



MMO Economic Board

27 May 2014

- o The first meeting of the Milk Market Observatory economic board took place on 27 May April 2014. It gathered market experts of the organisations representing all steps in the milk supply chain: CEJA (young farmers), COPA COGECA (producers and cooperatives), ECVC (Via Campesina), EMB (European Milk Board), EDA (dairy industry), Eucolait (dairy trade) and Eurocommerce (retail).
- o The meeting was opened with presentations by DG AGRI on the milk market situation¹, short and medium term outlooks². Afterwards the floor was given to market experts who assessed market developments.
- o There has been increasing downward pressure on milk prices since March because of increased supply in main producing regions (EU, US, NZ). Since the EU and the US passed the seasonal production peak, prices are expected to find a new balance at reasonably high levels in the second half of the year.
- o Milk yields have been generally increasing over the last years because of feeding and breeding developments. This has translated into lower fat content in milk.
- o Around 8 mio t more milk might be delivered in 2014 in the main producing MS (subject to uncertainties about weather, cereal prices and new CAP implementation).
- o EU milk collection increased considerably in Q1 of 2014, although there is a statistical effect due to the unusual low volumes of Q1 2013. In absolute terms, milk production was nevertheless at the highest level ever.
- o The main reasons for the increase in production are: high milk prices, lower feed prices, good forage, favourable weather conditions, and the forthcoming expiration of the milk quota system in April 2015.
- o As a consequence of the high milk output processing capacities in the EU reached saturation, especially drying towers, putting downward pressure on spot milk and cheese prices (all the more after two towers went out of service in Germany).
- o Some EU SMP stocks have built up, but most of them are committed, and world demand remains strong. There are also some cheese stocks. Concerns about political developments with Russia were expressed. Butter stocks are at normal levels, to cover the expected demand in the second half of the year.
- o Investments in the dairy industry are taking place and, next year, the processing capacity (especially for SMP and cheese) should increase.
- o Global demand remains strong, with China and Russia being the main drivers. Local production is insufficient in both markets. But peaks in consumption on these markets and in production in exporting countries don't necessarily coincide in time.
- o There are also good export prospects to North Africa and the Middle East, where stocks are normal to low. High prices for dairy products are making buyers wait for them to go down or opt for substitute (vegetal fat based) products.
- o The positive trade figures of Q1 should be treated cautiously, and not be extrapolated for the rest of the year.
- o In crisis times, consumers opt for less elaborated products such as butter and cream. Dairy fat has also regained attractiveness relative to palm oil. Yoghurt consumption, on the contrary, is declining.

¹ See latest Market situation fact-sheet on http://ec.europa.eu/agriculture/milk-market-observatory/pdf/market-situation-presentation_en.pdf

² See annex

ANNEX

Short and Medium-term prospects for EU dairy markets

***Milk market observatory
27 May 2014
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European
Commission

Short and Medium-term prospects for EU dairy markets

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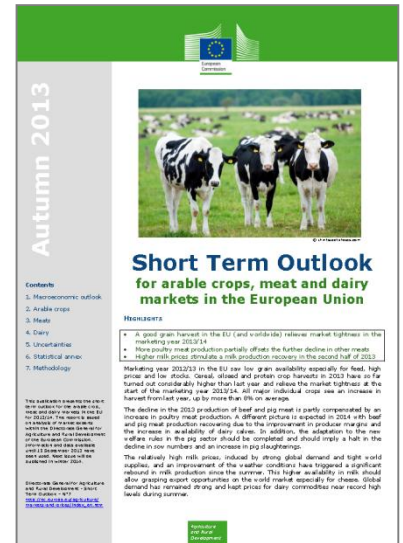
Agriculture
and Rural
Development



