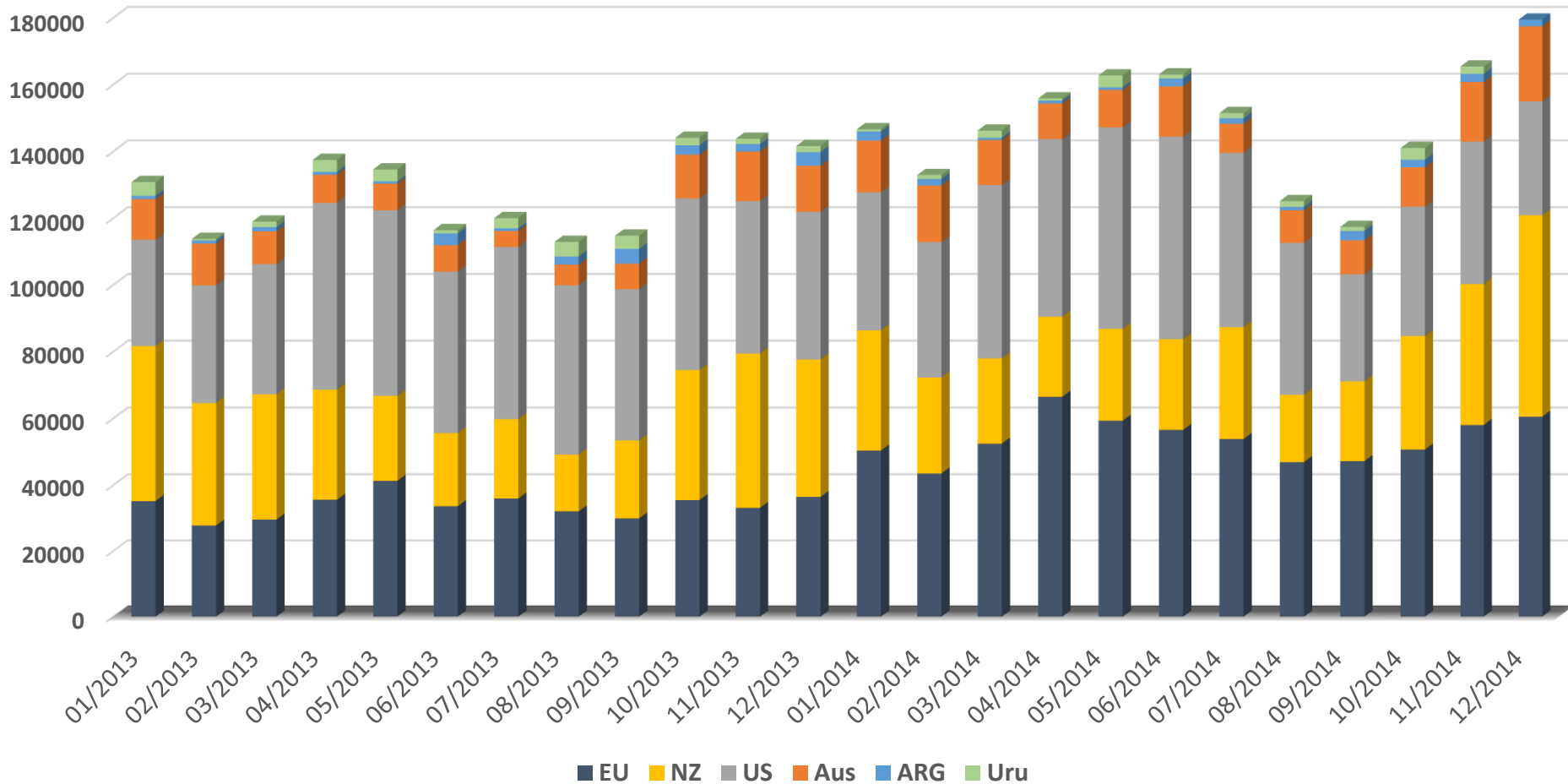




SMP Exports



MONTHLY CUMULATED GLOBAL SMP EXPORTS
(^{'000} tonnes)

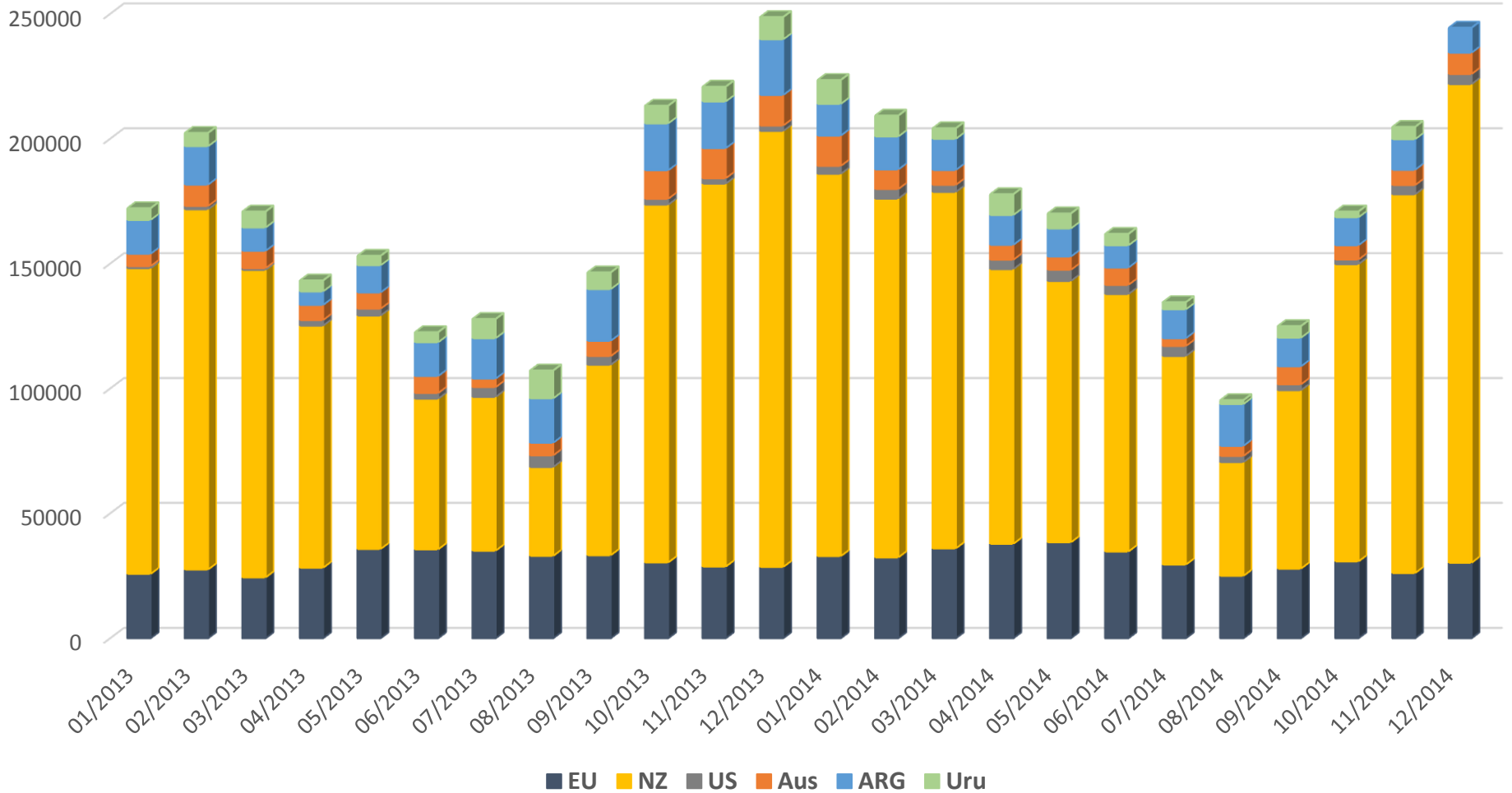




WMP Exports



MONTHLY CUMULATED GLOBAL WMP EXPORTS
('000 tonnes)