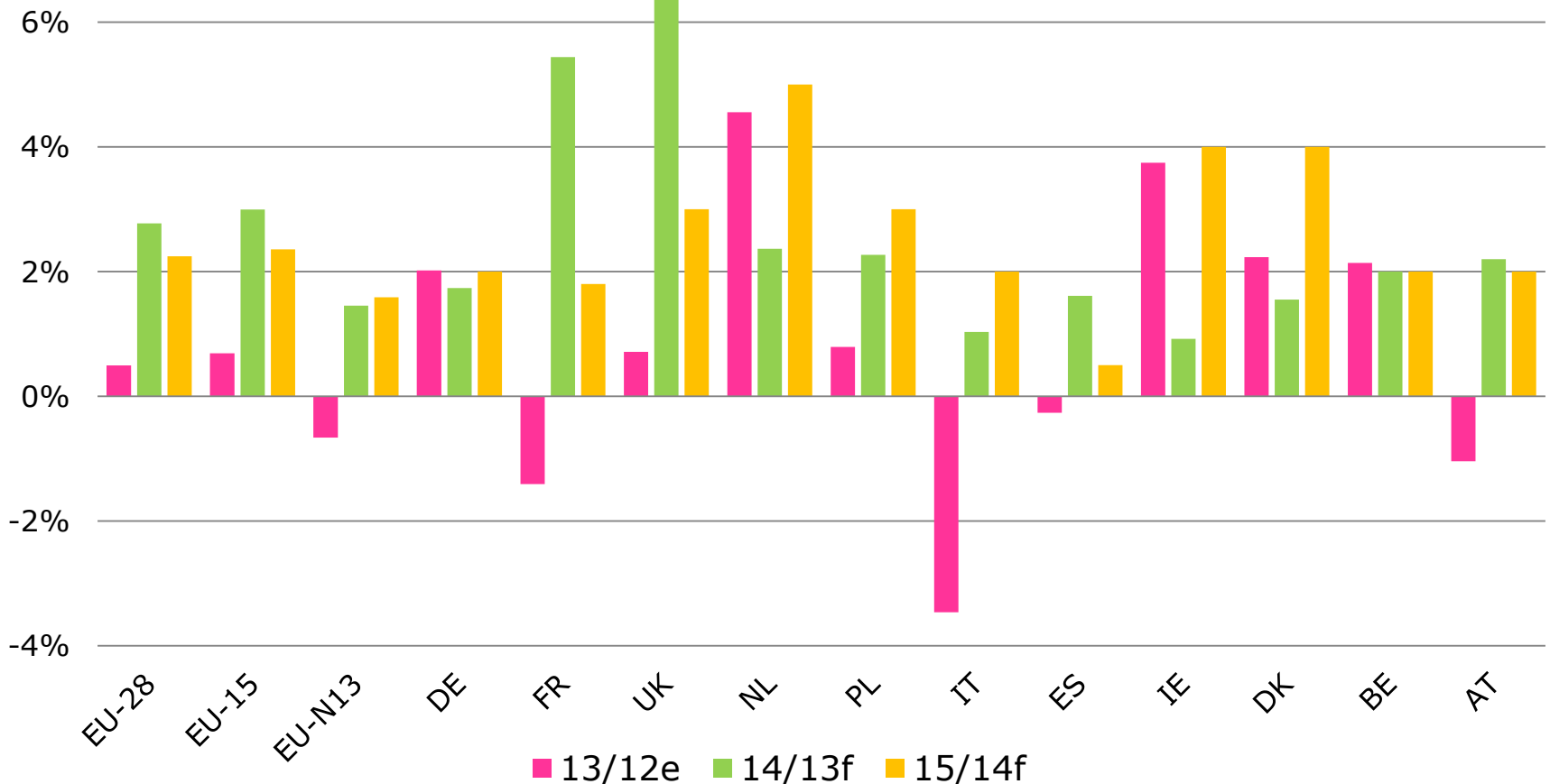
Short term outlook

- EU Short Term Outlook
 - Recent years and orientation for near future
 - Last version published in Feb. 2014
 - Next version to be published in July 2014

- Based on Eurostat figures
 - For the historic figures: based on 'Milk collection (all milk) and products obtained'
 - To estimate 2013: based in the monthly survey on cow milk collection in dairies
 - This info is completed by information on milk collection available on websites for NL, DK, FR, UK.
 - Beware:
 - Many figures need to be estimated as many MS figures are not displayed because of confidentiality
 - Definition and the used database matter!