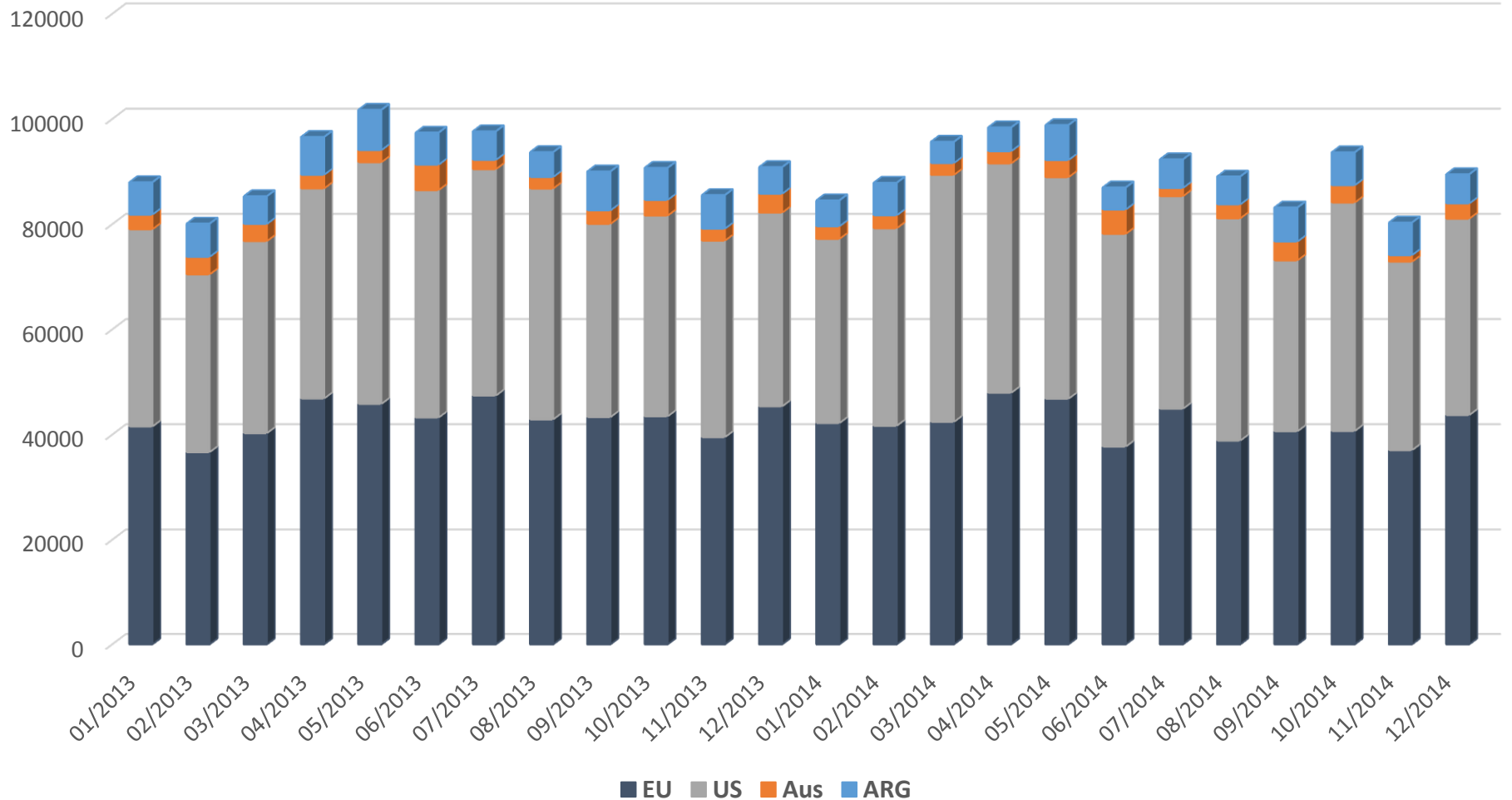




Whey Exports



MONTHLY CUMULATED GLOBAL WHEY EXPORTS
('000 tonnes)

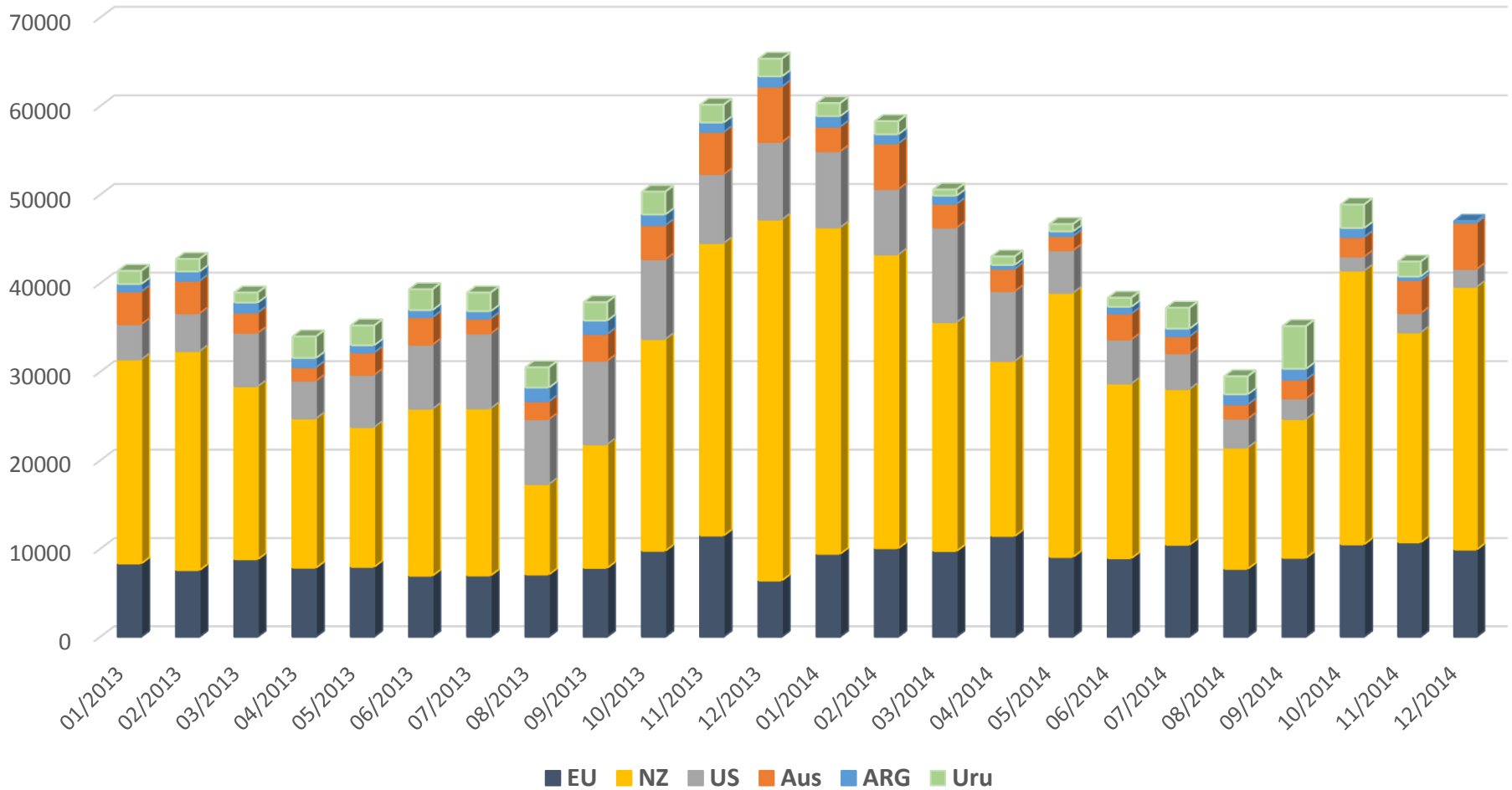




Butter Exports



MONTHLY CUMULATED GLOBAL BUTTER EXPORTS
('000 tonnes)