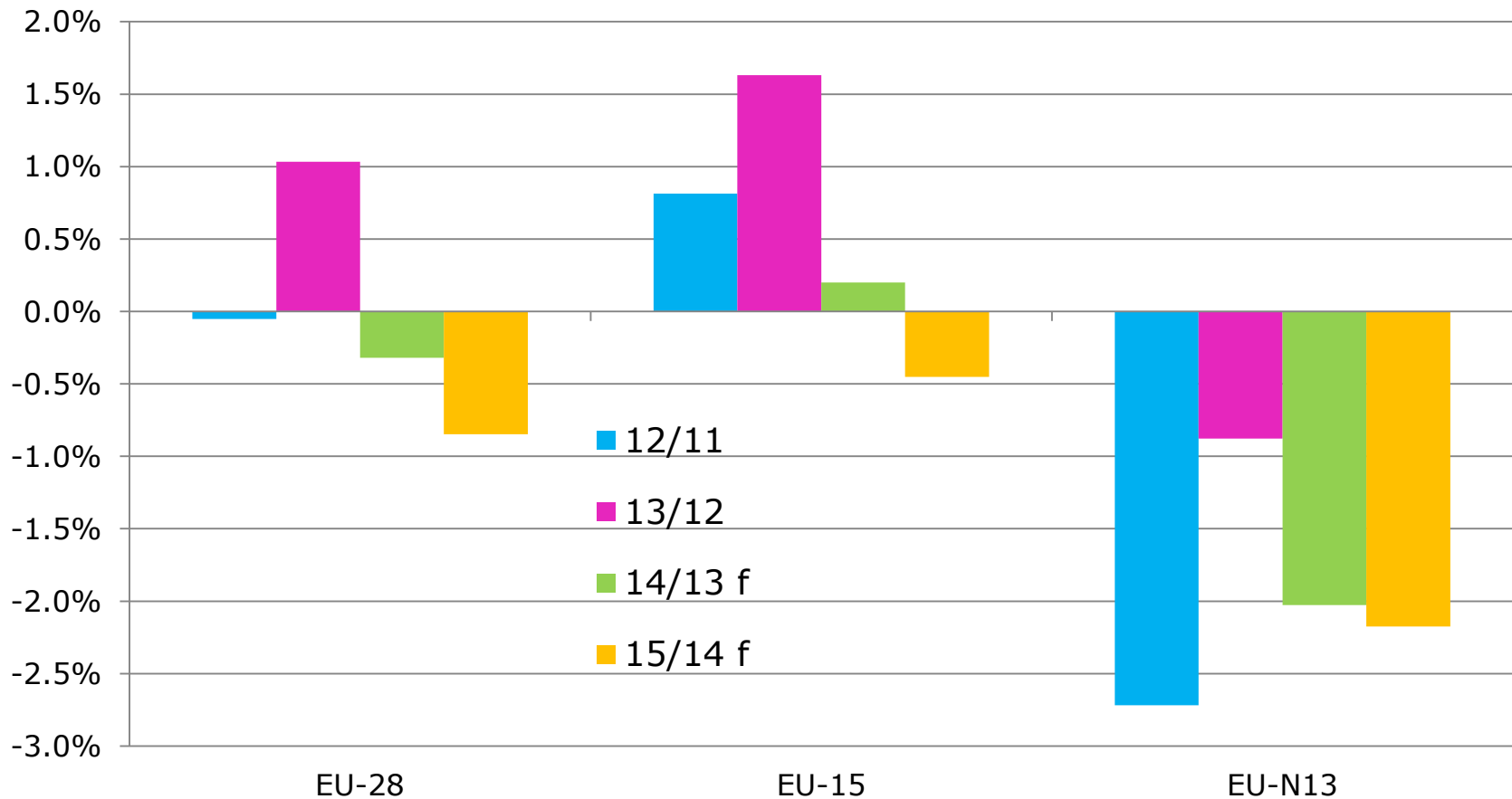


Preliminary forecasts: milk collection development by MS



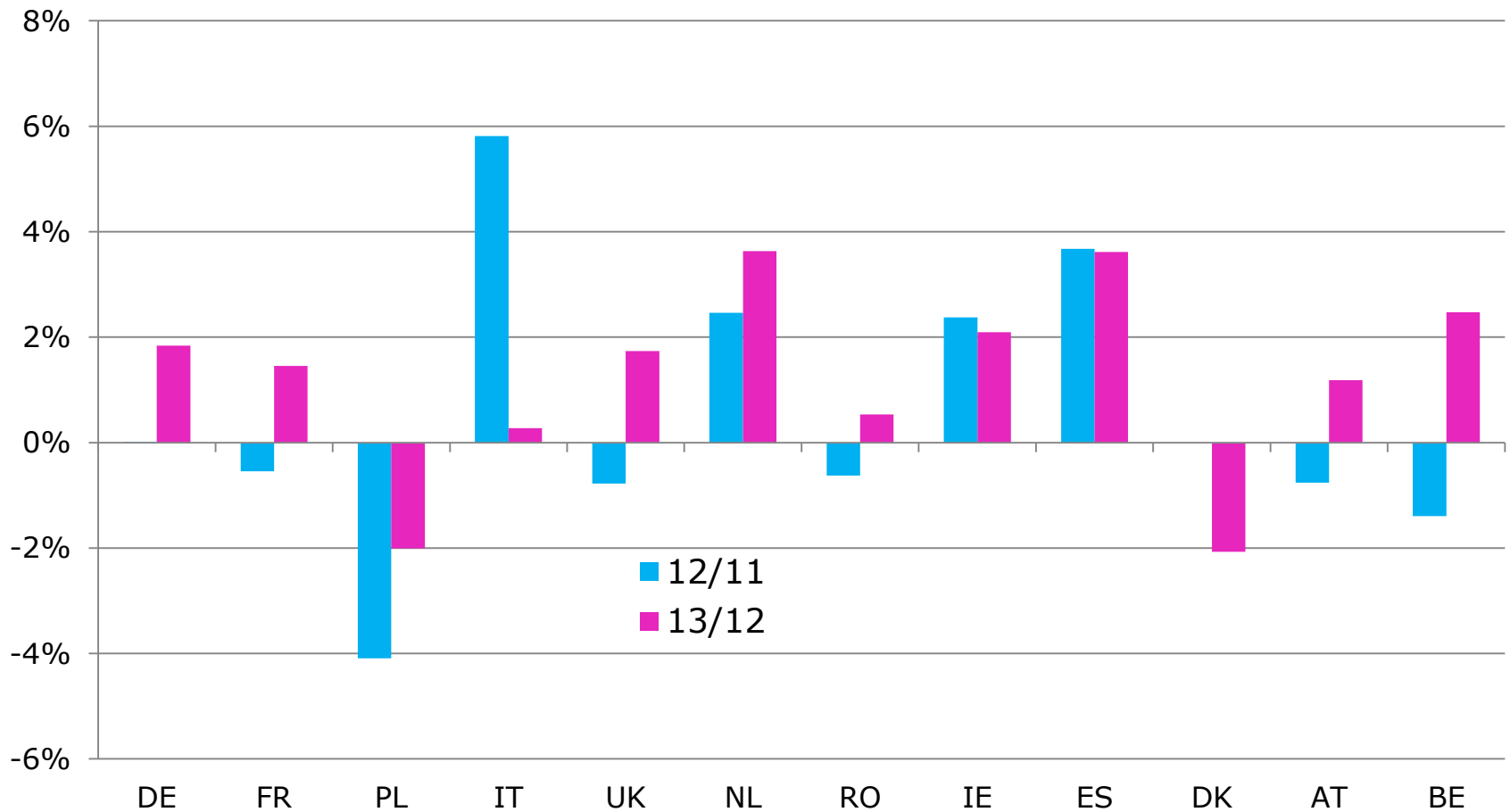
Source: DG Agriculture and Rural development forecasts