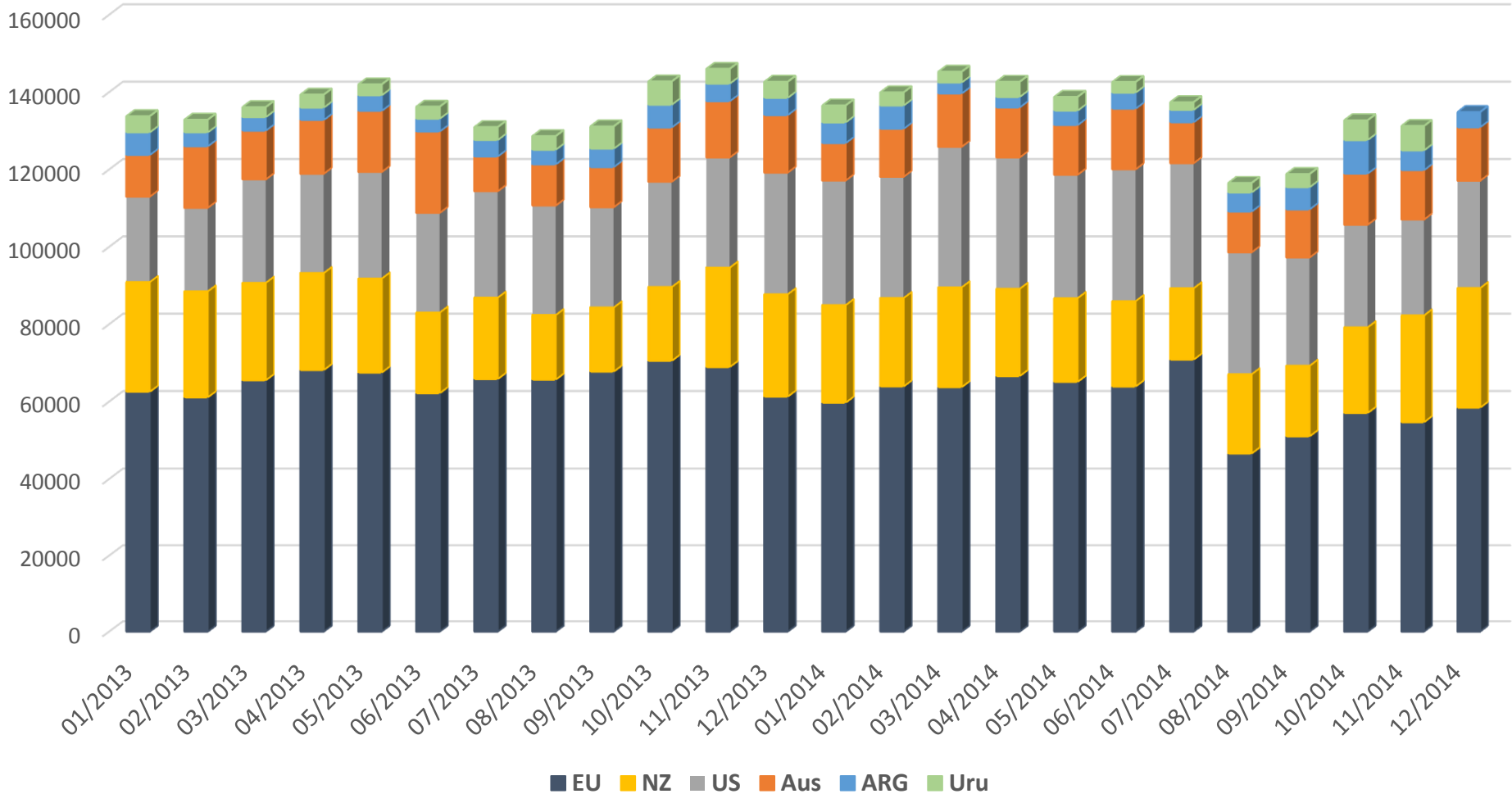




Cheese Exports



MONTHLY CUMULATED GLOBAL CHEESE EXPORTS
('000 tonnes)





Outline



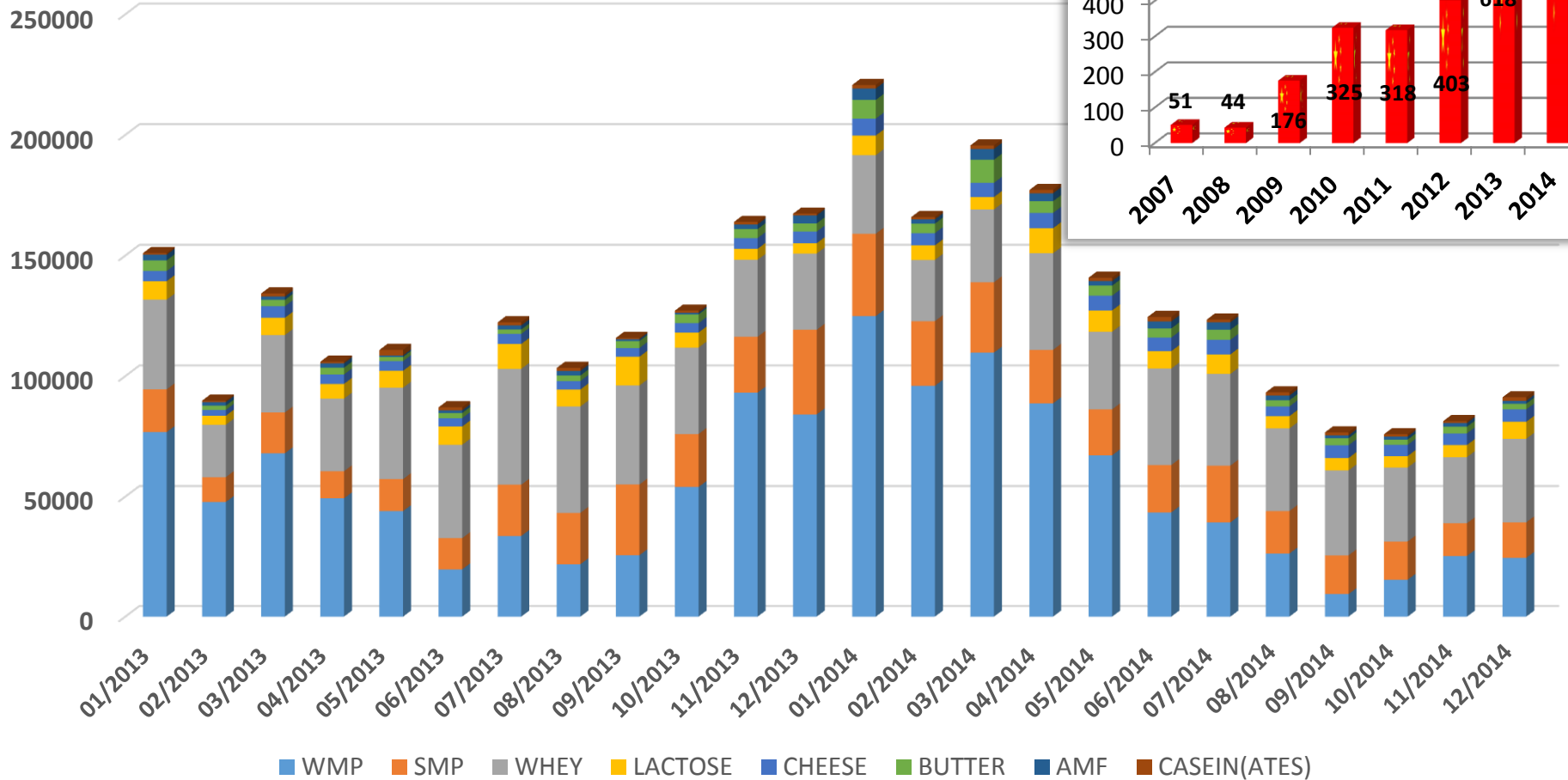
- Global Supply
- Global Exports
- **Global Demand**
- Global Stocks
- Conclusions