Preliminary forecasts: Herd development – dairy cows



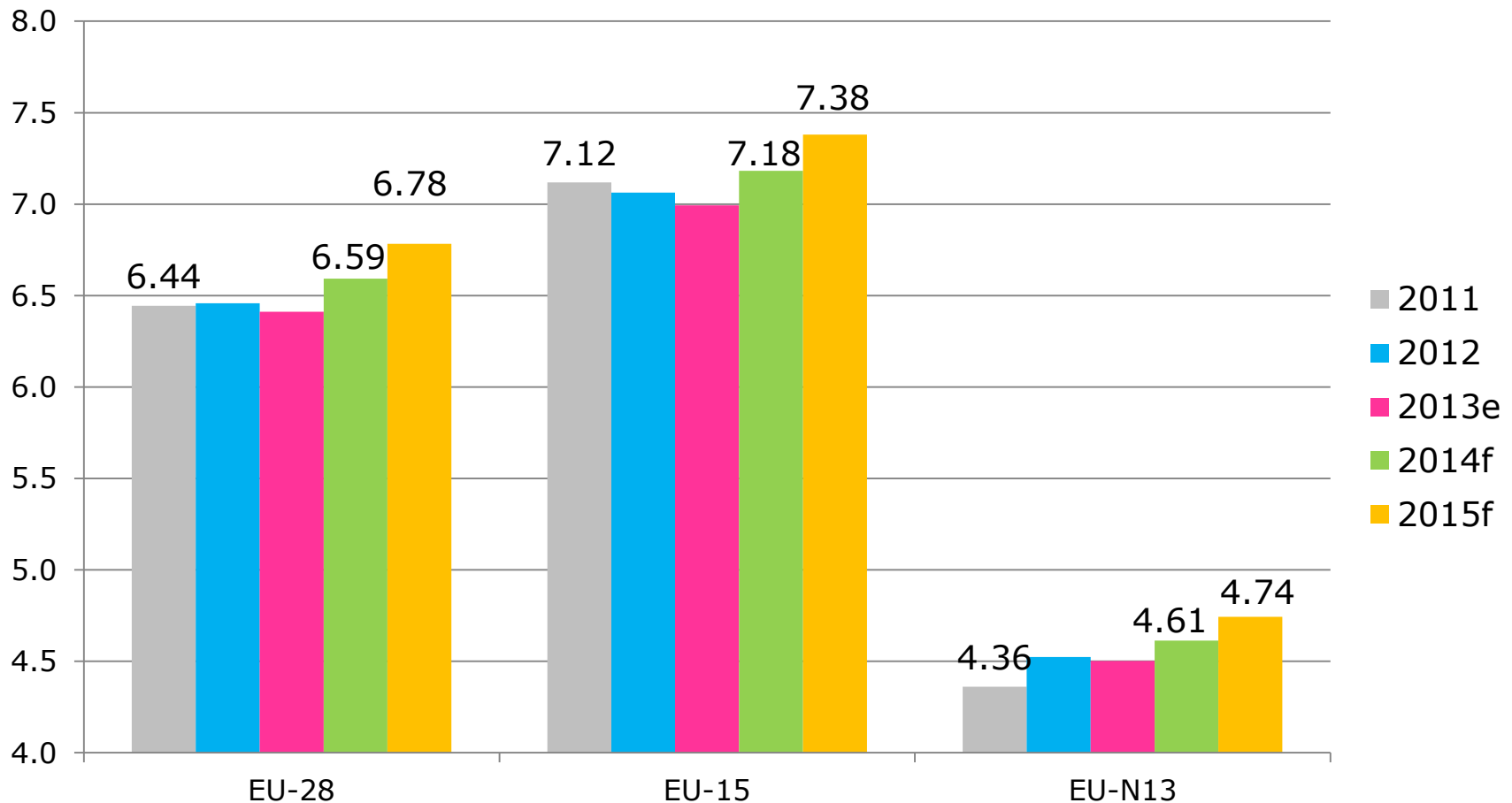
Source: DG Agriculture and Rural development forecasts

Herd development – dairy cows



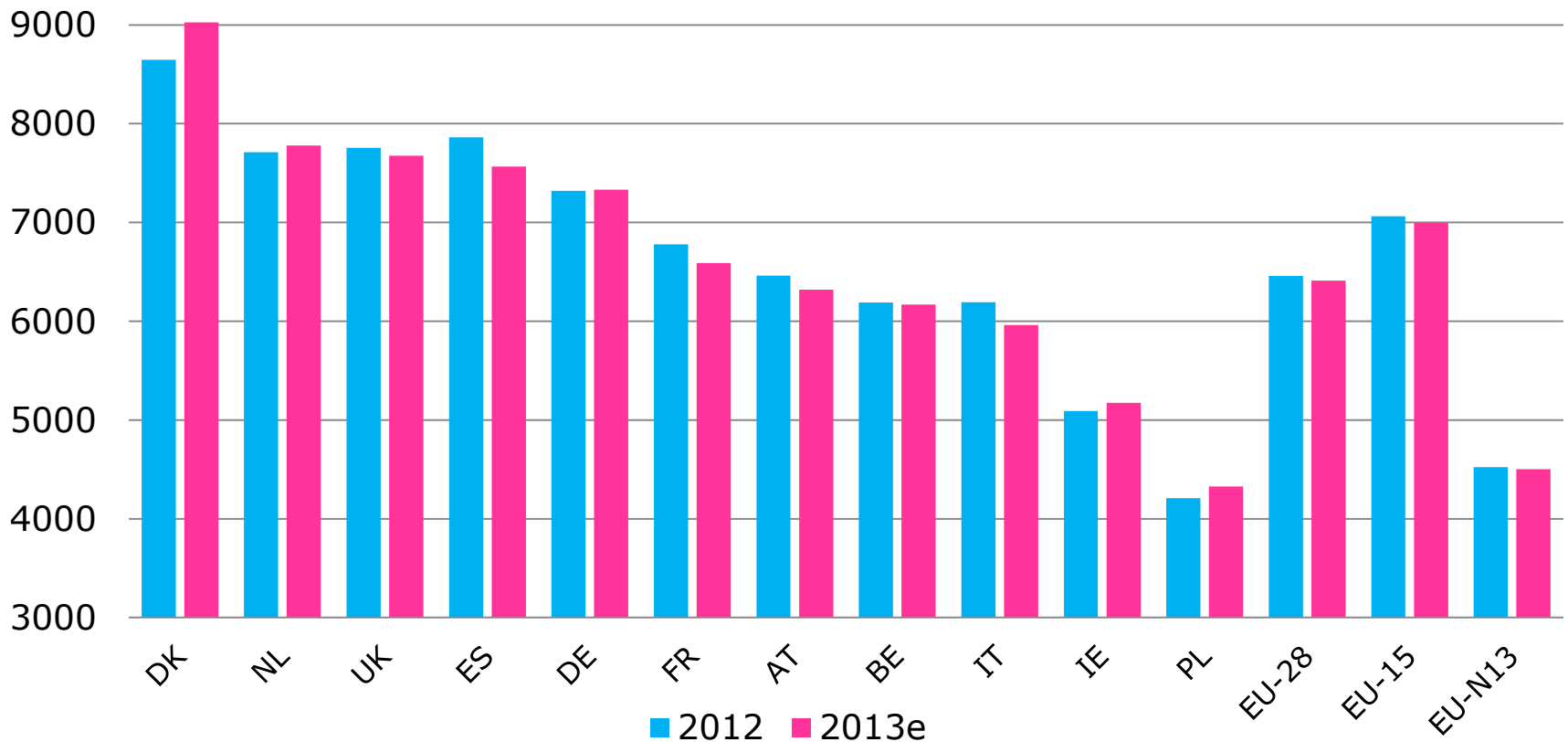
Source: DG Agriculture and Rural development based on Eurostat and ISTAT