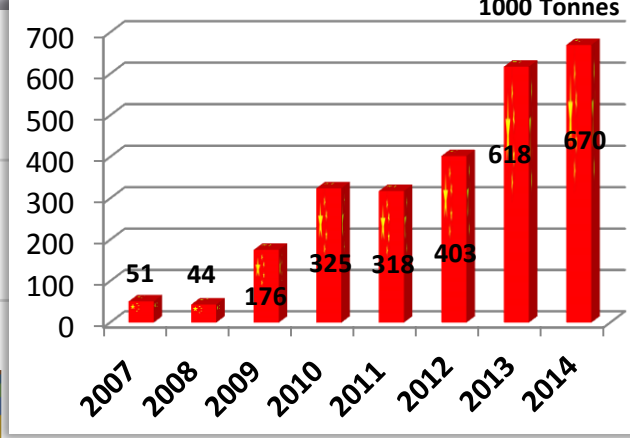
China Imports



MONTHLY CUMULATED GLOBAL IMPORTS
('000 tonnes)



CHINA - WMP IMPORTS

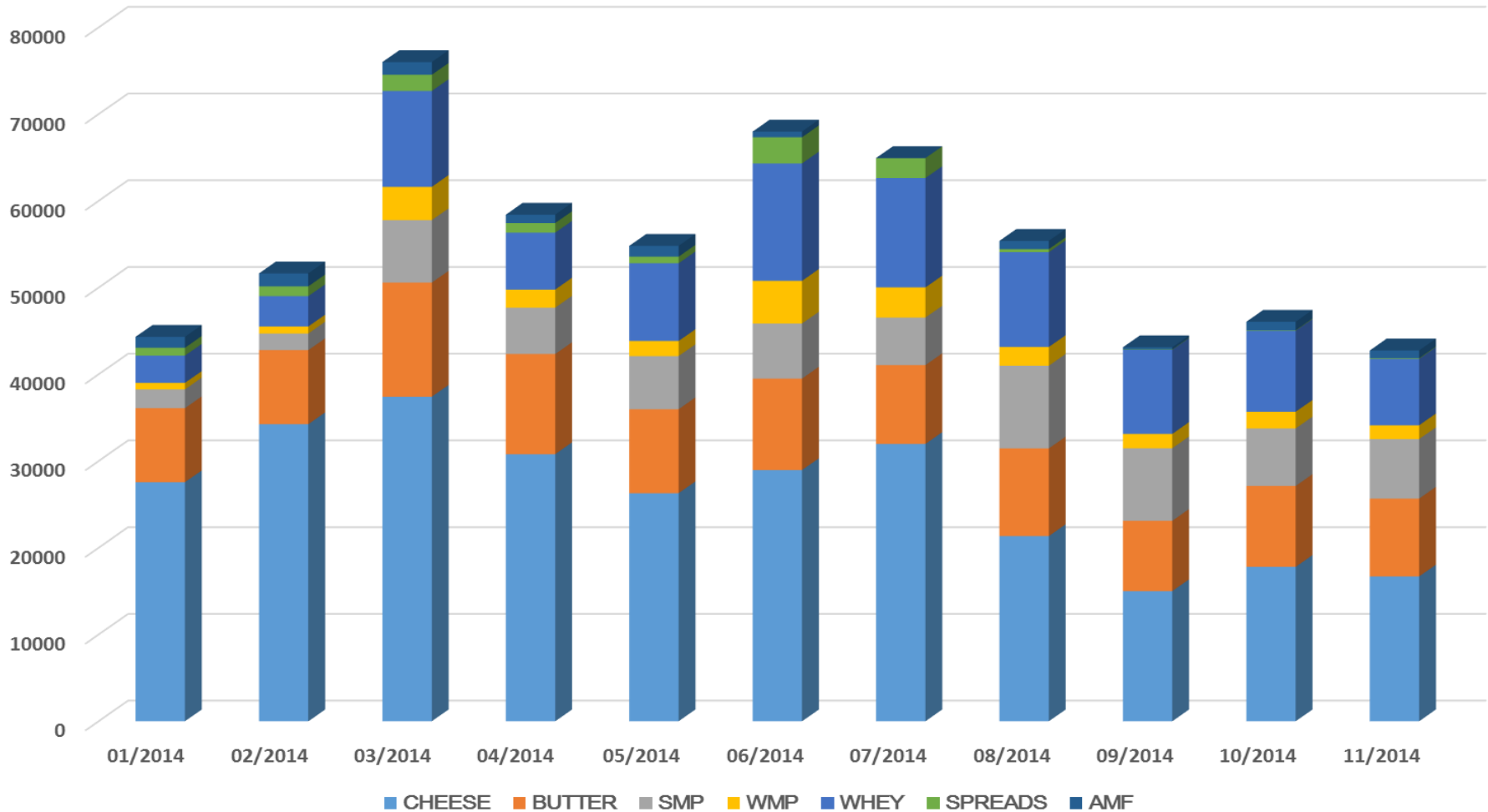




Russia Imports



MONTHLY CUMULATED GLOBAL IMPORTS
('000 tonnes)

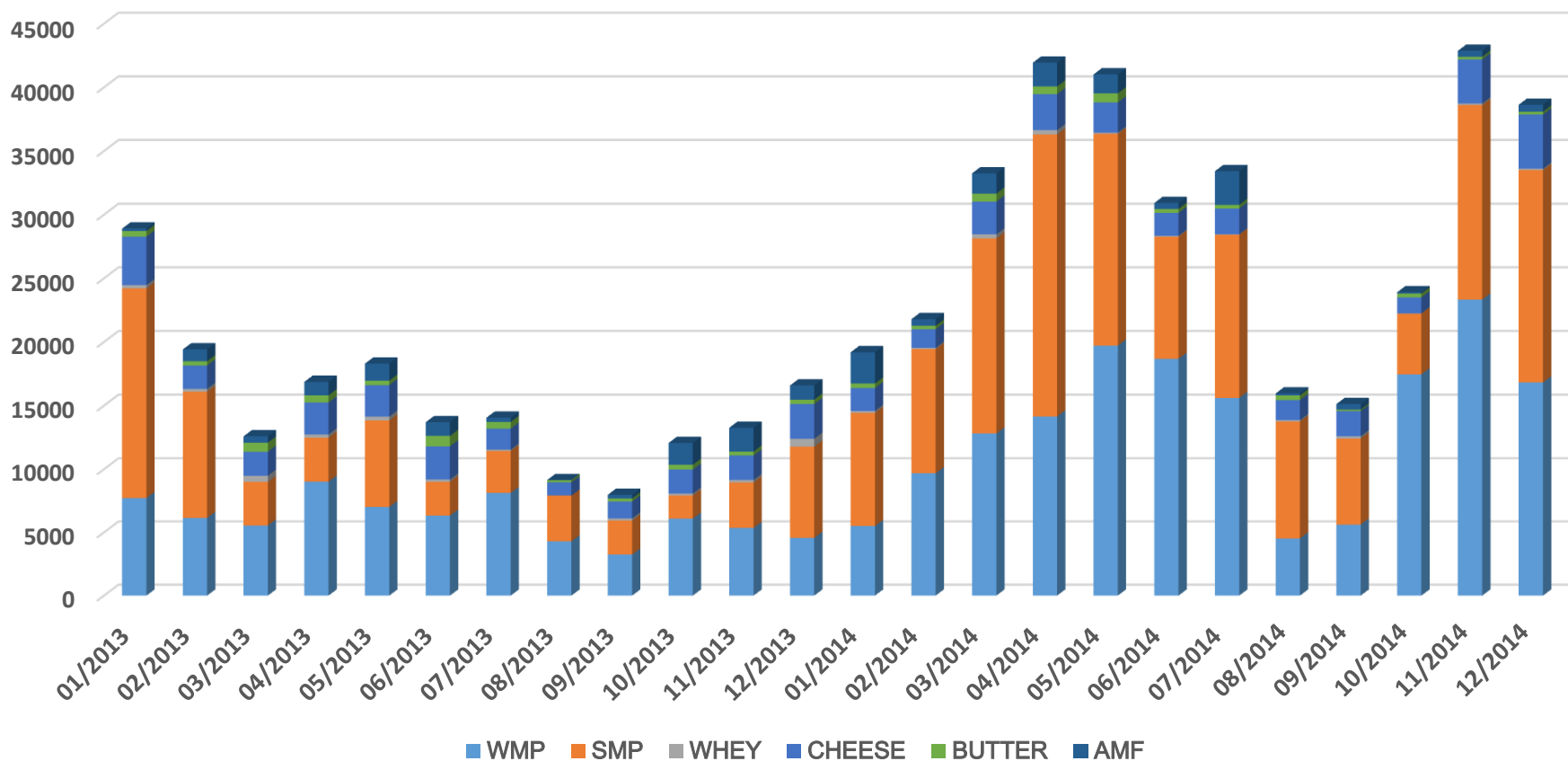




Algeria Imports



MONTHLY CUMULATED GLOBAL IMPORTS
combined EU+US+NZ
('000 tonnes)