Preliminary forecasts: Yield development – dairy cows (t/cow)



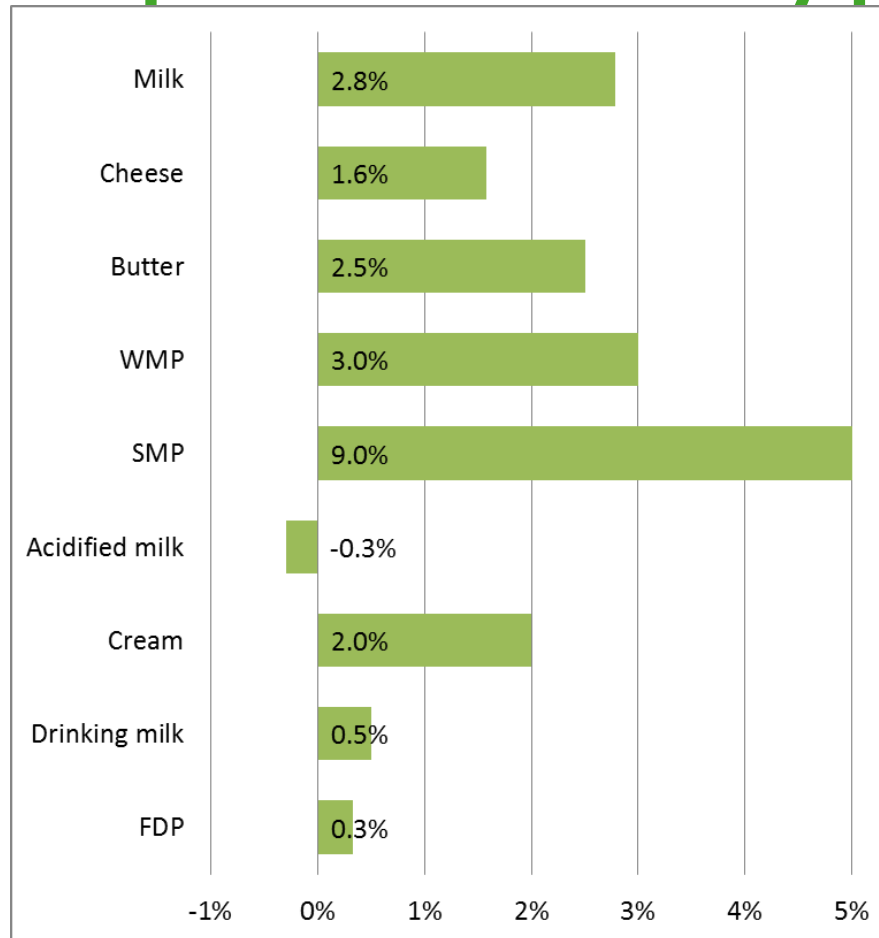
Source: DG Agriculture and Rural development forecasts

Estimated yield by MS in 2013 (kg/cow)



Source: DG Agriculture and Rural development estimates, calculated as Dairy cow milk collection of year N divided by the number of dairy cows in Dec. Year N

Preliminary forecasts 2014/2013: Change in production of dairy products



Source: DG Agriculture and Rural development forecasts

Main opened questions

- Regarding the inventory:
 - Will the number of dairy cows increase again in the EU-15 in 2014?
 - Where are the major potential gains in yield?
- Regarding milk deliveries
 - How do you reach a lower fat content (like in 13/14 for DE, DK, NL, LU, LV)? What about 14/15?
 - Ability of NL, PL, AT, DK to hit the quota again in 14/15?
 - Do you have more insights on FR, ES, IT and IE?
- Regarding dairy products:
 - Why is yoghurt production going down (-2.7% 1Q 2014 vs 2013)?
 - Do you believe in the forecasted butter production increase (+2.5% in 2014/2013)? For the domestic market or export opportunities?
 - What is produced when all SMP, WMP and Whey powder capacities are saturated?
 - Till March EU exports to Russia are good. Is it going on like this?