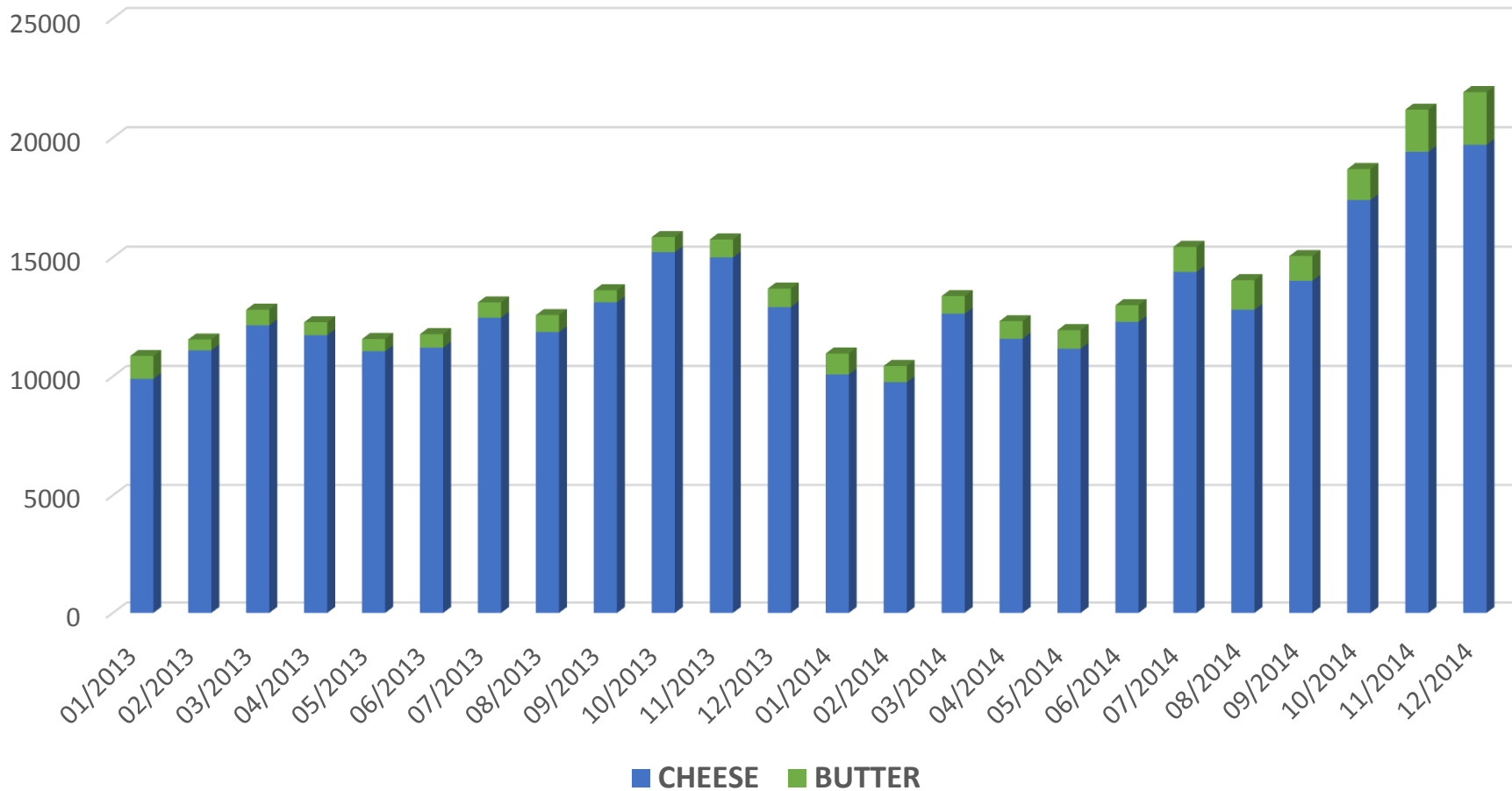




US Imports



MONTHLY CUMULATED GLOBAL IMPORTS
('000 tonnes)





Global Demand



- Some early signs of demand recovery in China
- Russian imports affected by Embargo
- Demand in other key regions (S-E Asia, Northern Africa, Middle East, Latin America) driven by lower prices
- US increased imports of cheese and butter



Outline



- Global Supply
- Global Exports
- Global Demand
- **Global Stocks**
- Conclusions



Global Stocks



We hear:

- Stocks have increased in most regions as trade has not grown in line with supply
- **EU:** stocks on the high side but not concerningly high
- **USA:** SMP (NDM) stocks higher, cheese and butter stocks slightly higher than a year ago
- **Oceania:** close to normal, somewhat higher for most products in Q4 2014 vs 2013, in particular WMP
- **Latin America:** stocks low



Outline



- Global Supply
- Global Exports
- Global Demand
- Global Stocks
- **Conclusions**



Conclusions



- Contraction in output growth
- Improvement in global demand stimulated by lower prices
- EU exports performing well, helped by weak €
- Market sentiment is firming
- Will EU and US spring flush lead to cool down?



Thank You

Sources used in presentation: GTIS, EU Commission, USDA, Dairy Australia, DCANZ, Fonterra, Clal, Inale

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