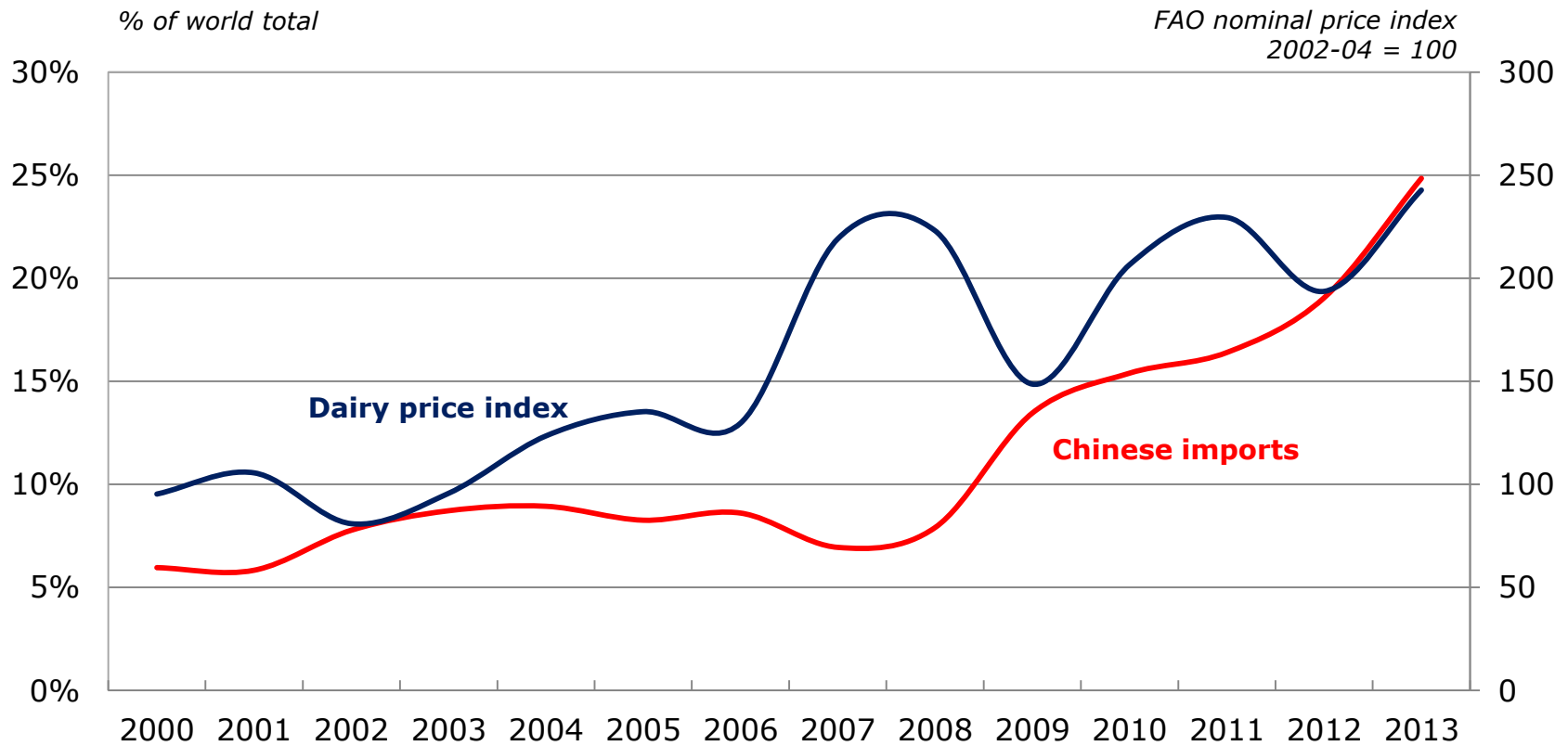


Medium-term projections

Highlights of the medium-term projections

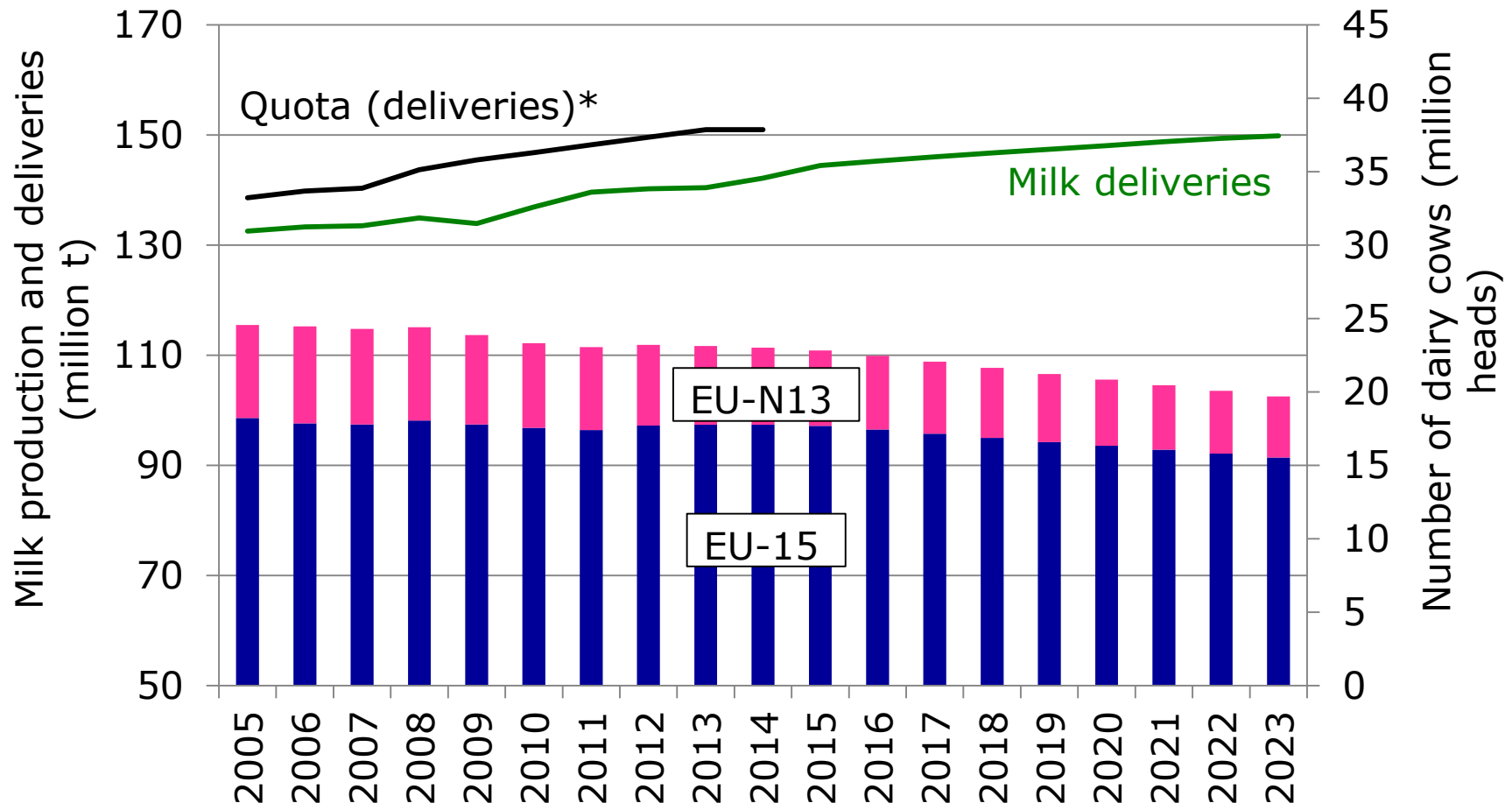
- A favourable medium-term outlook for milk and dairy products driven by dynamic world and domestic demand supporting firm prices.
- A limited EU milk production expansion after the end of the quota system after 2014/15 because:
- Cheese production is expected to absorb most of the additional milk delivered to dairies.

China's share in world milk powder imports



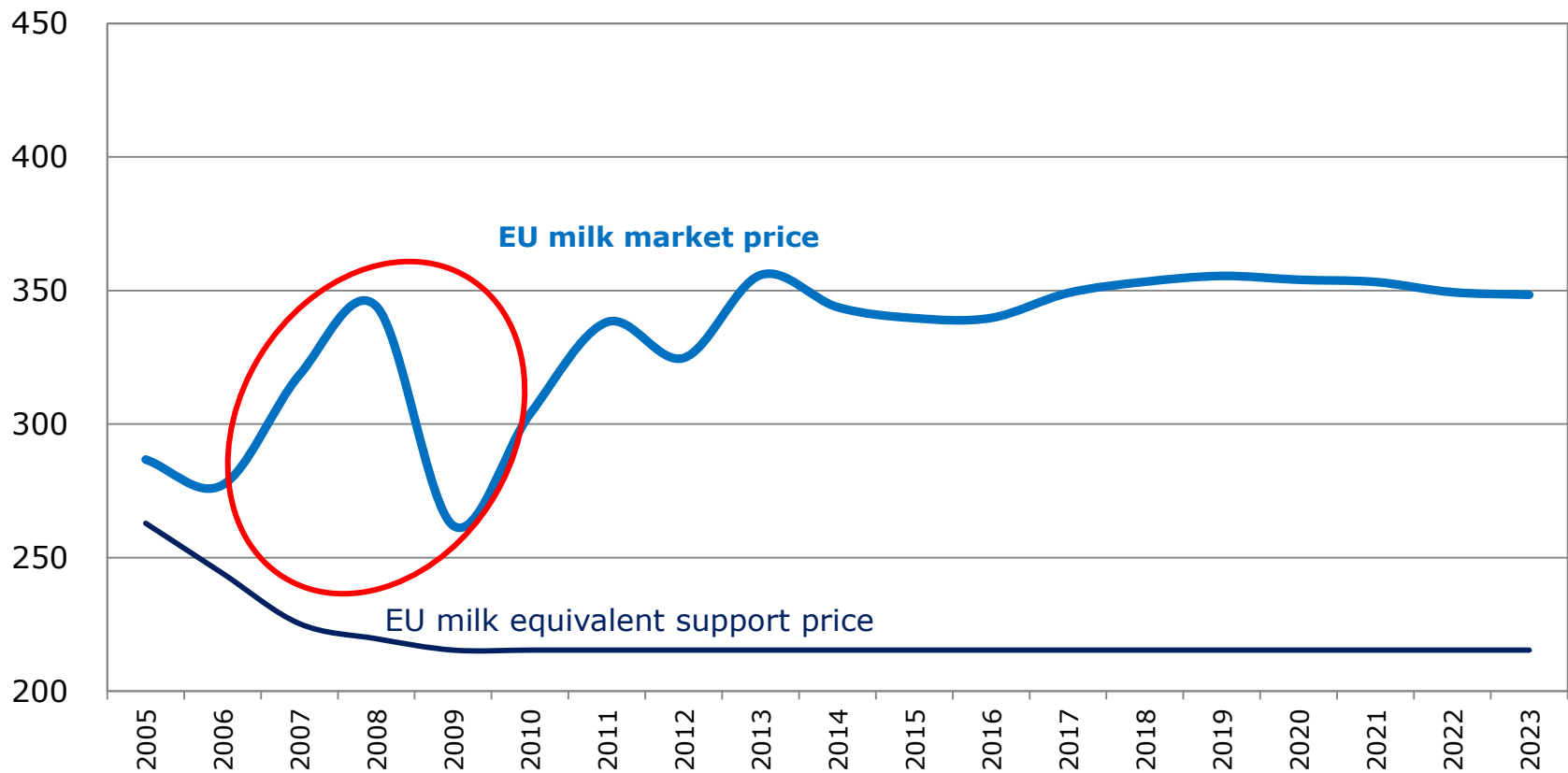
Source: OECD-FAO agricultural Outlook, 2013 update based on GTA and FAO

EU milk deliveries and dairy herd developments



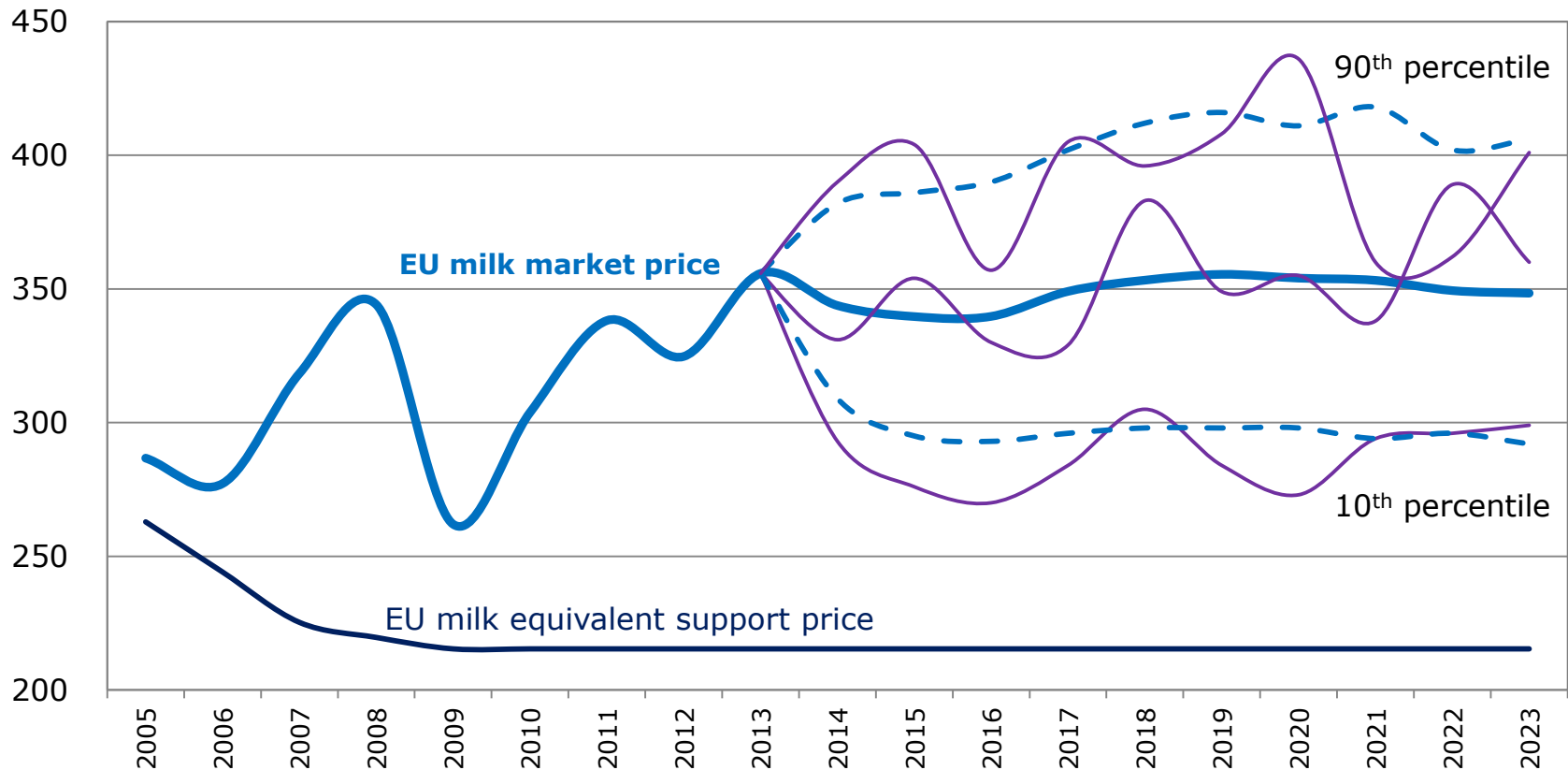
* In Romania, Bulgaria and Croatia for the years prior to accession the quota is set at the level of the first year of accession

Milk price outlook (EUR/t)



Note: Price projections based on stochastic analysis developed and ran by JRC-IPTS

Examples of milk price uncertainty (EUR/t)



Note: Price projections based on stochastic analysis developed and ran by JRC-IPTS

Thank you

All comments are welcome by 11 June
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- **Short-term outlook** (next edition to be published early July):
http://ec.europa.eu/agriculture/markets-and-prices/short-term-outlook/index_en.htm
- **Medium-term outlook**
http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/index_en.htm